RBI GOVERNOR'S PRE-POLICY CONSULTATION MEETING

Trade / Industry Bodies, 16th March 2026

POLICY SUGGESTIONS OF INAFI INDIA

Acknowledgements:

The Connect 2 regulate feedback system from public at large is an exemplary policy of making regulations. So, to say, the framing of regulations has been democratized.

The recent policy pronouncements for transactions in digital space is a dynamic proactive customer protection measure and the annual review proposed reinforces the utmost importance attached by RBI to enable people for safe and secure digital banking.

The revisiting of Lead District Bank and KCC scheme which has a larger bearing on the flow of credit is timely and opportune.

Lead Bank Scheme: Which has been in vogue for long since 1969 has out lived its larger purpose – expansion of branch network and creating enabling environment for accelerated flow of credit in particular priority sector credit.

In the current context of inclusive development, Financial Inclusion assumes greater importance and a sense of urgency which calls for a singular focus to make all the households financially included from the holistic perspective of being able to access basic bouquet of financial services – Savings, Credit, Remittances / Payment, Insurance / Investment, Pension and Transactions including digital (SCRIPT) through the banking system. It follows then the Lead Bank scheme could transform as District Financial Inclusion Centres hosted by the existing Designated Banks (which is hosting the Lead Bank Scheme). In other words, **Instead of Lead Bank Scheme it shall be named as District Financial Inclusion Centres** as there is a need to bestow Lead Bank Scheme with the bigger purpose of Financial Inclusion.

Against this backdrop, the national contemporary agenda of Financial Inclusion has emerged as the key focus area for financial system particularly the Banks of all genre. Financial Inclusion is not just about credit but access to six fundamental financial services – Savings, Credit, Remittances / payments, Insurance, Investment, Pension (SCRIP). The country chose the Bank Led model with Banks as One Stop Shop for holistic financial inclusion to access all the basic bouquet of services keeping in view the unmatchable affordability. Moreover, the Districts Landscape of the country has completely transformed with small / right sizing covering very compact geographical area with lesser population (for greater administrative efficiency and effective governance) and there are now nearly 800 districts in India which lends itself for focused FI work by the designated Bank for the districts. This would align with the vision of National Strategy for Financial Inclusion (NSFI 2.0 2025-30) being universal access to all financial services as mentioned above and by extension Banking for / By all Households.

Kisan Credit Card (KCC):

Kisan Credit Card has originally been conceived as short-term credit for meeting the crop cultivation expenses either standalone or in combination with running expenditure of allied activities. And to make it hassle free three to five cropping cycles have been reckoned and limits arrived at.

The proposed revision of tagging long-term investment credit as part of KCC is fraught with quite a lot of difficulties in terms of smooth running of the scheme. As such, there is an imperative to keep the KCC simple which means covering only the short-term credit limits for crop and animal husbandry and other allied activities including fisheries.

This brings the need for Kisan investment credit requiring higher investments such as acquiring tractors with implements, harvesters, land development, establishing bigger animal husbandry including poultry units for scale and viabilities, large orchards and tea / coffee plantations etc. The tenor for repayments would be well above six years. As such, broadly, we need for farming communities regardless of the size of the land holding two schemes namely Kisan Credit Card (KCC) and Kisan Investment Credit (KIC).

Business Conduct - Responsible Lending and Pricing:

RBI has mandated that prudent lending practices shall be adopted by MFIs to avoid multiplicity of lending and also a greater number of loans. What is more, a fair pricing of credit with all-inclusive cost of borrowing need to be levied and disclosed. Moreover, the SROs of MFIs have been mandated by RBI to display the cost of borrowing from their member MFIs in the SRO website which is not being followed. Even in the current scenario of benign interest rates, the rate of interest of micro credit charged by MFIs is well above 24 and goes up to even 32.

Beyond SROs, MFIs need rigorous regulatory oversight while the lenders (Largely Commercial Banks) could chip in as first line of effective supervision to ensure responsible business conduct.

Revamping the Credit Score System:

The existing system of assigning credit score for individuals does not fully reflect the behavioural aspects across the entire spectrum of financial services. They are quite skewed with weightage only for credit with the related aspects such as Payment history, Credit utilisation, Credit age, credit mix and new loan enquiries. The weights for the factors such as credit utilisation, credit mix and new loan enquires defy practical logic and leads to distortion. So many other related financial behaviours such as utility payments, having adequate risk financing with multiple insurance policies, pensions etc, are not part of the scoring system making the existing scheme quite lopsided.

Therefore, there is an urgent need to revamp the credit score system by RBI to enlarge and capture the entire gamut of financial behaviour with inclusion of more factors other than credit. It can't be gainsaid that the extant credit score system has deprived access to credit for large number of people.

Centres for Financial Literacy (CFL): Need for Urban Focus:

The RBI's scaled up CFL projects is currently focusing only on rural hinterlands across the country. By all accounts, it is quite massive in its reach and covered large section of population.

Along with the rising urbanisation large clusters of slums are emerging with growing population of low-income families without adequate financial literacy. Huge mis selling of financial products and services have become quite common. Therefore, CFLs shall also be established in the urban / metro centres.

INTERNATIONAL NETWORK OF ALTERNATIVE FINANCIAL INSTITUTIONS - INDIA (INAFI India)
A development network of NGOs dedicated to promote and advance holistic financial inclusion of women, small and marginal farmers, agricultural labourers and migrant workers with the Banking System.
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