

K C Chakrabarty: Banking as a fundamental right of the people!

Address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the 27th National Conference of the AIBEA, Kochi, 9 February 2013.

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Com. Rajen Nagar, President and Com. C H Venkatachalam, General Secretary of All India Bank Employees Association (AIBEA), Shri P. Sainath, Rural Affairs Editor, The Hindu, Prof. Victor Louis Anthuvan, other office bearers of the AIBEA, Office bearers and delegates from other trade union bodies, guest delegates from abroad and dear friends. I am extremely happy to be here today in Kochi in the “God’s Own Country” to address this gathering of fellow bankers at this National Seminar organized as part of the 27th National Conference of the AIBEA. The fact that the AIBEA is one of the oldest and widely respected associations of Bank employees is made clear by the fact that Deputy Governor of RBI could not say no to a call from Mr. Venkatachalam, your General Secretary.

Having said that, I would admit that I have come here with a vested interest. Vested interest in the sense that the subject you have selected for this seminar is very close to my heart; to the hearts of the senior management in the Reserve Bank of India. Also, being in-charge of the administration and human resource in the Reserve Bank of India, which is the regulator of the entire banking system in India, we want a responsible and strong trade union system in the banks because we feel that strong trade unions are a pre-condition for strong managements in the banks. I will come back to this issue a little later.

It is, indeed, very heartening to note that the AIBEA has organized this conference on the theme “Meeting the Challenges of the Decade”. In fact, this could very well have been titled “Meeting the Challenges of the Century”. The banking system is unlikely to face the kind of challenges that it has been facing for the last 4–5 years. The challenges for the banking and financial sector are, indeed, gargantuan as is revealed by a recent survey conducted by research firm StrategyOne, across the globe. The interview based survey involving some 30,000 people in 25 countries has identified the financial services and banking sectors as the world’s least-trusted industry for the second year in a row. The financial crisis has dealt such a blow to the people that they have lost faith in the banking system. Globally, the basic challenge for the industry at the present juncture is, therefore, to restore the credibility and trust that the banking and finance profession enjoyed before the onset of the Financial Crisis. I hope the Conference is focusing on these challenges that the banking industry currently faces and is critically deliberating on the role that the bank employees, as the most important stakeholder, can play in managing them. I am sure that discussions held during these four days would trigger new thought processes and help chalk out future course of action for the employees to make the Indian banking system not just more efficient and resilient but also socially more relevant.

Role of the trade unions

Over the years, the trade union movement has played a very important role. Across the globe, they have not only been instrumental in preventing exploitation of the employees but have also brought dignity to labour. Not only this, the unions also play a very important role in bringing equity and social justice into the system and preventing managements from inflicting exploitative practices, not only on the employees but also on the society at large.

In this context, I must commend the AIBEA, which is the oldest union of the bank employees in India, for the commanding role it has played in making the services of bank employees respectable, that too, at a time when banking was in private hands. I hail from Bengal, the

province where the modern day Indian banking originated. The people say that the condition of bank employees was very bad around the time of the Second World War. In fact, there is a saying in Bengali which, when roughly translated, means that vultures, bank clerks and maid servants always have their heads down. The bank clerks had no time to raise their heads – that was the kind of exploitation they faced. I have heard that even during the time of the Sastry Tribunal award, the expenses on the pet dog of the Bank CEO used to be more than the salary of an employee. It was during such times that unions were fortunate to have some great leaders like Com. Prabhat Kar, Com. Naresh Paul, Com. Asish Sen, Com. Sudhindra Nath Biswas, Com. Chadha, Com. H. L. Parwana, Com. Tarakeshwar Chakrabarty and, I am sure, several others. These people have, over the last 65 – 70 years, done all of us here a very great favour that we probably do not even realize today. They brought respectability to the bank job in the society, a profession which was earlier looked down upon. Today, banking jobs are amongst the most sought after. Here, I will also like to emphasize that the improvement in the wage structure and service conditions of bank employees were not achieved by agitation, demonstration and strike alone, but by persuasion and logic given by enlightened leaders of trade unions such as AIBEA before the bank management and award tribunals. In fact, the foundation of bipartite settlement in the banking industry was laid down by Sastry Award and Desai Award. While we glorify the bipartite settlement, we should not undermine the persuasive and intellectual role played by trade union leaders in facilitating these two awards, which are landmarks in the history of bank trade union movement in the country. As our organizations transform into being knowledge institutions, I hope that the glorious tradition of presenting the case of bank employees and the bank customers with logic, information and compassion will be further encouraged and strengthened by the present leadership of the AIBEA.

The need of the day

Let me, now, move to the theme of this seminar. You have chosen “Banking as a Fundamental Right of People” as the theme. While you have chosen this theme, let me tell you that if the acceptance of banking as a fundamental right of people has not happened so far, it is because of all of us – collectively we all are responsible. The issue is, no doubt, very relevant. Especially at a time when the country’s socio-political agenda is focused on inclusive growth, people ought not to remain financially excluded. I remember that sometime in April 2012, I had said at a seminar that “Banking services should now be made a fundamental right, with financial inclusion drive turning from fashion to a passion for the country”. In my address today, I would dwell upon the implications of declaring banking as a fundamental right of the people, essential pre-requisites that must be met, the spadework that needs to precede the promulgation and some of the pitfalls that we must avoid in this journey. I would also argue that banks ought to treat banking as a fundamental right, whether or not it is constitutionally provided, as it is inextricably linked to their very survival.

Why are we discussing this issue of making banking a fundamental right today? Why does the Deputy Governor of the RBI have to talk about this? Why is the RBI and the Government concerned about extending basic banking services to all households in the country?

Answers to all these questions are right there – like the proverbial “writing on the wall”. Till sometime back:

- Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch.
- Just about 40 per cent of the population across the country had bank accounts.
- The proportion of people having any kind of life insurance cover was as low as 10 per cent.
- People having debit cards comprised only 13 per cent and those having credit cards only a marginal 2 per cent of the population.

Though Financial Inclusion has remained a national agenda for a fairly long time, as reflected in initiatives such as the co-operative movement, bank nationalization, lead bank scheme, setting up of RRBs, etc., the progress has been nothing to write home about. Why has this been the state of affairs in our country where banking, in some formal way, has been in existence for more than 200 years; where we have several banks which have been in existence for more than 100 years and why, even the ABEA is close to 70 years old. Why is the position so? Part of the blame could be put on infrastructural bottlenecks – unavailability of technology, lack of brick and mortar branches – largely due to high initial costs. However, I would reiterate that all of us are collectively responsible. The bank managements are responsible, the employees are responsible, and even the Bank unions cannot escape their share of the blame. Considering the widespread exclusion of people from the financial mainstream, RBI launched a focused drive from 2005 onwards to achieve financial inclusion and extend banking services to all habitations in the country.

I would, however, hasten to add here that financial exclusion is a global phenomenon and was one of the primary reasons for the financial crisis. Estimates suggest that more than half of the world's adult population – about 2.5 billion people, do not have access to basic financial services like a bank account, some kind of insurance or access to credit. Needless to add, most of these people are in developing countries like ours.

Should banking be made a fundamental right?

Before we examine an answer to the above question we must understand what Fundamental Rights mean, genesis of their inclusion in our Constitution and what would be the implications for the stakeholders if the right to banking was to be made a fundamental right. The Fundamental Rights embodied in Part III of the Constitution guarantee civil rights to all citizens of the country irrespective of race, place of birth, religion, caste, creed or sex, and prevent the State from encroaching on individual liberty while simultaneously placing upon it an obligation to protect the citizens' rights from encroachment by society. Thus, the purpose of the Fundamental Rights is to preserve individual liberty and democratic principles based on equality of all members of society.

Here, we must understand that banking is not a service that is to be provided by the State. It is a service that has to be provided on commercial lines. Now, who prohibits banks from opening everybody's bank accounts or from giving credit to everyone. Nobody does. However, the price is such that it makes it prohibitive. Take for instance flying by a plane – everyone who can afford to buy a ticket can fly in a plane as a matter of right, but how many are able to exercise that right?

If banks had decided to provide banking services to all, of their own accord, right to banking could have been a fundamental right on its own. While this would have been the best possible approach, it has, regrettably, not happened. One may argue that the bank managements were not too interested in financial inclusion as they did not consider it a viable business proposition. This essentially reflected short-sightedness and a misplaced assessment based on static rather than dynamic considerations. This left one with the second-best solution – to achieve it is through regulatory measures – something that we are trying to do. Our instructions to banks are to open a basic savings bank account for all individuals without any conditions and thereby, make banking almost a fundamental right. And, please remember, regulations are not only for the public sector banks but are equally applicable for private banks, foreign banks, cooperative banks, etc. We want everybody to follow the instructions and provide universal access to basic banking services.

However, if the people in this country are not able to get access to basic banking services even after the regulatory guidelines, we would have to think about enactment of legal provisions for making banking a fundamental right. But, it may be like the right to education that we have made, the right to food that we are trying to make or the right to liberty that is often debated due to a variety of reasons. The point is that if the system is not ready for

delivery of a particular service to all the people efficiently, making it a fundamental right would only result in all-round chaos. We are unable to implement the right to food or right to housing because we do not, perhaps, have the ability today. While I am happy that the AIBEA and its leaders are deliberating on this topic, let us also discuss about the modalities of making banking services available to all the people and assess if we are ready for the challenge.

Before going further, let me provide you some global perspective on the issue of banking as a right. Under Canadian law, everyone has the right to open a personal bank account. A bank cannot refuse to open a bank account for an individual merely because he/she is unemployed or does not make a minimum deposit or because he/she has previously been bankrupt – as long as they have the proper identification. Of course, the opening of the account can be refused subject to certain conditions such as the account being likely to be used for illegal or fraudulent purposes, false identification given by the customer or the prospective customer suspected to have committed a crime related to any bank. Likewise, in the UK, banks cannot refuse to open an ordinary deposit account except where it is not possible for the bank to identify the customer in a reliable manner or bank has reasons to suspect abuse or if it has any past experience of the customer materially breaching the contract entered into with the bank. EU is presently holding consultations on a document which, among others, seeks to ensure facilities of consumers' access to basic bank accounts, including a provision which allows switch over of the bank account providers, including on a cross-border mode.

Thus, across the globe, the provision of a basic banking account for the consumer is considered a right. As I have already mentioned, RBI has issued guidelines advising banks to offer a "Basic Savings Bank Deposit Account" without any minimum balance and provision of basic services without any charges (subject to limitations of operations), thus, conferring a right to every citizen to have a bank account. The mandate is already there and it is for the bank employees to ensure that they open the accounts of everyone who approaches them and not tell them to go to some other bank or branch.

The employees may, then, say that it cannot happen as the owners do not want it or the management does not want it. But, this is why the banks were nationalized – and AIBEA played an important role in nationalization of the banks. But still, after more than forty years of nationalization, we are still discussing whether banking should be made a fundamental right. Why the flaw with government appointed managements? Also, I must add that banking is an industry where workmen have participation in the management; they are represented on the boards and participate in the discussions and the policy making. The unions and the employees can, therefore, not escape from the responsibility if banking services have not reached everybody in the country. All of us – the unions, employees and the bank managements are responsible. We could not take products or services to the masses earlier as suitable technology was not there. Initially, we opposed technology in banking and it took close to twenty years to effectively introduce technology-enabled products and services for bank customers. I am happy that we overcame the problem several years ago and today, technology is widely accepted in banking industry and there are no impediments in taking banking products or services to the masses.

The three pre-requisites

In theory, it may be very easy to say that any service can be declared as a fundamental right. However, from an implementation perspective, a service cannot be proclaimed as having become a fundamental right unless it meets the following criteria:

(a) Access: A service cannot be called to have an effect of a fundamental right unless it is accessible to all. For instance, we cannot say that healthcare is a fundamental right if people have to travel to the district headquarters from the village to take treatment. The same applies to banking also – it must be available at the doorsteps. That is why, it is our target

that in the next three years, all the 6 lakh villages must have access to banking products and services – either through a brick and mortar branch or through ICT based systems and banking correspondents.

(b) Affordability: We have tried to provide access to the banking services to the customers. Some 15 crore, new bank accounts have been opened. On the face of it, the statistics appear very impressive – this is more than the total population of several countries taken together. But, we need to view this in the context of our population of 1.2 billion. Moreover, there are no transactions in a large proportion of these accounts. This is because the cost of transactions is very high. I agree that there will be a cost per transaction as banking is, indeed, a commercial activity. But, what should be that cost? Somebody complained to me about a year back that his bank has charged a commission of ₹ 60/- for a demand draft of ₹ 30/-. Why is this so? For this, all of us are responsible. The empowerment of the employees and the improved service conditions, which were supposed to act a means to serve the objective of mass banking, has actually become a deterrent. The salaries of bank employees have gone up significantly and, therefore, the transaction costs have also been raised significantly to keep the banks viable.

I am not saying that the bank employees are overpaid as per global standards but as compared to our GDP, the operating cost of banking system is very high. The prevalent cost structure of banks makes the banking transaction costs unaffordable to the common man. Hence to make banking services affordable to all, we need transition to a low cost structure. The dream of financial inclusion cannot be fulfilled unless the transaction costs are brought down substantially. Now, I do not say that the salaries of bank employees be reduced by half in order to reduce the transaction costs. However, all of us – the employees and the unions have to collectively work with the policy makers, management and the regulator to see how, by use of appropriate information and communication technologies, our productivity can be substantially enhanced. Increased productivity will lower transaction costs for the poor people, making services affordable for everybody. Unless that happens, banking cannot become a fundamental right. This require change in our delivery model , reshaping of our rural branches' organizational set up and creating a low cost cadre of barefoot bankers to deliver banking services at an affordable cost to rural poor at their doorsteps.

(c) Fair and transparent delivery: The third of the essential prerequisites for making banking capable of being declared a fundamental right is the ability to deliver of banking services in a fair and transparent manner consistently. Unless, this happens, people will not avail of the services. Unfortunately, the reliability of our technology based systems is worse than that of physical systems. I get complaints everyday about ATMs not dispensing cash even though the accounts had got debited. This cannot happen in the physical branch banking system. Nobody who presented a cheque had his account debited without getting the money. Now, think of someone who has suffered this fate at an ATM – he would think twice before visiting an ATM next, as he had to spend months in getting the position rectified. We have to make the services reliable with the use of technology. Take the case of the Business Correspondents (BCs). We are trying to use BCs to take banking to the people's doorsteps. The BC model is aimed at reducing the transaction costs of banking services as the cost of regular bank employees is very high, making it difficult to provide low cost banking services to the unbanked poor.. However, banks do not seem willing to pay reasonably to these people from the unorganized sector. The poor BCs are paid so low that people accept this job only if they do not have any other option and at the very first opportunity, leave the BC's work. The BC needs to be paid reasonably and also supported through appropriate ICT enabled infrastructure. How do we integrate the BC model with the overall delivery model of the banking services is another challenge for making financial inclusion a reality.

Therefore, unless the banking services are made accessible, affordable and reliable, there is no point in making a demand for declaring banking a fundamental right. Moreover, making banking a fundamental right at this stage and thereafter, not being able to provide the services on demand due to lack of appropriate ground work, may only result in the banks and

bank employees getting implicated in avoidable legal wrangles. Hearing this, you might sense that you have made a mistake in choosing this theme and inviting me to come and speak on this. Let me emphasize that evading this debate will not solve our problems as unless banking is made available to everyone and universal financial inclusion is attained, the development agenda of the country will be incomplete and we will not see the kind of economic growth that we want to see. It is, therefore, essential that banking services are made akin to fundamental rights. We need to collectively deliberate, discuss and work out the modalities of how this can be made to happen. For this, we will need to reform our systems, procedures and functions, and roll out an effective business process reengineering.

Why the BCs cannot become an integrated part of the banking system as employees. We can have different wage structure for them. You need to deliberate, innovate and work towards an integrated structure around the BCs that will remain low cost, while protecting the rights and dignity of the people who work as BCs. The time has now come for the bank unions to work together with bank managements and policy makers to develop integrated low cost structures for providing banking at the doorsteps of the people.

Talking of banking services, I want to highlight one more pertinent issue here. You may open bank accounts, you may provide some remittance facilities, you may also provide some emergency overdraft or consumption credit. But, bank credit per se cannot be a fundamental right. Bank credit is available only to those people who are credit worthy and banks will always argue that they are not extending credit as people are not credit worthy. Again, if people are not credit worthy, they alone are not to be blamed for it. The banking system, bank employees and unions are also responsible. We must educate the people, make them financially literate and credit worthy to take them out of poverty. It is for this reason that the Reserve Bank is vigorously pursuing the twin policy objectives of financial inclusion and financial literacy and that is why, I think, you have also chosen this theme for today's seminar. We are working hard in pursuit of our goal of universal financial inclusion and we want you – the employees and the unions – to work together with us.

Many people in the unions may not like the idea of working together with the managements. They feel that the people in management are adversaries and do not listen to their demands. Here, as a last point, I would like to say that the entire industrial relations scenario across the world is undergoing a change; the trade union movement is changing. Land, labour and capital were the factors of production about a hundred years ago. Today, especially in the knowledge based services like banking; the above three are no longer the factors of production; instead technology, people and skills have become the new factors of production. Today, you are no longer "labour" but are "people". When I say 'people', I am including bank managements, regulators, policy makers and bank employees of all kinds – officers, clerical staff and the sub staff. To effectively harness the new factors of production, trade unions and the management should not be adversaries but join together to fight the market forces and reap the benefits for self and more importantly society. In fact, bank managements and unions are no longer adversaries as you are represented on the Board and, hence, are part of management. Together, you should fight the forces that prevent greater financial inclusion and stand in the way of our desire to make banking a fundamental right. And why only should the public sector banks do financial inclusion, we also want the private banks, the cooperative banks and the foreign banks to do financial inclusion and the employees and unions have to play a major role in this task.

Only responsible and strong trade unions can vigorously pursue the measures aimed at improving the conditions of labour and the vulnerable sections of the society. In turn, this makes the management responsible and stronger in meeting its commitment to vulnerable customers and, thereby, strengthens the corporate governance in the institution. One of the reasons why the general standard of corporate governance in the banking system has deteriorated is because trade unions preferred to have weak bank managements. This is amplified from the fact that the trade unions in our country has been very active in the public sector banks while the customers of the private sector banks appear to be more vulnerable.

We all know that the regulation for doing business and general contours of labour laws for private sector banks are identical to that in the public sector. So why are the unions not so active in private banks? I hope AIBEA, which has a long tradition of dealing with the strong private bank managements, will ensure this change in outlook in the banking trade union movement in the country, thereby improving the corporate governance in the banks and also bringing in greater financial inclusion and better customer protection.

Conclusion

You may or may not agree to things that I have said here but, believe me, financial inclusion, leading to larger social and economic good of the country, is in the interest of the banks. It is in our interest and more so, it is in the interest of the bank unions if they have to remain relevant in the system. World over, the trade unions are increasingly becoming irrelevant and I am sure an old and responsible union like the AIBEA and its leaders and members will agree with me on the need to reform the trade unions. If you do not embrace reforms you will become irrelevant. You have to reform by appropriate use of skills, technology and human resources to make banking services accessible, affordable and reliable for the citizens of our country. We have a great opportunity for the first time in the history of human civilization to bring millions of people within the ambit of banking and financial services and, thereby, make inclusive growth a reality. In this endeavour focus should not only be on public sector banks but also on private sector and foreign banks. This can only be achieved with the help of the bank trade unions and the bank employees and by evolving a low-cost delivery model. Reserve Bank has already laid down the appropriate regulatory framework and this would *de jure* make banking a fundamental right. Once we reach this stage, we would have no problem in enacting the law for making banking a fundamental right or at least a directive principle of state policy to begin with. By inviting me to this seminar today, you have signalled your willingness to take up this challenge. I am sure with the collective efforts of the bank trade unions, bank management, regulators and policy makers; we would realize our dream of making banking a fundamental right which, in turn, would lay down the foundation of making 21st century as India's century.

I wish you the very best in your efforts. Thank you!