

Duvvuri Subbarao: Financial inclusion in the north-eastern region (NER) and other issues

Text of interview of Dr Duvvuri Subbarao, Governor of the Reserve Bank of India, with *Assam Tribune*, published on 29 November 2011.

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- 1. *RBI has introduced financial inclusion programme to cover more and more people under the banking system. Though most of the banks have been carrying out this programme, the progress is still slow. Are you happy with the progress of the financial inclusion programme in the region and what is your best possible advice to the banks?***

Please allow me to give you the context before answering your specific questions.

For the last several years, the Reserve Bank has been aggressively pursuing financial inclusion on the belief and understanding that financial inclusion is a necessary pre-condition for inclusive growth. Development experience over the last sixty years from around the world clearly evidences that what the poor want is not doles, but opportunity to improve their incomes and thereby their quality of life. Financial inclusion is a necessary condition for providing such an opportunity to the poor not only to raise their incomes but also to insulate their families against income shocks and meet emergencies such as loss of job, illness or death in the family.

Both the Government and the Reserve Bank have taken several initiatives to further financial inclusion. We have liberalized branch licencing – domestic commercial banks are now free to open branches anywhere they like in towns and villages of up to 100,000 population. Banks are also required to ensure that at least a quarter of the branches they open are in villages with a maximum population of 10,000. To provide an incentive to banks, the Reserve Bank has also advised them that their performance in financial penetration will be a criterion in giving them authorization for branches in metros and other large urban areas.

There is a road map for providing banking access to all villages in the country with population of over 2000 by March 2012. Across the country, about 74,000 villages have been identified as falling within this category. Banking access will be provided either by opening a “brick and mortar” branch or through the business correspondent model – although we are encouraging banks to set up as many “brick and mortar” branches as possible.

There are 3250 villages in the north-eastern region (NER) falling into this category of over 2000 population with as yet no banking facility. Of these, only about 1031 villages were covered by end September 2011. There may have been further progress since, but admittedly, the performance in NER is inferior to that in the rest of the country.

The north-east poses a more complex challenge for financial inclusion because of difficult terrain, lower population densities, poor infrastructure, inadequate communication facilities and law and order disruptions. Regardless, we want to ensure that financial inclusion in NER is at par with that in the rest of the country. Towards this end, we have a Special Dispensation Scheme for opening bank branches in NER. Under the Scheme, the Reserve Bank provides one-time capital cost and recurring costs for five years for supporting a bank branch. The State Government is required to provide the required premises, residential accommodation for the staff and security for the bank branch. The scheme is operated by calling for bids from banks for opening branches in agreed centres. Meghalaya was the first state to get off the block, but other NE states are now eager to take advantage of the scheme.

With that background, let me now answer your specific questions. First, the progress in financial inclusion, as you say, has been slow, but it has certainly picked up pace over the

last several months. Banks across the country, including in the NER, are more enthusiastic about financial inclusion than before.

You also asked about my “best possible advice” to the banks. In fact, I have three bits of advice. First, remember that financial inclusion is more than chasing and meeting a target. To cover every household with a bank account is necessary, but not sufficient. Banks must also ensure that the bank account is active – which means that the household is using that account for saving, for remittance and is also getting credit and where necessary micro insurance. In other words, make sure that financial inclusion is “meaningful”. Second, look upon financial inclusion not as an obligation, but as an opportunity. There is enormous “banking potential” at the bottom of the pyramid, and first mover banks will be able to exploit that potential. So, go on. Move forward boldly and enthusiastically. Third, focus on the north-east. This is relatively virgin territory as far as banking is concerned. Those banks which pursue financial inclusion in the north-east will be rewarded not only by business opportunities but by a fulfilling experience.

2. *Agriculture is the lifeline of the people in the North East. But as far as credit flow is concerned, the farmers don't get credit. The Government of India has asked the banks to increase their credit to the agriculture sector in order to boost productivity. Are you going to review the performance of the banks in this regard?*

Agriculture is surely the life line of a majority of the people in the country including in the North East. Agriculture is one of the key priority sectors for lending by banks; under the priority sector lending sector, banks are required to ensure that at least 18% of their advances goes to agriculture. Even so, we are aware that millions of small farmers, many of them farming at subsistence levels, do not get access to credit for a variety of reasons. Simplified Know Your Customer guidelines, “no frill” accounts, Kisan Credit Cards, General Credit Cards and overdraft facilities have all been designed keeping the rural borrower in mind.

The Reserve Bank also mandates that banks prepare Annual Credit Plans whose roll out which we closely monitor through the State Level Bankers' Committee (SLBC). The SLBC, comprising banks, the state government, central government agencies, the Reserve Bank, NABARD and SIDBI meets every quarter to review the progress of institutional credit flow in the State. Progress under the Annual Credit Plan is one of the key issues on the agenda of every SLBC meeting. Where there is slippage, SLBC initiates prompt corrective action. Similar committees function also at the District and the Block Levels. These meetings are also held at quarterly intervals and the Reserve Bank plays a pro-active role in these meetings.

Many steps have been taken in the NER to increase credit flow to agriculture. Since Assam is one of the states selected under the scheme of “Bringing Green Revolution in Eastern India” implemented by the Government of India, the annual credit plan for agriculture for Assam has been revised upwards. We want banks to sanction KCCs to all eligible farmers in the State. In Assam, block-wise weekly credit camps are being organised to bring more and more farmers under the KCC. The loan application format has been simplified and wherever land documents are not available, the Village Panchayat's certification is considered sufficient for grant of a loan. The exercise is being replicated in other NER states as well.

Credit, however, is only one among several inputs needed for boosting agricultural production. Experience shows that the quality and reach of extension services is crucial. Clearly, there is need for greater effort at bringing extension services in NER at par with those in other States. Furthermore, the state governments have to ensure timely availability of fertilisers, procurement of food grains at the Minimum Support Price, storage and transportation facility, etc.

3. *North East India has very close border with foreign countries. Taking advantage of porous border, fake currencies are coming to the region.*

Considering the gravity of the situation, what is the plan of RBI?

The role of Reserve Bank in addressing the menace of counterfeit notes lies in the following areas:

- Ensuring integrity of banknotes,
- Putting in place proper systems for prompt detection and removal of counterfeit notes from the banking system, and
- Educating the public through education campaigns in mass media and through outreach programmes about the features of genuine currency notes to help them easily distinguish genuine notes from counterfeit ones.

Towards this end, we have initiated several measures:

- The challenge for us is always to remain one step ahead of the counterfeiters. Towards that end, we periodically enhance security features of Indian banknotes.
- We have made it mandatory for the banks to issue only clean and genuine banknotes – both over their counters and through ATMs. They also need to have mechanised processing capabilities for branches having daily receipt of 50 lakh and above.
- We released a 60-second film, “Paisa Bolta Hai” made in Hindi and 11 other regional languages, including Assamese on Doordarshan and its regional channels. This film is intended to spread awareness about how to tell a genuine note from a fake one.
- On our website (www.rbi.org.in), we hosted a section called Paisa Bolta hai which explains, among other things, features of all genuine Indian banknotes.
- We have also taken measures to improve inter-agency co-ordination (Police, CBI, RAW, NCRB, MHA) to tackle the problem in a concerted manner.

4. CD ratio in the North East is poor compared to other states in the country. How to improve the CD ratio and what is your suggestion to the banks?

It is true that the ratio in the NER is lower than that in the rest of the country. Bridging this gap is critical to mainstreaming the north-eastern economy into the national economy. Our constant and consistent advice to banks has been that they should achieve a CDR of at least 60 per cent in respect of their rural and semi-urban branches and also that disparities across regions and states should be narrowed, if not eliminated.

The State Level Bankers Committee (SLBC) which I referred to earlier is mandated to review the flow of credit in each district with reference to the CDR and draw up a special, monitorable action plan for districts with CDR of less than 40%.

If the CDR of NER is low, what it means is that savings of people in the region are going outside to finance investment elsewhere. This is unfair and strictly inadvisable. The savings in the NER should be used to finance investment here in the region. This requires responses both from supply and demand sides. Our efforts have so far largely focused on the supply side. We must do much more to generate demand for credit. The state governments and the banks should work in partnership in this regard. The Reserve Bank will be happy and willing to promote this partnership for raising the absorptive capacity of states for institutional credit.

5. Indian Government is now encouraging trade with ASEAN. But unfortunately there are very limited bank branches along border. The existing branches are not sufficient to meet the demand of the customers. Will RBI take any step?

As I have already pointed out earlier, at the policy level, we have been encouraging expansion of bank branches in the NER. If the state governments come forward with infrastructure development and other facilities along the border, the Reserve Bank will be

happy to work with them to improve the presence of banks along the border. Perhaps, the NE Council should come up with a viable plan in this regard.

6. *Customers often complain about poor ATM service. Existing ATMs are inadequate to meet the demand as volume of business is increasing day by day. What is your advice to the banks?*

Scheduled commercial banks are no longer required to take Reserve Bank's permission to install off-site/mobile ATMs. As at end March 2011, there were close to 75,000 ATMs across the country.

But you are right. With just about 1800 ATMs, the share of the NER in the total number of ATMs is low. You must, however, appreciate that North-East is a difficult terrain. There are frequent power failures, and problem of digital connectivity and security. Lack of infrastructural facilities is a major problem restricting the spread of banking, including ATMs in the area.

Nevertheless, at the policy level, we have taken some measures to enhance access of banking services as a whole to North East region. These include:

- To improve branch network in the region, domestic scheduled commercial banks (other than RRBs) are free to open branches / mobile branches / administrative offices / central processing centres (CPCs) / service branches in rural, semi-urban and urban centres in North-Eastern States and Sikkim without permission from Reserve Bank of India.
- While preparing their Annual Branch Expansion Plan (ABEP), banks are required to allocate at least 25 per cent of the total number of branches proposed to be opened during a year to unbanked rural (Tier 5 and Tier 6) centres. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.
- The Committee on Customer Services in Banks (Damodaran Committee) constituted by the Reserve Bank, has made several recommendations for improving banking services in the North Eastern region. (Recommendations are given in the Annex for your use). An important one among them is to explore using the back up of alternate sources of energy for ATMs to ensure their continuous and uninterrupted availability in the North East region.

7. *Despite strict guidelines, a section of fake microfinance companies have started their operation in the North East. Hundreds of people are the victims of these microfinance companies. As the situation is very alarming are you going to set up any committee to monitor the operation of these microfinance companies?*

No such instance of any fake Microfinance Company cheating the public of the North East has come to our notice. However, we are aware that many investors in this region have been victims of pyramid schemes operated by some Non-Banking Financial Companies (NBFCs)/Multi Level Marketing Companies (MLM) and Unincorporated Bodies (UIBs). We are sensitising the police and are creating awareness among the public about the nefarious activities of these companies.

Having said that, I must add that it is important for the public to be discrete in investing their savings. The public should verify whether the company is registered with the Reserve Bank or any other regulatory body. The public must also be aware that high returns are often associated with high risk and they should particularly look askance at promise of excessively high returns.