

## Y V Reddy: What the Reserve Bank of India means to the common person

Speech by Dr Y V Reddy, Governor of the Reserve Bank of India, at Karamchedu Village, Ongole District, Andhra Pradesh, 18 February 2007.

*The speech was originally delivered in Telugu.*

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Friends,

I am happy to be in Karamchedu Village again. Many distinguished personalities in various fields; freedom fighters; shipping magnates; scientists; poets, ministers and medical doctors have hailed from this single village. Shri Yarlagadda Ranganayakulu garu, who was an engineer by training, is one such fine personality. We met accidentally a little over thirty years ago in Hyderabad. We became friends and we attempted to do some socially useful work on several fronts but succeeded in founding Hyderabad Study Circle. So, I have a personal affection to him and our families have developed affinities and affections. The ties extend to family in a broader sense – to include, for instance Dr. Y.P.C.S. Rao garu and Shri Laxminarayana garu. When his family members suggested that I should associate myself with a worthy social contribution in memory of my friend Shri Ranganayakulu garu, I felt it an honour and privilege to visit Karamchedu and be with you all. The formation of a trust devoted to rural development and, in particular, safe drinking water, is a noble cause worthy of emulation by the younger generation. That young generation which is enjoying the fruits today of the foundation laid by Yarlagadda Ranganayakulu's generation.

In an informal manner, I wish to say a few words on this occasion and the appropriate subject is perhaps 'What Reserve Bank of India means to the Common Person'.

Reserve Bank, above all is a public institution serving the public interest. Though the word 'bank' is associated with its name, profit is not its primary motive. Therefore, it is necessary for every common person to understand about its role and its functions in improving the welfare of the people at large.

The Reserve Bank is the 'central bank' of the country and uniquely placed to perform certain specific and challenging public responsibilities. It is the monetary authority of the country, and as you know Rupee is our currency unit in this country. RBI broadly deals with the quantity of rupee resources that should ideally be available in the country to promote economic growth and smooth transactions in goods and services. Very large money supply could result in inflation or higher prices which affect the common person the most. On the other hand, inadequate monetary resources can affect the growth and disrupt the payments system. RBI tries to strike a proper balance through its policies.

Currency management is an important function. For example, the new currency notes are issued by the Reserve Bank, old ones are withdrawn and destroyed. Their design, production and distribution are managed – to be spread over the entire country.

The Reserve Bank's currency note contains the words 'I promise to pay the bearer a sum of ....'. That is signed by the Governor. So, the Reserve Bank has to ensure that the value of rupee is maintained so that faith and trust of people is always present. To maintain the value of the rupee, the amount of goods and services that it can buy should not get eroded in a way that confidence in the currency is lost. So, the Reserve Bank's most important objective is to maintain price stability, contain inflation and anchor inflation expectations.

Incidentally, you may find in the currency note, the denomination is written in two Central Government official languages (English and Hindi) and fifteen national languages. It shows the diversity of our country and the Reserve Bank's commitment to reach out to one and all.

Speaking about the value of money, the Reserve Bank is concerned not only with the value of money in India, but the related issue of value of our rupee in relation to the currencies of other countries: that is maintaining the faith of people outside our country also, in our currency. This work relates to exchange rate management. Rupee cannot be directly used in settling transactions with other countries and international currencies like US dollar have to be used. To ensure smooth international transactions, it is necessary to maintain the external stability of the Rupee. Incidentally, confidence in Rupee outside our country also depends very much upon domestic price stability. Furthermore, RBI also maintains and manages foreign exchange reserves to sustain this confidence.

People would like to borrow and lend money to each other for consumption and production overall, the demand and supply for such resources, in aggregate terms, need to be balanced by an appropriate level of interest rates which provide incentives for savers and also adequate returns to investors in industry, agriculture, etc. Such a balance is struck by interest rate policies adopted by the RBI. I am over simplifying, but the idea is to strike broadly a balance – both within our country and in relation to other countries.

RBI also has been assigned with several other responsibilities. Thus, the RBI manages the public borrowings of the Central Government and all State Governments; is a banker to the Central and State Governments and keeps their accounts; regulates payments and settlements systems, and, of some direct concern to many of you, it is a regulator of the banking system.

I will not spend more time describing all this but we put all information on all these matters in public domain – through publications; press releases and sometimes speeches like this. Up-to-date information is available on the RBI Website in English and Hindi. Why do we explain in detail about our work and dilemmas? It is because RBI is a public institution and we explain to you so that you can understand, appreciate, criticise and guide us. It is not a publicity drive but it is meant to enhance our efficiency and accountability to the common public.

For today, I will place before you some instances of how the RBI, as a public institution, is answerable to the Government and indeed, to the people at large, and has taken steps to get closer to the common person in the recent years.

We have urged the banks to be sensitive to the banking and financial needs of the common person and adopt a policy of financial inclusion, that is, to bring possibly every family – rich and poor, rural and urban – into the banking fold. 'No frills' accounts with perhaps a small overdraft facility should be the easiest way for financial inclusion. We are also looking at how technology can increase the banking access to the people. General Credit Cards and Kisan Credit Cards can facilitate disbursement of small credits to among farmers without much paper work each time they want to take loans or make transactions. We are also exploring alternatives, such as, satellite offices of banks, ATMs and use of post offices for extending banking facilities to rural areas. In urban areas, we are trying to give efficient and quick service to bank customers by extending to them facilities such as, mobile and internet banking, quick – almost minute by minute – and cost effective transfer of funds from one account to another through electronic funds transfer mechanism. We also encourage reliable, prompt and economical means of conducting day-to-day transactions, such as, bills payments, receipts of salaries, dividends and pensions directly into the beneficiaries' bank accounts, etc.

To ensure that you get good quality banking services at a reasonable cost, we have taken several measures. While the banks can decide for themselves what services they will offer to customers and at what cost, we have asked each bank to set for itself a measurable standard or benchmark for the quality of service it would give to its customers. An independent body set up by the Reserve Bank, called the Banking Codes and Standards Board of India (BCSBI), will then assess the quality of the services given by that bank against the promise it has made. Any adverse remark by the Board will give us a trigger for taking corrective steps. We have also asked the banks to ensure that account holders have detailed information on the availability and cost of various banking services offered to start a banking relationship. It is your right to demand the services promised by the bank.

And if you do not get the services promised by the bank, you can make a complaint against it – first to the higher authority of the bank concerned. If it does not get resolved there within a reasonable time or to your satisfaction, you can approach the Banking Ombudsman. The Banking Ombudsman is appointed by the Reserve Bank to provide an easy, hassle-free and less costly forum to the bank customers to resolve their banking disputes. There is one banking ombudsman in virtually each State, who can be approached through mail or even through internet for resolution of complaints against the banks.

The Reserve Bank is also in the process of improving its own processes so that its major direct customers, namely the Governments and the banks get good service from the central bank. Two departments of the Reserve Bank are already ISO certified which means that the processes in these departments are streamlined for rendering better and quicker customer service and are constantly updated. We are in the process of obtaining this certificate for the other departments of the RBI also, which deal with the public.

We have consciously adopted a policy of reaching out to people, common persons so that they know what to expect, what choices they have, what rights and obligations they have in relation to banking

service etc. We already have several publications through which we reach out to researchers, students and other technical audiences. Now our resolution for 2007-2008 is to reach out to the common person through a special drive. We have, therefore, undertaken a financial education and financial literacy drive for the common man. We are doing this through banks and also directly. My talking to you like this in regional mother tongue Telugu is a part of this initiative. Very soon, you will be able to read about us and our banking policies in our own Telugu language and other regions in their own mother tongue on a multi-lingual website. We will also make this information available by way of brochures, pamphlets, films, etc.

We in the RBI work as a family and RBI attracts best talents as an equal opportunity employer to perform the challenging tasks. We have offices in most State capitals and a Board of Directors representing expertise in diversified fields. Our family journal has won several awards. We constantly strive to keep up the morale and motivation spirits high amongst ourselves at all levels of people working with us to meet the challenges of serving the common person with all care and commitment.

I have said several things about the Reserve Bank so far but I must also say something about our relationship with our State of Andhra Pradesh. The RBI has a tradition of excellent relations with the Government of Andhra Pradesh and all the Chief Ministers. As Governor, I have called on Shri Chandrababu Naidu garu when he was Chief Minister and now I call on Dr Y.S. Rajasekhara Reddy garu from time to time. Both Reserve Bank and our State benefit from such meetings at several official levels. Let me place before you some recent developments in Andhra Pradesh about which Reserve Bank is particularly pleased.

First, as the banker to the State Government, we are happy that in the last three years the State never took temporary advances from us to meet any day-to-day deficits between receipts and expenditure. This shows a prudent fiscal management.

Second, we find that the financial position of the State is improving and hence, the government's borrowings for developmental purposes could be conducted by the Reserve Bank at relatively lower cost. Financial markets continue to show increasing confidence in the State, year after year, particularly all through the new millennium.

Third, Andhra Pradesh is the first State in the country to sign a Memorandum of Understanding (MoU) with Reserve Bank to consolidate and improve the urban co-operative banking system and the new scheme is working in an excellent manner in a spirit of co-operation and professionalism.

Fourth, the State has provided strong financial support to rural co-operatives already and is again the first State in the country among the few who have so far signed MoU with the Reserve Bank to consolidate and develop rural co-operative credit system. This scheme will revive and revitalise the rural co-operatives with substantial financial support from the Government of India.

Fifth, the State has committed to revitalise and expand rural credit. Last week, there was a meeting between our Deputy Governor and the State Government officials to work on a medium-term plan to expand financial inclusion through strengthening of Regional Rural Banks.

Sixth, the State has exceeded the national-level targets set in respect of Annual Plan for rural-credit, mainly for credit to agriculture, by doubling it in three years.

Seventh, the State is amongst the pioneers in a programme of financial inclusion – that is, in ensuring bank accounts to all families that want it. This is the first step towards reaching the goal of bank credit as a human right advocated by Nobel Laureate Professor Mohammed Yunus when he visited the Reserve Bank recently. One district, Srikakulam, is reported to have achieved 100% financial inclusion. We agreed with the State Government to get the progress evaluated by an expert body, so that we learn lessons on its weaknesses and strengths while extending the programme to other districts as a mission. We have advised our banks to work vigorously towards this goal of universal financial inclusion and co-operation of State Government is critical for success of these efforts.

Are these achievements of co-operation between Andhra Pradesh and Reserve Bank enough? May be yes, but there are lot of areas where, we, the State Government and the RBI, need to move closer, faster, deeper and into new areas. We, in RBI, have identified a few new areas for a vigorous drive this year, to which the Government of AP has assured full support. These relate to financial literacy and credit counselling. Today, the common man is attracted to a lot of choices some times very risky, when he acquires some surplus money. Where to deposit the money and for what period and at what interest? How to decide between mutual fund, bank deposit, life-insurance, etc. against non-bank deposits, chit funds? How to sustain and improve the financial status of the family, to smoothen

consumption even if incomes come in lump sum, etc.? So, people should be aware so that they do not lose by fake promises and propaganda by some greedy financial vultures. The Reserve Bank is in the process of preparing reading and visual material and will fund the cost of making such material. But, the literacy or education has to reach the masses and for this mass financial-literacy drive, the State Government has assured its full support to the RBI.

A second area, which we want to attempt on a pilot basis and on a small-scale to start with, relates to credit counselling. Sometimes, people get into debt out of some ignorance or bad luck. They can be advised by some well-trained people how to get out of the problem with minimal distress, by renegotiating, rescheduling of liabilities, etc. Such schemes exist in other countries and we have studied them. We are experimenting in this area in Maharashtra in a small way. We intend to launch pilot projects in other regions also and the AP State Government expressed strong interest in the program. So, in credit counselling also, Andhra Government may be the first in the country to formally sign-up for an initiative.

With these words, let me thank you for giving me an opportunity to talk in my mother tongue, Telugu for the first time in a public lecture as Governor. Perhaps this may be the first public lecture in Telugu by any Governor and I am happy and grateful to you for the privilege and opportunity.

I wish the Village and Trust all the best. Let me again congratulate Shri Yarlagadda Ranganayakulu Foundation for this excellent initiative. I wish them and families all the best in all their noble endeavours.