**RBI GOVERNOR'S PRE-POLICY CONSULTATION MEETING WITH TRADE BODIES, May 17, 2023**

**POLICY SUGGESTIONS OF INAFI INDIA**

It is a matter of high gratification that RBI has embarked upon, as part of development mandate, massive financial literacy programme to promote and advance Financial Inclusion (FI) largely with the banking system. The scaling up of Centres of Financial Literacy currently underway is being rolled out across the country, in tune with the National Strategy on Financial Education. It is gathered from INFE of OECD that globally the scale of the FL programme under implementation in India is as unprecedented as it is unparalleled. This unique development initiative has brought to fore some policy compulsions to advance FI process across the country particularly among the excluded segments - poor and low income women, workers in the unorganized sector, small farmers/agricultural labourers and migrant workers. The most important among them is the strengthening institutional framework dedicated to expansion of banking and access to financial services. The concept of Lead Bank which is bank agnostic needs to be repurposed for the contemporary priorities of FL and FI.

## REPURPOSING THE ROLE OF LEAD BANK FOR FINANCIAL INCLUSION:

Much water has flown down since the conception of lead bank with the larger objective of expanding the banking network and promoting the flow of priority credit including the credit linked government sponsored programmes.

A combo of policy initiatives and the advancing of tech enabled banking have brought to the fore the policy compulsions to relook at the original



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conception of lead bank. The advent of Jan DHAN along with Direct Benefit transfer followed by well-structured national Financial Inclusion Programme aided and abetted by mobile/digital revolution, initiatives on the banking outlets including BC/BF, door-step banking for banking network expansion has created an enabling environment wherein the facilitating role of Lead Bank cannot be overemphasized at the ground level. The RBI and Central Government did the right click in choosing the BANK led FI model. This is to serve the twin objectives of FI, not just access but with affordability and also to leverage the vast network of banking backed by technology. At the minimum, the Financial Inclusion should enable access to five fundamental financial services through the banking system – SCRIPT (Savings, Credit, Remittance/Payments, Insurance/Investment, Pension, Transactions including digital). The monumental initiative of RBI on financial literacy through the Centers for Financial Literacy (CFL) across the country is another significant enabling platform to promote and advance holistic Financial Inclusion. All these enabling factors call for well-orchestrated stakeholders' intervention through a common platform of the banking system.

Having regard to the above, the Lead Bank could reinvent itself to drive the singular agenda of financial inclusion through the banking system. Moreover, with the districts shrinking in geo size the Lead Bank network multiplied manifold across the country with a handy compact area to cover. Time is, therefore, ripe to make the Lead Bank as the fulcrum of FI at the district/block level (DLCC/BLBC) and re-designate them as District Financial Inclusion Focal (DFIF) to promote and advance financial inclusion for the public at large. **The Lead Bank shall prepare Financial Inclusion**



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**plan for the district. As of now, Lead Bank can take the support of Centers of Financial Literacy.**

Acting in concert with CFLs and the Banking outlets/BCs, Lead Bank should facilitate that **all households are connected with the banking system** to avail of five fundamental financial services including Government schemes. The **next important step** would be **all adult population should be linked to the Bank**. Repurposing Lead Bank for FI is as powerfully symbolic as it is substantive.

**DISPENSING FAIR MICRO CREDIT - REGULATING SROs:**

Arguably, the MFIs are alternative options to the banking system for access to credit. Yet, from a practical and affordable perspective, it needs to be a transitory arrangement, particularly for the low income/poor segments of population. While the sector is enjoying the revised framework of the deregulation of the pricing, the consumers of microcredit is not getting a fair deal from MFIs, nor there is transparency in sharing the details of pricing.

Furthermore, the SROs of MFIs is not complying with the disclosure requirements of range of interest rates on microfinance loans charged by the members in a district (as stipulated in the revised regulation), nor there is any sensitization against charging of usurious interest rate. With the pricing ranging between 26 – 30% the micro credit clients are exploited. This is also true of small finance banks who have access to CASA funds.

Therefore, there is a need for constant vigil and surveillance of pricing by MFIs and small finance banks. Which means, there has to be a close watch on the self-regulation process. In this regard, Regional Office of RBI in concert with SLBCs and their distributed network of district level Lead Bank officers need to play this role effectively and curb the usurious pricing tendencies of NBFC MFIs and small finance ecosystems.



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**CELEBRATING AND INCENTIVIZING THE CULTURE OF THRIFT OF WOMEN:**

From a cultural stand point and historically women have shown exemplary character of being thrifty and good savers. Even the poor have shown through SHGs that poor can save and the members of SHGs who are part of the SHG ecosystem for long have savings in excess of a lakh of rupees. The banking system with a regulatory push need to recognize, celebrate and incentivize this divine culture of women. The incentive could be for those who are having savings account with regular operations and with RUPAY/Debit card and term deposit holders. **A mark up of one or two percent of interest both in the savings account or/and term deposits would be a gracious gesture by RBI/Commercial banking system.**



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