Duvvuri Subbarao: Touching hearts and spreading smiles

Oration by Dr Duvvuri Subbarao, Governor of the Reserve Bank of India, as part of the IOB Platinum Jubilee Oration Series, Chennai, 4 July 2012.

* * *

1. I am deeply touched by the invitation to deliver this oration as part of Indian Overseas Bank's Platinum Jubilee celebrations. I know that some very distinguished people have given orations in this series, and it is an honour for me to add my name to that very select list.

IOB – Origins and legacy

2. At the outset, my congratulations to the CMD Shri Narendra, all the officers and staff of IOB on this very special occasion. I browsed through the history of IOB and am struck by the vision and ambition of late M. Ct. M. Chidambaram Chettyar who founded this bank way back in 1937 to provide foreign exchange facilities for Indian traders in South-East Asia. That as a young man of barely 30, MCt, as he came to be known, chose to start a bank, and that too one specializing in external trade at a time when banking was in a turmoil following the Great Depression, is a tribute to his youthful enthusiasm, global outlook and remarkable foresight. Successive generations of IOB management and staff have done that legacy proud. All of you can justifiably take pride in your bank's record of contribution to the financial sector, its pioneering spirit, customer orientation and zeal for innovation.

3. A Platinum Jubilee is an occasion for celebration; it is also a time for introspection – to look back on what you have achieved and to look ahead to the agenda on the way forward. I note that as part of the celebrations you have set yourselves an ambitious vision "to scale newer heights and serve the country with renewed vigour", and that you have also drawn up plans to operationalize that vision. My compliments to you for that ambition and for that commitment.

RBI & IOB – Touching hearts and spreading smiles

4. As Governor of the Reserve Bank, I accept quite a few speaking commitments. Most of the time, I struggle to determine what I should focus on. In this case, however, I zeroed in relatively easily. I was, impressed by IOB's slogan "Touching Hearts and Spreading Smiles" which captures the essence of what we should endeavour to do as central bankers and commercial bankers. As Mahatma Gandhi said, the test of every public policy decision should be, "how is this decision going to affect the poorest person in the country?", which is the same as asking yourself, "is this decision that I am taking "going to touch hearts and spread smiles" among the less privileged people in the country."

5. The Reserve Bank's responsibilities include bank regulation and supervision and oversight of banks' customer service. Our endeavour in fulfilling these responsibilities is to support growth and enhance welfare – in other words "touch hearts and spread smiles". What I thought I would do for this oration is to review some of the important policy initiatives of the Reserve Bank over the last two years in the area of bank regulation and supervision and explain how they have been informed by the goal of touching hearts and spreading smiles. Given the limitations of time, I will restrict myself to just five of the several policy actions.

Micro-finance

6. When it started off in the 1980s, the development of the micro-finance sector was primarily led by the bank-SHG (Self-Help Group) model, with the SHGs operating as collective liability vehicles with responsibility for maintaining credit standards and enhancing credit discipline among the members.

7. The SHG model was handicapped by inherent scalability issues, and thereby yielded the "last mile" space to microfinance institutions (MFIs) which represent a more formal, structured and profit oriented approach. In some ways, the growth of the microfinance sector has been a remarkable success story of recent years; in some other ways, that very growth has also raised concerns about the quality of income generation support MFIs were offering. In particular, allegations about usurious interest rates, coercive recovery practices and multiple lending led the Government of Andhra Pradesh, a state that accounted for as much as 40 per cent of the total microfinance activity in the country, to promulgate an ordinance in October 2010. The ordinance, subsequently converted into an act, requires all MFIs operating in the state to register on an annual basis with the State Government. The law stipulates that the total interest cost cannot exceed the principal, and seeks to further protect borrowers from getting enticed into an unviable debt burden by restricting multiple lending by MFIs.

8. The Andhra Pradesh law brought the MFI activity in that state to a stand still; several other states began considering if they too should clamp down on the activities of the MFI sector. On the other side, both the MFIs and the banks that loaned funds to the MFIs were agitated about the security of the funds already lent, and more generally about the prospects for MFI activity in general.

9. In October 2010, the Central Board of the Reserve Bank discussed the policy impasse arising out of this situation and decided to constitute a sub-committee under the chairmanship of one of the Board members, Shri Y.H. Malegam, to study the issues and concerns in the MFI sector. The Malegam Committee submitted its report in January 2011; its important recommendations were: (i) creation of a separate category of NBFC-MFIs; (ii) continuation of priority sector status to bank loans to MFIs which comply with the regulation laid down for NBFC-MFIs; (iii) a margin cap and an interest rate cap on individual loans; (iv) transparency in interest charges; (v) lending by not more than two MFIs to individual borrowers; (vi) creation of one or more credit information bureaus; (vii) establishment of a proper system of grievance redressal by MFIs; and (viii) creation of one or more "social capital funds".

10. The Reserve Bank accepted the broad framework of recommendations by the Malegam Committee. A separate category of NBFCs – Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) – was created. Further, regulatory instructions were issued mandating the following. For an entity to qualify as a MFI, the aggregate amount of loan extended by it for income generating activity should not be less than 75 per cent of its total loans. Bank credit to micro finance institutions extended on or after April 1, 2011 for on-lending to individuals and also to members of SHGs/JLGs would be eligible for priority sector status only if not less than 85 per cent of total assets of MFI were in the nature of "qualifying assets". To qualify as an asset under priority sector lending, banks should ensure that the interest rate charged by MFIs on final borrowers is capped. Further, to protect borrowers from usurious rates of interest, the interest rate that a MFI can charge a customer has been pegged at 12 per cent over the rate at which it borrows from the bank subject to a maximum of 26 per cent.

11. The more effective regulation imposed by the Reserve Bank – particularly by way of a cap on interest rate and transparency in MFI operations – has restored calm to the MFI sector. The sentiment of investors too has improved, and some MFIs are also reportedly attracting venture capital funds.

12. Nevertheless, the roll out of the new regulatory regime has run into some bottlenecks. Some MFIs are unable to comply with the qualifying asset criterion for registering as a NBFC-MFI, and therefore banks are reluctant to make fresh loans to them as such loans do not qualify as priority sector lending. Small MFIs are also not able to meet the ₹50 million entry point capital to be eligible to register as NBFC-MFI. In particular, the Andhra Pradesh based MFIs, saddled with huge losses, large NPAs and eroded capital, are facing an especially acute problem in complying with the capital and provisioning norms. The Reserve Bank is working on resolving these issues so that MFI operations can get back on track.

13. Reflecting the lessons of the agitation in the microfinance sector, Government of India is considering a central legislation to comprehensively cover the regulation of the MFI sector. The important features of the Micro Finance Institutions (Development & Regulation) Bill 2011 are: (i) the Reserve Bank will be the regulator of all MFIs irrespective of their size and organizational structure; (ii) the minimum entry point capital for a MFI will be ₹500,000; (iii) MFIs will be permitted to collect thrift; (iv) both Government of India and the Reserve Bank will enjoy concurrent power to frame rules; and (v) there will be an ombudsman for the MFI sector.

14. Even as MFIs should be brought back on track, albeit under more effective regulation, there is another issue that banks need to ponder. By and large banks have largely outsourced the "last mile" to intermediaries such as MFIs, SHGs etc. This is a model that has worked, and one that we should pursue, and refine. Nevertheless, the question is, "is there a business case for banks to do some of the last mile themselves?" Can banks rely entirely on outsourcing? Isn't there valuable experience to be gained by banks by "dirtying their hands" more and reoccupying the last mile?

Priority sector lending

15. The second issue I want to address is "priority sector lending" (PSL). PSL is by far the longest standing affirmative action programme pursued by the Reserve Bank. The objective of the programme, as is obvious, is to ensure flow of credit to certain productive sectors of the economy which may, in the normal course, be handicapped in accessing such credit. The current stipulation is that all domestic banks must ensure that at least 40 per cent of their total advances go to the priority sectors. The prescription in respect of foreign banks is 32 per cent.

16. Is such "directed lending" good? Evidence from development experience from around the world is mixed. From a purely efficiency point of view, it can be argued that the decision on where to lend and at what interest rate should be left to the banks, and that superimposition of a regulatory prescription on top of that would lead to misallocation of resources. On the other hand, the argument in support of directed lending is that given information asymmetries, a *laissez faire* regime will not necessarily guarantee efficiency. Besides, the pursuit of inclusive growth demands that public policy must manage the balance between equity and efficiency.

17. Even as the Reserve Bank remains committed to the broad objectives of PSL, it nevertheless received suggestions and requests from several quarters on the need to revisit the guidelines on PSL, especially as banks are increasingly using intermediaries in directing credit to the priority sector, and there is growing incidence of misclassification of non-priority sector accounts as priority sector. The Malegam Committee on Microfinance had also recommended a review of the PSL guidelines on the arbitrage argument – that tightened regulation on microfinance without corresponding tightening of other intermediaries that route priority sector credit may bias the flow towards the lightly regulated sectors.

18. In response, the Reserve Bank appointed a Committee under the chairmanship of Shri M.V. Nair, former Chairman of the Union Bank of India, to reexamine the existing

classification and suggest revised guidelines with regard to PSL classification. In its report submitted in February 2012, the Nair Committee reaffirmed the need to continue with the PSL scheme on the argument of lack of access to credit for a vast segment of the society. The Committee advised that the PSL target for domestic commercial banks be retained at 40 per cent of their Adjusted Net Bank Credit (ANBC) and that the positive bias in favour of foreign banks be done away with by raising the target for them too from 32 to 40 per cent.

19. The thrust of the Nair Committee Report was to recommend changes in the allocations to various sectors within the aggregate target. Important among these recommendations are the following:

(i) The distinction between direct and indirect agricultural lending be done away with by making "agriculture and allied activities" a composite sub-sector within the priority sector.

(ii) A sub-target for small and marginal farmers "within agriculture and allied activities", equivalent to 9 per cent of adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposures (CEOBE), whichever is higher, be achieved in stages by 2015–16. Similarly, within the MSE sector, a sub-target for micro enterprises equivalent to 7 per cent of ANBC or CEOBE, whichever is higher, be achieved in stages by 2013–14.

(iii) Loans for construction/purchase of one dwelling unit for an individual up to ₹2.5 million may be treated as PSL.

(iv) Limits under priority sector loans for studies in India be increased to ₹1.5 million from the existing limit of ₹1 million, and for studies abroad to ₹2.5 million from the existing ₹2 million.

(v) Bank loans to non-bank financial intermediaries (NBFI) for on-lending to specified segments may be reckoned for classification under priority sector up to a maximum of 5 per cent of ANBC or CEOBE, whichever is higher.

(vi) The interest rate on the PSL shortfall amount deposited by defaulting banks in specified funds with NABARD/SIDBI/NHB be benchmarked to the reverse repo rate.

20. The Nair Committee Report has since been placed on the Reserve Bank's website for feedback and comments. Pending that, a decision has been taken to index both the interest paid to banks on the deposits they make into specified funds on account of PSL shortfall and the interest charged to states on their borrowing from the RIDF to the Bank Rate which, in turn, is indexed to the repo rate.

21. There are two open ended issues relating to priority sector lending that I want to raise. The first relates to a scheme of Priority Sector Lending Certificates (PSLCs) recommended by the Raghuram Rajan Committee. The idea is to allow banks to fulfill their PSL target by buying off PSL assets from other institutions through a PSLC. It is argued that the PSLC system will enhance efficiency as it will allow banks with a comparative advantage in PSL to exploit that advantage by overachieving on their target and selling the "surplus" to other banks which have a comparative disadvantage.

22. The PSLC Scheme has some merits. The most obvious is that since it is a market based mechanism that leverages on comparative advantage, it could be efficiency enhancing. Second, it could lower interest rates for final borrowers provided the efficiency gains on account of PSLCs are passed on to them. However, on the flip side it is argued that there may likely be reduction in aggregate PSL from the banking system and of its contribution to the RIDF to the extent PSLCs are acquired from non-bank institutions such as MFIs, NBFCs which currently have no PSL obligation.

23. The Nair Committee accepted the concept of PSLC, but recommended that in the first instance only a restricted PSLC, non-tradable and open only to commercial banks and RRBs, be introduced. A more broad based PSLC, tradable and open to all institutions

involved in PSL, the Committee felt, could be considered on the experience of the pilot experiment.

24. The second issue relates to the expansion of the list of eligible sectors under the PSL scheme. Almost every interest group in the economy wants its sector to be accorded priority sector status in the hope and expectation that this will provide easier access to credit at a lower cost. The lower cost issue is a clear misunderstanding since there is no regulatory interest rate ceiling on PSL. Expectation of easier access too is misguided. The more sectors we include in PSL, the more they will compete for the same fixed pool of resources and crowd each other out. Priority sector can deliver on its promise only if the eligible sectors are restricted to a select few which are important from the perspective of improving livelihoods.

Lending interest rate system

25. Let me now move on to the Reserve Bank's policy initiative on the Lending Interest Rate System. The benchmark prime lending rate (BPLR) was introduced by the Reserve Bank in 2003 to serve as a benchmark rate for pricing of loans. It was expected that this method of determining interest rate with reference to a benchmark will make loan pricing fair, transparent and contestable. In the event, the BPLR system failed to fulfil these objectives.

26. Under the BPLR system, banks were allowed to lend at rates below the BPLR, but such lending was expected to be at the margin. However, in actual practice, banks started doing the bulk of their business below the BPLR. In 2009, as much as 65 per cent of the advances were made at sub-BPLR rates; for private sector banks, the proportion was as high as 83 per cent. The lack of transparency in the system encouraged some perverse cross-subsidization. Loans to priority sectors such as agriculture and SME sectors were overpriced so as to lend below the BPLR to presumably preferred customers such as large corporates. The lack of transparency in the operation of the BPLR also made it difficult to assess the effectiveness of monetary transmission from the policy rate of the Reserve Bank to lending rates by banks.

27. In order to correct the situation, the Reserve Bank appointed a committee under the chairmanship of Deepak Mohanty, Executive Director. As per the recommendations of the Committee, the BPLR system was replaced by a base rate system effective July 1, 2010.

28. Under the new system, each bank is mandated to determine a base rate of interest to include those cost elements which can be clearly identified and are common across all borrowers – cost of deposits, cost of maintaining the statutory liquidity ratio and cash reserve ratio, cost of operations, and the profit margin. Banks are allowed to determine the actual lending rate they charge on loans and advances by topping up the base rate with other customer specific charges such as product specific operating costs, credit risk premium and tenor premium. Since the base rate is the minimum rate for all loans, banks are not permitted to do any lending below the base rate, save for specified exceptions such as DRI advances, loans to banks' own employees, loans to banks' depositors against their own deposits and loans where borrowers enjoy subvention. As banks, in general, are not allowed to lend below the base rate, the stipulation of BPLR as the ceiling rate for loans up to ₹200,000 was rescinded in the expectation that with the freedom to determine the interest rate, banks will be encouraged to actively step into this large volume-low value business segment.

29. The base rate system is expected to enhance the allocative efficiency of the financial intermediation process, permit an assessment of the relative efficiency and cost structure of banks and improve monetary transmission from the Reserve Bank's policy rate to the bank's lending rates.

30. It is satisfying to note that banks have made a smooth adjustment to the base rate system. Also, base rates of major banks have converged. The base rate system has improved transparency and transmission of policy rate changes to banks' lending rates. For instance, between September 2010 and December 2011, the Reserve Bank raised the policy

rate by 250 basis points. During the same period, the average base rate and weighted average lending rate of scheduled commercial banks increased by a similar magnitude. After the Reserve Bank reduced policy rate by 50 basis points in May 2012, 26 banks responded with a reduction in their base rates evidencing more efficient monetary policy transmission in both upward and downward directions.

31. One problem that has persisted even after the introduction of the base rate system relates to the lack of transparency in the customer specific spread charged to a borrower over the base rate. There have been complaints that the spread charged to a customer has been revised upwards without any apparent change in her risk profile. Also, where floating rate loans are concerned, existing customers have been disadvantaged vis-à-vis new customers with similar credit ratings, resulting in complaints about discrimination. In order to address this malady, the Reserve Bank constituted a working group under the chairmanship of Deputy Governor Anand Sinha to determine the principles that must govern proper, transparent and non-discriminatory pricing of credit. The working group is expected to submit its report by August 2012.

Savings deposit Interest rate

32. The next on my list of issues is Savings Deposit Interest Rate. Up until 1990, India ran a repressed financial system with a complex plethora of administered interest rates on both deposit and lending sides. An important element of the early 1990s financial sector reforms was to deregulate the interest rate structure to spur competitive impulses, improve allocative efficiency and strengthen monetary transmission. The savings deposit rate, however, continued to be regulated; it remained unchanged at 3.5 per cent since March 1, 2003 (revised to 4 per cent in May 2011) even as other deposit rates moved in either direction in response to the Reserve Bank's policy rate calibration.

33. The advisability of deregulating this last vestige of administered interest rate structure continued to be debated. Several benefits were argued in favour of freeing up the savings deposit rate – competitive pricing, product innovation, more efficient price discovery and improved monetary transmission. The arguments against deregulation were that it would hurt the asset-liability management of banks which had built up a dependence on the low cost, large volume and fairly stable savings deposits and that the adjustment to a deregulated regime would set off an unhealthy competition among banks, potentially impairing their balance sheets. There was also an apprehension that deregulation would militate against financial inclusion as, in the business of servicing small customers, banks might see the costs exceeding the benefits.

34. On two separate occasions – first in 2002/03 and again 2006/07 – the Reserve Bank considered deregulation, and on both occasions deferred the issue perceiving the time to be as yet inopportune.

35. The Reserve Bank revived the issue in 2011 by placing a Discussion Paper on the pros and cons of deregulating the savings bank deposit interest rate on its website, and following that up by generating an active debate. After careful consideration of the feedback, effective October 25, 2011, the savings bank deposit interest rate was deregulated[1]. To protect small customers whose knowledge levels and bargaining power are low, banks were mandated to provide a uniform rate for accounts upto ₹100,000 while enjoying flexibility in the rates and charges for accounts over ₹100,000.

[1] With this, the task of interest rate deregulation has been brought to a logical closure. Interest rate on FCNR accounts of NRIs continues to be regulated for purposes of external sector management. Also, the lending rate by NBFC-MFIs has since been regulated as per the rationale explained earlier.

36. Belying earlier apprehensions, the adjustment to the deregulation has been fairly smooth. Following the deregulation, seven relatively small private banks raised their saving bank deposit rates and expectedly improved their share of this market segment. The big banks have yet to respond to this but it is expected that whenever that happens, the adjustment will be smooth.

37. In conclusion of this section, let me also add that the Reserve Bank looks forward to more active play in the Saving Bank segment with banks coming out with some customer friendly innovations especially aimed at attracting low income households, presently outside the banking sector.

Liberalization of the branch authorization policy

38. The fifth and last issue is Liberalization of the Branch Authorization Policy. The thrust of the Reserve Bank's branch expansion policy since 1962, when banks were first mandated to open branches in unbanked/banked centres in the ratio of 2:1, has been to ensure banking penetration into the underbanked areas of the country. The precise formula has been continuously tweaked to reflect the changing scenario, but the underlying objective has all along been to link branch licences in urban/metropolitan areas to branches set up in disadvantaged semi urban/rural areas.

39. Till 2005, the practice was for RBI to issue licences for individual branches. In September 2005 the policy was liberalised, importantly shifting from branch licensing to branch authorisation. The new policy replaced the practice of licences for individual branches from time to time by an aggregate annual approval through a consultative and interactive process. Banks' branch expansion strategies and plans over the medium-term would be discussed by the RBI with individual banks. The medium term framework and the specific proposals would cover opening, closing, shifting, merger and conversion of all categories of branches.

40. By 2009, there was a growing consensus that further liberalization would be in order especially so as to enhance banking penetration and promote financial inclusion. Accordingly, in May 2009, a working group under the chairmanship of Executive Director Vijaya Bhaskar was constituted to review the Branch Authorisation Policy with a view to providing greater flexibility to banks in opening branches.

41. Based on the recommendation of the working group, in December 2009, the case by case approval process was given up and domestic banks were given general permission to open branches in Tier 6 to Tier 3 centres (population up to 49,999) and in rural, semi urban and urban centres in the north eastern states and Sikkim. In November 2011, this general permission was further liberalized to opening of branches in Tier 2 centres (population up to 99,999). Thus presently, only opening of branches in Tier 1 centres, largely urban and metropolitan centres with population of 100,000 and above, requires prior RBI approval. In respect of the north-east states and Sikkim, *laissez faire* operates even for Tier 1 centres.

42. In 2010, a roadmap was drawn up to provide access to formal banking to every village with a population over 2,000. Under the roadmap, about 74,000 villages with population above 2,000 were identified as unbanked. These villages were allocated to various banks, including regional rural banks, for providing banking services by March 2012. Further, in July 2011, banks were advised that at least 25 per cent of the total number of branches proposed to be opened during a year should be in unbanked rural centres. Last month (June 2012), the process was refined further by advising all banks to prepare road maps covering all unbanked villages with population of less than 2000 with banking services especially to facilitate transfer of state benefits (EBT).

43. This is the long established carrot and stick policy. As an incentive for their outreach, the Reserve Bank has indicated that banks will get licences for branches in urban/metropolitan centres (Tier 1) equal in number to the branches opened in underbanked

districts of underbanked states. To ensure that financial inclusion is "meaningful", banks have also been advised that their application for licences will be evaluated on the basis of the quality of their outreach – the extent of their penetration to unbanked areas, flow of credit to priority sectors, customer service to small account holders particularly by rolling out customer friendly products and innovative use of technology.

44. One of the issues that comes up in financial inclusion is the deployment of Business Correspondents (BCs). Since the operation of a brick and mortar branch is expensive, banks have found the BC model to be a cost-effective way of expanding access to the formal financial sector. Latest figures indicate that there are over 110,000 BCs deployed across the country as of now. Benefitting from accumulated experience, the Reserve Bank has liberalized the eligibility norms for appointment as BCs by including retired employees, kirana shops, NGOs, societies, post offices, Section 25 companies and also large corporates who have a marketing penetration. Recently, we have allowed interoperability of BCs to enable remittance and electronic benefit transfers. Even as the BC model has consolidated by now, two caveats are in order. First, banks should not neglect the importance of brick and mortar branches, and in their financial inclusion plans, should maintain a fair ratio between brick and mortar branches and BCs. Indeed, I think there is a strong case for a much larger effort on innovating a cost effective village branch model. Second, it is important that all BCs are trained in the use of technology, knowledge of bank products and processes, and importantly, in customer service.

45. Even as branch authorization has been substantially liberalized, several challenges remain. The biggest challenge, as always in India, is in the numbers. In 1969 when banks were nationalized, there were 8321 branches with an average population per branch office (APPBO) of about 64000. That has improved to 97180 branches with an APPBO of about 13000 by March 2012. But in a country with over 600,000 villages, these numbers, while both impressive and commendable, serve to highlight what remains to be done. In the first index of financial inclusion prepared by the Indian Council for Research on International Economic Relations (ICRIER) to determine the extent of reach of banking services in 100 countries of the world, India has been placed at the 50th spot, below China, Kenya and Morocco.

46. The second big challenge lies in moving beyond numbers and looking at how we actually make a difference. There is a disappointingly large number of cases of bank branches with low customer footfalls; BCs who drift off after a few months and "no frills accounts" which remain largely inoperative. This is where issues of perception come in. Unless banks are convinced that reaching out to the common man is not just a forced regulatory imperative but a potential business opportunity, the numbers will remain without life. The Reserve Bank looks forward to competition among banks to develop business models for such small, low staff and low cost branches.

Conclusion

47. I have so far covered five specific areas: (i) microfinance; (ii) priority sector lending; (iii) lending interest rate system; (iv) savings deposit interest rate; and (v) liberalization of the branch authorization policy, to illustrate how the Reserve Bank's regulatory and supervisory policies are guided by the belief that financial inclusion is a necessary prerequisite for inclusive growth.

48. What financial inclusion requires most of all is efficient and sympathetic customer service by banks. No amount of regulation, rules, policies and plans will deliver sustainable results unless banks serve their customers with efficiency, empathy and courtesy.

49. Many of you are aware of the Reserve Bank's outreach programme which is an effort to connect with people in the villages. I know that many commercial banks, including IOB, have their own versions of the outreach programmes. These programmes give us all a

first hand exposure to the needs and aspirations of less privileged people and also an understanding of their problems and concerns.

50. In addition to the outreach, I have also included a frontline managers conference in my annual schedule. This is a conference where we bring frontline bank branch managers, MFIs, SHGs and some low income households together for a one day intensive, free flowing and informal discussion on the problems in the supply and demand of banking services to the poor. The last such conference was held in Pune in March. Several of the participants narrated their tales of woe to me – bank managers have no time for them; they have to wait long hours at the end of which they are asked to come some other time; the documentation required of them is not indicated to them all at once, but done piecemeal, frustrating them and multiplying the transaction costs; the paper work is exacting; they discover hidden costs only after the transaction is completed; the attitude of the bank staff is unsympathetic if also uncivil. The general impression I got is that frontline branch managers treat "no frills" accounts as a "nuisance" and low income households as an intrusion into their time and their business. This is disappointing to say the least.

51. As I have said on several previous occasions, banks should look upon financial inclusion not as an obligation but as an opportunity to build "fortune at the bottom of the pyramid". I am also conscious that the bulk of our effort so far has been from the supply side – opening branches, appointing BCs and opening accounts that remain largely inoperative. If this is all that happens, the entire effort is both futile and wasteful. We need to supplement that supply side effort by a demand side effort – by reaching out to people left behind, inspiring their trust and confidence in the banking system and supporting them in improving the quality of their lives. Such a change in mindset is very important if we are to achieve meaningful financial inclusion. In other words, "touching hearts and spreading smiles" requires both a smart mind and a kind heart.

52. In conclusion, my best wishes to the CMD, directors on the board, officers and staff of IOB on this historic occasion of your bank's platinum jubilee. I wish you every success in your endeavour of "touching hearts and spreading smiles".