K C Chakrabarty: Financial inclusion of urban poor in India

Keynote address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the Annual National Seminar titled "Financial inclusion of urban poor" conducted by the American India Foundation, New Delhi, 28 January 2013.

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Assistance provided by Smt. Sushma Vij in preparation of this address is gratefully acknowledged.

Ms. Lata Krishnan, Chair, American India Foundation (AIF); Mr. M. A. Ravi Kumar, CEO, AIF; Prof. Sanghmitra S. Acharya, Jawaharlal Nehru University; Mr. Pradeep Kashyap, Vice Chair, AIF; Mr. Michael Markels from the World Bank; Ms. Kavita N. Ramdas, Ms. Madhu P. Kishwar, Mr. Mathew Titus and Ms. Sujata Lamba, the panelists for today's discussion, Mr. Hanumant Rawat, Director, AIF; delegates at the seminar, ladies and gentlemen. It is a pleasure to be here today at the fifth Annual National Seminar being conducted by the AIF in New Delhi. I am happy to see that Dr. Pradip Sarmah from Guwahati, who is a pioneer in the design of light weight rickshaws and organizing Joint Liability Group for rickshaw pullers, is present here today.

I am very glad to note that from a very humble beginning in 2001, AIF has emerged as the leading non-profit organization in the country, involving Indian-Americans, dedicated not only to the task of upliftment of India's poor but also to development of a vibrant social ecosystem. In collaboration with grassroot NGOs and government agencies, AIF has been successfully running several projects related to education, livelihood, and public health, with emphases on elementary education, women's empowerment, and HIV/AIDS, respectively. I understand that AIF has so far reached out to more than 1.7 million of India's less fortunate and successfully transformed their lives by providing them a sustainable means of livelihood. Though on a standalone basis, number of lives touched by AIF is very impressive, it simply dwarfs in comparison to the sheer enormity of the challenge that we, as a nation, face i.e. of reaching out to a population of 1.2 billion. Even to reach remotely close to the target number, we would not only need scaling up of efforts by institutions like AIF, but also the involvement of many more such governmental and non-governmental organizations. Our experience with the Financial Inclusion programs has highlighted that unless the intermediaries involved develop sustainable delivery models and are able to run these activities as a viable business proposition, success would remain elusive. Therefore, apart from a sense of commitment, what we really need for these drives to succeed is a sustainable delivery model, which other institutions could imbibe from AIF and emulate.

It is, indeed, very heartening to note that the AIF has chosen to focus on the subject of Financial Inclusion of Urban Poor for its Annual Seminar and I compliment the Foundation for this. As you all know, financial inclusion has been a key area of focus for the Reserve Bank of India and I firmly believe that forums such as this provide us an opportunity to put our minds together to introspect on what more needs to be done to meet the ambitious goals we have set for ourselves. I, therefore, thank the organizers for inviting me and providing me the opportunity to present my views on the topic.

Though the Indian economy has witnessed tremendous growth lately, vast sections of our society have remained excluded from the India growth story due to various socio-economic factors. It is ironic that despite our cities seeing widespread affluence, large pockets of financial exclusion should exist right at the very heart of these cities. Every year, a large number of people migrate from villages to cities in search of a better life for themselves and their families. They take up non-contractual and non-permanent jobs of vendors, porters, hawkers, construction workers, domestic workers, rickshaw pullers, etc. These people need fast, low cost, convenient and safe avenues of savings, credit and remittances to meet their needs. However, in view of the non-permanent nature of their occupations, they frequently shift base within city or even across cities. Bankers are generally found to be shy in providing them banking services, for obvious reasons.

What do we mean by Financial Inclusion?

Before I turn to the specifics of Financial Inclusion of urban poor, let us spend a minute in understanding the meaning of the term itself. We have defined Financial Inclusion as "*the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players".* Financial Inclusion is important not only from the perspective of the benefit it provides to the poor but also from the perspective of overall stability of the social and economic system of the country. Financial Inclusion of the poor has a multiplier effect on the economy as a whole, through higher savings pooled from the vast segments of the population present at the bottom of the pyramid. There is a potential for transforming the lives of these excluded groups by providing access to formal savings arrangements and extension of credit by banks for emergency and entrepreneurial purposes, thereby enabling the poor to create assets, generate stable income, build resilience to meet macro-economic and livelihood shocks and bring about an improvement in their financial condition and living standards.

Our strategy for Financial Inclusion

Financial Inclusion is an integral part of policy making at Reserve Bank of India. We have taken significant steps in the form of regulatory relaxations, introduction of innovative products, and various supportive measures towards this objective. We have adopted a bank-led approach for financial inclusion in the country and encouraged the leveraging of technology while remaining neutral to the technology choice made by individual banks. The effort made by all stakeholders has resulted in increased reach of banking services to hitherto excluded remote locations. Today, banking connectivity has reached nearly 204800 villages through brick and mortar branches, Business Correspondents (BCs) and other modes. During the last 3 years, 96.25 million Basic Savings Bank Deposit Accounts (including erstwhile No Frill Accounts) have been opened.

Exclusion of the urban poor

The rural inhabitants have largely remained the focus of our financial inclusion efforts since a large proportion of our villages are still unbanked. This has also been under the premise that the reach of banking network in urban areas is already quite high and, hence, access to banking services should be available to all. The ground reality, however, is quite shocking. The problem of exclusion is widespread even in urban areas, especially, for the disadvantaged and low-income groups, despite there being no dearth of bank branches. As part of the financial inclusion drive, while banks have opened 13434 BC outlets in urban localities during the last 3 years, the progress is far from what was hoped for. Many of the urban poor still have no access to formal financial products and services like savings, credit, remittance and insurance, forcing them to depend on usurious informal sources to meet their personal, health, and livelihood-related needs. Not surprisingly, they struggle to repay such borrowings, which further impede their ability to escape the vicious circle of poverty.

Migrant workers

One important section of the urban poor, which is adversely impacted by the problem of financial exclusion in urban areas, is the migrant workers' group. Migrant workers in urban areas mostly comprise people from low-income households who generally leave their village homes in search of better income and employment opportunities. Many of these people work and live at their work sites and are paid daily wages. They need a secure place to keep their savings and the facility to remit small amounts of money at frequent intervals. In most of the migration corridors, the migrants have outstanding loans at their origin points, mainly from informal sources, and the remittances are the major source of loan repayment.

Rickshaw pullers

Before we delve into the issues that plague the financial inclusion efforts for the urban poor and the migrant workers, let me spend some time talking about one important sub-section of this population, the rickshaw pullers – a group which is the focus of the initiatives made by the AIF under the Rickshaw Sangh programme. Rickshaw Pullers provide a much needed and valuable public service, especially for the low income groups in cities, at very cheap rates. In areas where lanes and by-lanes are too small for vehicular traffic, cycle rickshaws are the only practical means of transport. In most cities, in the absence of any feeder service between the major transport network stations like railways, metro rail, bus, etc., there is always a demand for cycle-rickshaws.

While no pan-India study on rickshaw pullers is available, it is estimated that there are about 8 million rickshaw pullers in the country, with only about 1.1 million being registered at various municipalities. With an average of five persons dependent on each rickshaw puller, close to about 40 million people are dependent on rickshaw pullers for their subsistence, making it an important livelihood source for a sizeable section of our population.

Typical of the migrant labour communities, the rickshaw pullers also seldom possess dependable identities, references or contacts. They, usually, do not have access to institutional finance and, hence, find it difficult to raise funds to purchase their own rickshaws. According to available data, 90–95% of rickshaw pullers rent rickshaws on a daily basis and pay rentals as high as ₹.25 – 50 per day, which could, thus, add up to ₹1500 per month, for a rickshaw costing ₹10000 – 12000. They pay such usurious rents for years but never become owners of the rickshaw. On days when the rickshaw puller does not take up the activity due to illness, social events, or other reasons, he does not have any income. Moreover, during the cropping season, the rickshaw pullers often return to their home towns, resulting in disruption of their regular occupation. All this results in them have irregular and unstable income, which is vulnerable to disruption by a multitude of factors. Having their own rickshaws would encourage them to continue with their occupation all through the year, and help in bringing consistency in their income streams, which is essential for any kind of financial planning.

It is, therefore, important that there is an effort to extend support to these groups so as to make their livelihoods sustainable. The initiative taken by the AIF in bringing together various stakeholder groups to improve the economic prospects of the rickshaw pullers is, indeed, commendable and I hope that the Rickshaw Sangh programme is extended all over the country and that it succeeds in bringing about a credible improvement in the quality of lives of this hard working group.

Some experiments have already been done by adopting a Joint Liability Group (JLG) model for delivery of rickshaw loans. For instance, under the Punjab National Bank's "JANMITRA RICKSHAW FINANCING SCHEME", need based loans are provided to desirous persons on easy terms and conditions so that these people can come out of the clutches of money lenders. The financing is done under tie-up arrangement with NGOs sponsored by American India Foundation Trust (AIFT) as well as other local NGOs. The NGO arranges for completing the formalities like registration with the local Municipal body. The extent of loan includes the cost of the rickshaw, cost of uniform, license fee for two years and three years' premium for life and health insurance of the rickshaw puller. In this instance, a special design of rickshaw was created in association with IIT Guwahati, which resulted in a light weight rickshaw that ensured an all-weather comfortable seating for passengers and sufficient space for storage of luggage. This also ensured a unique identity of the rickshaw financed under the scheme. The design of the rickshaw had sufficient space for advertisement on the back. The guarantee of partnering NGOs is an assurance to the bank as well as the manufacturers. The banks have lesser risk to deal with; the individuals are supported by the quality check of the rickshaws; and the manufacturers are assured of their payment by the bank.

There are scores of success stories under this scheme, which has resulted in providing employment to several poor people and helping them live a dignified life. Their collectivization and empowerment through the instrument of credit and the consequent means of livelihood – the rickshaw, seems to be a turning point in their lives. In this experiment, change in the income levels is evident, supplemented by the improvement in the perception of self. A large number of homeless and identity-less migrant labourers became rickshaw owners and got integrated with financial services of the banks.

The Rickshaw Sangh programme has, currently, been rolled out in 18 cities in 6 states. As per data provided to me, more than 40000 rickshaws have been covered under the programme with total credit extended being ₹140 million. One important feature of note in the Rickshaw Sangh programme is that it is not just restricted to providing a rickshaw to the target group, but also includes providing necessary municipal permit, insurance (both on the asset and on the life), bank account, photo ID and a uniform. This bundled approach greatly improves the impact the programme is likely to have on the beneficiaries. At this stage of the Rickshaw Sangh programme, it is heartening to note that an assessment of the programme has been carried out with the objective of understanding the impact it has had on the beneficiaries and other stakeholders involved in the programme. Besides, it also seeks to ascertain the non-economic impact that the programme would have had on the beneficiaries. I do hope that the outcome of the study provides valuable guidance on how to take the programme further in terms of both its penetration across the country and the impact it has on the social and economic lives of the beneficiaries.

In my opinion, a major issue that projects focusing on the economic upliftment of the poor often face is the lack of adequate emphasis on proper training and capacity building, which seriously debilitates the ability of the beneficiaries to manage their assets and income without adequate handholding. A major challenge to the success of projects focusing on improvement of living standards of the rickshaw pullers is the non-availability of a standardized and comfortable rickshaw model. In a country which has a booming cycle industry with an impressive export pedigree, there are no organized manufacturers of cycle rickshaws. In the absence of standard designs, the local manufactures waste much time and effort in building a rickshaw. I hope AIF would look into this aspect, tie up with some major manufactures, urge them to build on existing research, such as the one carried out by IIT Guwahati, and design standardized, modular, cost-effective machines, which can be easily dismantled and reassembled at locations away from manufacturing bases.

Impediments in Financial Inclusion of urban poor

Let me now return to the key impediments in achieving Financial Inclusion of the urban poor. Among the factors keeping the urban poor and the migrant workers out of the formal financial system are their low and irregular earnings, migrant nature of the population, inability to produce adequate documentation, bigger family size with single earning member and financial illiteracy leading to poor money management skills. They are also deterred by problems in understanding language, inconveniences related to travelling and waiting time and other conditions that come with the formal financial system. It is, indeed, sad that many migrant workers do not have adequate information about the remittance facilities offered by banks, and even those who have accounts with banks, do not use them effectively. Furthermore, only a few migrants and their families are insured against the risks they face every day. As a result of lack of financial literacy and general apathy, even those who have money continue to keep their savings either at home or prefer to participate in informal savings schemes like chit fund.

There is no denying the fact that the informal sources are attractive and pervasive in cities due to the speed and ease and the multiplicity of services they can give. That is why the poor prefer to borrow from informal sources even at exorbitant interest rates of 5–8 per cent per month as the lender understands their financial situation and constraints. Hence, any time (24x7x365) availability of credit, especially in times of emergency, is preferred by the borrowers despite the exploitative interest rates. The most crucial challenge in case of migrant workers is proof of identity. The migrant nature of their job does not allow them to have dependable identities, references or contacts and, therefore, very often, they are denied the financial access due to lack of adequate KYC documents. Besides, the indifference of the urban poor to the formal sources of finance, despite these being less costly, is also attributable to the attitude and mindset of the service providers, which needs to be facilitating and supportive Experience suggests that the financially excluded population is more comfortable tapping the informal sources to finance their needs, which are much more “flexible” and “convenient”.

The need, therefore, is for the formal financial institutions to adapt their product offerings and delivery platforms to meet the specific needs of the urban poor. The reasons why the informal systems are so popular needs to be studied and their strong points need to be incorporated into the practices of the formal service providers to the extent possible. Besides, in order to meet the remittance requirements of migrants, banks should identify major inter-state migration corridors in the country and explore partnership with NGOs in different sets of origin-destination pairs.

Adopt a functional cluster based approach

The challenge is to convert poverty into prosperity for the people, while at the same time, implementing it as a viable business opportunity for banks. For that purpose, we must adopt a functional cluster based approach, well suited to the specific needs of different segments like Household workers, Construction workers, Weavers, Hawkers, Rickshaw pullers, Auto Drivers, etc. There has to be a multi-pronged, holistic approach that could include enhancing financial literacy to build up demand, capacity building and mindset changes of bank staff/ BCs, development of need based innovative products, alternate delivery channels through BCs and tie-ups with NGOs to ensure socially responsible delivery of services with consumer protection.

In fact, product innovation in financial services, keeping in view the life cycle needs of the urban poor, should form the basis of banks’ strategy to bring these groups into the financial system. Banks should innovate to create demand-oriented savings, credit and remittance products that are customized to the lifestyle patterns and income streams of the urban poor. Offering micro-saving products, per se, to meet the savings needs of these groups, might not be enough. Innovative financial products offering possible investment opportunities, besides catering to the savings needs, have to be thought of for bringing the urban poor into the banking system. Insurance offers protection to assets created under credit programmes and protects savings from being wiped out by shocks arising out of sickness, death, accidents or asset loss caused by fire, drought, floods and riots. The section of the urban poor, who are determined to save regularly, even with their low earnings, should be provided an investment option that fetches reasonable rate of return on their savings, without exposing them to significant risks. Mutual funds and pension schemes for the unorganized sector, customized to the financial needs of the poor, have to be developed.

As noted above, in case of rickshaw pullers, the organization of functional clusters into groups is central to their linkage to the banking system. Formation of JLGs of the urban poor for provision of bank credit, with collective obligations for interest and loan repayments, is an option. Banks can also explore avenues for individual loans to select JLG members who establish a good track record through group borrowings, possess the requisite entrepreneurship skills and who want larger loans for productive purposes.

***Linking with existing Urban Development Projects*:** Training and capacity building workshops can be arranged under urban development projects like the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). There will be a possibility of growth of more homogenous groups required for forming JLG/SHGs in such areas. NGOs can play a meaningful role in this direction.

Today's seminar must result into concrete actions. As an immediate measure, in order to link the urban poor with the formal financial system, it is necessary that the banks take initiatives in close coordination with local NGOs, state government and municipal authorities, to launch campaigns to open bank accounts of urban poor in camp mode.

The problem of proof of identity for the migrant workers can be efficiently handled by leveraging technology. Aadhaar cards issued by the UIDAI have the potential to be a game changer. Aadhaar would serve not only as a clean, accessible identification to meet KYC requirements, but would also facilitate Electronic Benefit Transfer of their benefits and entitlements. The recent KYC relaxations permitted by RBI also allow for Aadhaar documents to be accepted as both identity and address proof, provided the address given on the account opening form is the same as the one on the Aadhaar document. Persons with a valid Aadhaar Card would, thus, be able to transact at any bank, at any place. Hence, it is also important to launch a one-time campaign to enroll everyone into Aadhaar, which would remove the major barriers to inclusion of migrant workers.

Another major area that needs due attention is the task of making the urban poor creditworthy. We cannot blame the banks alone for lack of credit penetration to this segment of the society. Banks are into the business of lending, but at the same time, they also need to factor in the repayment capacity of the borrower. Unless they firmly believe that the borrower has the ability to build productive assets with the credit received, they would eschew taking that credit risk. The NGOs have a very crucial role to play in this regard. They must lead a mission to impart financial education, training and capacity building for this functional group (rickshaw pullers, vegetable vendors, plumbers, masons, etc.) and prepare them to avail of the entire suite of financial products and services i.e., savings, remittance, insurance and pension from the banking sector, in addition to credit.

Another linkage for these functional groups with the formal financial system could be through an intermediary who could possibly be a management expert. This person could engage with a group of such individuals on a regular basis and professionally manage their affairs (say for example, arranging for health insurance) for a fee. Accordingly, management institutions could develop basic courses for preparing such managers who truly understand the needs and deeds of these functional groups. All the above issues would require co-ordinated response from all stakeholders.

Way forward

There is a need to create greater awareness about the banking services in order to bring the urban poor under the banking network. Proper management of money by the urban poor is critically important for meeting their life cycle as well as investment needs. There is scope to plug non essential expenses and increase their savings behavior. The key strategies here would be to educate, motivate and encourage. The Reserve Bank of India, as part of its Financial Literacy programme, is issuing a Financial Literacy Guide which answers basic questions related to managing money. Responses to certain basic queries such as Why to save, how to save, why save in banks, When to borrow, Where to borrow from, etc. have been provided in very simple and lucid language, through pictorial representation. This guide can be used by all stakeholders as a standard curriculum for educating the financially excluded poor people. Along with the Guide, we are also coming out with a Financial Diary with basic messages in pictorial form for distribution to the participants in the Financial Literacy Camps so that they can better plan their finances by keeping record of their income and expenses on a regular basis. The easy-to-understand posters, with appealing pictures, explain the importance of savings and the basic banking services. It is time for banks to play a major role in the financial emancipation of the urban poor by conducting financial literacy camps and providing door step user friendly access to services.

From the perspective of improving the living standards of the rickshaw pullers, we need many more initiatives like the Rickshaw Sangh programme. The improvement in the financial status of the urban poor, including the rickshaw pullers would be possible only if it is pursued as an integral part of our financial inclusion initiatives. Providing access to finance for the rickshaw pullers to own rickshaws should necessarily be at the core of these initiatives. However, emphasis need also be on providing a holistic package, which supports the rickshaw puller in leveraging his asset (the rickshaw) to pull himself and his dependents out of poverty. Besides, technology needs to be used to facilitate the task of rickshaw pulling, so that it becomes less physically demanding.

An appropriate, customized delivery channel is equally crucial in urban areas. South Africa's E-Bank Plan demonstrates how a commercial bank can bundle services for low-income clients. Its uniqueness lies in its focus on sensitivity to the needs of the basic banking customer, which led to creation of a new product providing a cost efficient delivery mechanism. The idea was to offer an integrated combination of product and delivery features, including user friendly, conveniently located branches, by leveraging on technology. E-banks are conveniently located in high-traffic areas in colourful, well-designed, user-friendly kiosks. Instead of relying on traditional advertising methods, E-Bank has used market presence, life insurance and prizes to generate word-of-mouth advertising. The approach is providing product and delivery features that are valuable enough to make the low-income clients willing to pay ATM transaction fees slightly above the market norm and high enough to cover banking costs.

Conclusion

Bringing the urban poor into the mainstream of the financial system can act as an important gateway for financial inclusion. Rolling out of an innovative financial product, delivered through a user friendly channel, is central to achieving financial inclusion. This has to be seamlessly integrated with a strategy to improve the financial literacy of the targeted groups. Only then will we be able to avoid the problem of low level of transactions in the newly opened accounts, which we are currently facing in our financial inclusion efforts in the rural areas. As I have always maintained, technology has to be the bulwark around which our financial inclusion efforts have to be developed. Innovative ICT solutions have to be leveraged to provide door step services of specifically designed products at place and time convenient to the targeted population group. Disbursement of bank loans in association with well meaning NGOs and also involving them in proper monitoring/ hand holding of beneficiaries can result in poverty alleviation for a large number of people.

Most importantly, society has to radically change its attitude towards labour and the people providing us manual services. Every task has its dignity and we must respect the efforts put in by these groups of people and their contribution in making our lives comfortable and hassle-free. This will encourage us to appreciate the genuine problems of these groups and work towards finding solutions for them. As I mentioned at the beginning, this is required not just for the well-being of these vulnerable groups, but also for the stability and sustainability of the social and economic system. I hope, we are, collectively, able to bring about this change in our attitude, which would be a vital first step in the integration of these marginalized groups.

I commend the initiative taken by the AIF along with all other stakeholders including the commercial banks/ financial institution and NGOs towards the social and economic emancipation of the rickshaw pullers through the Rickshaw Sangh programme. The task before us is very challenging considering the large number of rickshaw pullers that are yet to be touched by the programme. I hope the inputs from the assessment study help in recalibrating the programme towards better meeting the goals set for it.

I once again thank the AIF for providing me the opportunity to present my views in this seminar and do hope that the panel discussion to follow would throw up valuable ideas on how to take the financial inclusion mission forward, particularly for the urban poor. I also congratulate the recipients of the Awards for Outstanding Contribution to Financial Inclusion, being given today and hope that not only do they continue with their good work, but they also succeed in encouraging others to rededicate themselves to the goal of making our society a truly inclusive one.

Thank you.