# Inclusive Finance India Report 2019

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# Inclusive Finance India Report 2019

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| ABAL | Asset Backed Agri Loan |
| ABBA | Aadhaar-Based Biometric Authentication |
| ABC | Agent Business Correspondent |
| ADB | Asian Development Bank |
| ADBI | Asian Development Bank Institute |
| ADEPT | Automated Data Extraction Project |
| AEPS | Aadhaar-Enabled Payments System |
| AFI | Alliance for Financial Inclusion |
| AI | Artificial Intelligence |
| AIBEA | All India Bank Employees Association |
| AMFI | Association of Mutual Funds in India |
| AML | Anti Money Laundering |
| ANBC | Adjusted Net Bank Credit |
| AP crisis | Andhra Pradesh Crisis |
| APBS | Aadhaar Payment Bridge System |
| APGVB | Andhra Pradesh Grameen Vikas Bank |
| API | Application Programming Interface |
| APL | Above Poverty Line |
| APMAS | Andhra Pradesh Mahila Abhivruddhi Samiti |
| APY | Atal Pension Yojana |
| ASPIRE Fund | A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship |
| ATM | Automated Teller Machines |
| AUA | Authentication User Agencies |
| AUM | Assets Under Management |
| B&DC | Business And Development Correspondent |
| B&DF | Business and Development Facilitator |
| B2B | Business to Business |
| B2C | Business to Consumer |
| BBPS | Bharat Bill Payment Services |
| BSBDA | Basic Savings Bank Deposit Account |
| BC-MFI | Business Correspondent-Microfinance Institution |
| BC | Business Correspondents/Banking Correspondents |
| BCA | BC Agent |
| BCA | Business Correspondent Agent |
| BCFI | Business Correspondent Federation of India |
| BCNM | Business Correspondent Network Manager |
| BF | Business Facilitator |
| BFIL | Bharat Financial Inclusion Ltd |
| BFSI | Banking, Financial Services and Insurance |
| BHIM | Bharat Interface for Money |
| BIRD | Bankers Institute of Rural Development |
| BOP | Bottom of the Pyramid |
| BPL | Below Poverty Line |
| BRLPS | Bihar Livelihoods Promotion Society |
| BSDA | Basic Savings Deposit Accounts |
| BTDP | Bihar Targeted Development Programme |
| C-PEC | Centre for Professional Excellence in Cooperatives |
| CA Grameen | CreditAccess Grameen |
| CAGR | Compound Annual Growth Rate |
| CASA | Current Account Savings Accounts |

| | |
|---|---|
| CBC | Corporate Business Correspondent |
| CBCNM | Corporate Business Correspondent Network Manager |
| CBS | Core Banking Solution |
| CCC | Certified Credit Counsellors |
| CCC4CCC | Certified Credit Counsellors for Credible Credit Connect |
| CCI | Competition Commission of India |
| CD | Certificate of Deposit |
| CDDP | Committee on Deepening Digital Payments |
| CDF | Cooperative Development Fund |
| CDG | Chandigarh |
| CDOT | Center for Development Orientation and Training |
| CEOBE | Credit Equivalent Amount of Off-Balance-Sheet Exposure |
| CERSAL/CERSAI | Central Registry of Securitisation Asset Reconstruction and Security Interest of India |
| CFI | Centre for Financial Inclusion |
| CFL | Centre for Financial Literacy |
| CFT | Cluster Facilitation Team |
| CGAP | Consultative Group to Assist the Poor |
| CGFMU | Credit Guarantee Fund for Micro Units |
| CGS | Credit Guarantee Scheme |
| CGTMSE | Credit Guarantee Trust Fund for Micro and Small Enterprises |
| CHC | Custom Hiring Centre |
| CIC | Credit Information Company |
| CIF | Community Investment Funds |
| CKYCR | The Central KYC Records Registry |
| CLF | Cluster-Level Federation |
| CMRC | Community Managed Resource Centre |
| COF | Cost Of Funds |
| CoR | Certificate of Registration |
| CPR | Community Resource Person |
| CRAR | Capital to Risk-Weighted Assets Ratio |
| CRISIL | Credit Rating Information Services of India Limited |
| CRM | Cash Recycler Machine |
| CRP | Community Resource Person |
| CRR | Cash Reserve Ratio |
| CSC | Common Service Centre |
| CSP | Customer Service Point |
| CTI | Cooperative Training Institute |
| DAY-NRLM | Deendayal Antyodaya Yojana-National Rural Livelihoods Mission |
| DBT-F | Direct Benefit Transfer in Fertiliser |
| DCCB | District Central Cooperative Bank |
| DDO | Disbursing and Drawing Officer |
| DEA | Depositors Education and Awareness |
| DFLAP | Digital Financial Literacy Awareness Programme |
| DFS | Department of Financial Services |
| DHRP | Draft Red Herring Prospectus |
| DL | Direct lending |
| DNH | Dadra and Nagar Haveli |
| DSCB | Domestic Scheduled Commercial Bank |
| DSS | Decision Support System |
| E-NACH | Electronic-National Automated Clearing House |
| E2E | End-to-End |

| | |
|---|---|
| EAP | Eastern Asia & Pacific |
| ECS | Electronic Clearing System |
| EDO | Entrepreneurship Development Officer |
| EPFO | Employees' Provident Fund Organisation |
| ERP | Enterprise Resource Planning |
| FBC | Field Business Correspondent |
| FIAC | Financial Inclusion Advisory Committee |
| FIF | Financial Inclusion Fund |
| FIG | Financial Intermediary Group |
| FINO | Financial Inclusion Network and Operation |
| FIP | Financial Inclusion Plan |
| FIRC | Financial Inclusion Resource Centre |
| FITF | Financial Inclusion Technology Fund |
| FLC | Financial Literacy Centre |
| FLDG | First Loss Default Guarantee |
| FRDI | Financial Resolution and Deposit Insurance |
| FSDC–SC | The Financial Stability and Development Council-Sub Committee |
| FY | Financial Year |
| G2C | Government To Citizen |
| G2P | Government To People |
| GAIN | Global Alliance for Improved Nutrition |
| GAP | Good Agricultural Practice |
| GBA | Gramin Bank of Aryavart |
| GF | Grameen Foundation |
| GIS | Geographic Information system |
| Global AUA | Global Authentication User Agency |
| GLP | Gross Loan Portfolio |
| GMSS | Grameen Mahila Swayamsiddha Sangh |
| GNPA | Gross Non-Performing Advances |
| GoI | Government of India |
| GPFI | Global Partnership on Financial Inclusion |
| GST | Goods and Services Tax |
| GSTN | GST Network |
| HDBS | Horizontally Differentiated Banking System |
| HDI | Human Development index |
| HR | Human Resources |
| IBA | Indian Banks' Association |
| IBC | Insolvency and Bankruptcy Code |
| ICDS | Integrated Child Development Services |
| ICE | Industry Cluster Enterprise |
| ICT | Information and Communications Technology |
| IFC | International Finance Corporation |
| IFMR | Institute for Financial Management and Research |
| IFMR-LEAD | Institute for Financial Management and Research-Leveraging Evidence for Access and Development |
| IGL | Income Generating Loan |
| IIBF | Indian Institute of Banking and Finance |
| IMPS | Immediate Payment Service |
| INFE | International Network on Financial Education |
| IPO | Initial Public Offer |
| IRDA | Insurance Regulatory and Development Authority |

| | |
|---|---|
| IRDP | Integrated Rural Development Program |
| IRR | Internal Rate of Return |
| IRV | Individual Rural Volunteer |
| IBS | Indian Business School |
| IT | Information Technology |
| ITU | International Telecommunications Union |
| IWG | Internal Working Group |
| JAM | Jan-Dhan-Aadhar-Mobile |
| PMJDY | Pradhan Mantri Jan Dhan Yojana |
| JLG | Joint Liability Group |
| JLGPI | JLG Promoting Institution |
| KCC | Kisan Credit Card |
| KVGB | Karnataka Vikas Gramin Bank |
| KVIC | Khadi and Village Industry Commission |
| KYC | Know Your Customer |
| LAB | Local Area Bank |
| LAC | Latin American Countries |
| LAMPS | Large-sized Multi-purpose Societies |
| LEDP | Livelihood and Enterprise Development Programme |
| LIC | Life Insurance Corporation |
| LLG | Limited Liability Group |
| LMI | Lower-Middle Income |
| LMS | Loan Origination System |
| LWE | Left-Wing Extremism |
| M-LAP | Micro Loan Against Property |
| MACC | Mutually Accepted Code of Conduct |
| MACS | Mutually Aided Cooperative Society |
| MAVIM | Mahila Arthik Vikas Mahamandal |
| MBGB | Madhya Bihar Grameen Bank |
| MCLR | Marginal Cost of fund-based Lending Rate |
| MDR | Merchant Discount Rate |
| MEDP | Microenterprise Development Programme |
| MEITY | Ministry of Electronics and Information Technology |
| MENA | Middle Eastern North Atlantic Countries: |
| MF | Microfinance |
| MFI | Micro Finance Institution |
| MFIN | Microfinance Institutions Network |
| MGNREGS-NRLM | Mahatma Gandhi National Rural Employment Guarantee Scheme-National Rural Livelihoods Mission |
| MGNREGS | Mahatma Gandhi National Rural Employment Guarantee Scheme |
| MIS | Management Information System |
| ML | Machine Learning |
| MNO | Mobile Network Operators |
| MOPAD | Multi Option Payment Acceptance Device |
| MoU | Memorandum of Understanding |
| MP | Madhya Pradesh |
| MSE | Micro and Small Enterprises |
| MSMED Act, 2006 | Micro, Small and Medium Enterprises Development Act, 2006 |
| MSMEs | Micro, Small and Medium Enterprises |
| MSRLM | Maharashtra State Rural Livelihoods Mission |
| MUDRA | Micro Units Development and Regulatory Agency |

| | |
|---|---|
| NABARD | National Bank for Agriculture and Rural Development |
| NABFINS | NABARD Financial Services Ltd |
| NACH | National Automated Clearing House |
| NAFIS | NABARD All India Financial Inclusion Survey |
| NAFSCOB | National Federation of State Cooperative Banks Ltd. |
| NAMCABS | National Mission for Capacity Building of Bankers for Financing the MSME Sector |
| NBFC-MFI | Non-Banking Finance Company-Microfinance Institution |
| NBFC | Non-Banking Finance Company |
| NCD | Non-Convertible Debentures |
| NCGTC | National Credit Guarantee Trustee Company Ltd. |
| NDA | Nirantar Deposit Agent |
| NE | North-East |
| NEFT | National Electronic Funds Transfer |
| NeGD | National e-Governance Division |
| NICT | Network for Information and Computer Technology |
| NJGB | Narmada Jhabua Gramin Bank |
| NOFN | National Optical Fibre Network |
| NPA | Non-Performing Asset |
| NPCI | National Payments Corporation of India |
| NRI | Non-Resident Indian |
| NRLM | National Rural Livelihoods Mission |
| NRLP | National Rural Livelihoods Project |
| OECD | The Organisation for Economic Co-operation |
| OER | Operating Expense Ratio |
| OSCB | Odisha State Cooperative Bank |
| P2P | Peer-to-Peer |
| PACS | Primary Agricultural Credit Societies |
| PACS | Primary Agricultural Societies |
| PAO | Pay and Accounts Office |
| PAR | Portfolio at Risk |
| PB | Payments Bank |
| PCA | Prompt Corrective Action |
| PCI | Payment Council of India |
| pcNSDP | per capita Net State Domestic Product |
| PDC | PACS Development Cells |
| PDS | Public Distribution System |
| PDY | Puducherry Locate |
| PFRDA | Pension Fund Regulatory and Development Authority |
| PIB | Press Information Bureau |
| PIN | Personal Identification Number |
| PLF | Panchayat-Level Federation |
| PMEGP | Prime Minister Employment Guarantee Programme |
| PMFBY | Pradhan Mantri Fasal Bima Yojana |
| PMGDISHA | Pradhan Mantri Gramin Digital Saksharta Abhiyan |
| PMJDY | Pradhan Mantri Jan Dhan Yojana |
| PMJJBY | Pradhan Mantri Jeevan Jyoti Bima Yojana |
| PMJSY | Ptradhan Mantri Jeevna Suraksh Yojana |
| PMMY | Pradhan Mantri MUDRA Yojana |
| PMSBY | Pradhan Mantri Suraksha Bima Yojana |
| PNB | Punjab National Bank |
| POS | Point Of Sale |

| | |
|---|---|
| PPI | Prepaid Instrument |
| PSB | Public Sector Bank |
| PSGIC | Public Sector General Insurance Companies |
| PSL | Priority Sector Lending |
| PSLC | Priority Sector Lending Certificate |
| PSU | Public Sector Undertaking |
| PTC | Pass Through Certificates |
| QR | Quick Response |
| RBI | Reserve Bank of India |
| RCB | Rural Cooperative Bank |
| RF | Revolving Fund |
| RIDF | Rural Infrastructure Development Fund |
| RKCC | RuPay ATM cum Debit Kisan Credit Card |
| RMU | Risk Management Unit |
| RRB | Regional Rural Bank |
| RSCB | Rajasthan State Cooperative Bank |
| RTGS | Real Time Gross Settlement |
| RTI | Right to Information |
| SAP | Structural Adjustment Programme |
| SBA | Small Borrowal Account |
| SBLP | SHG-Bank Linkage Programme |
| SBM | Swachch Bharat Mission |
| SBN | Scheduled Bank Note |
| SC | Scheduled Caste |
| SCB | Scheduled Commercial Bank |
| SCNL | Satin Creditcare Network Limited |
| SDG | Sustainable Development Goal |
| SEBI | Securities and Exchange Board of India |
| SERP | Society for the Elimination of Rural Poverty |
| SFB | Small Finance Bank |
| SGSY | Swarnajyoti Gram Swarozgar Yojana |
| SHG-BLP | Self-Help Group-Bank Linkage Programme |
| SHG | Self-Help Group |
| SHPA | Self-Help Promoting Agency |
| SHPI | Self-Help Promoting Institution |
| SIDBI | Small Industries Development Bank of India |
| SIFMI | Systematically Important Financial Market Infrastructure |
| SKDRDP | Sri Kshetra Dharmasthala Rural Development Project |
| SLA | Service-Level Agreement |
| SLBC | State-Level Bankers' Committee |
| SLI | Second-Level Institution |
| SLR | Statutory Liquidity Ratio |
| SME | Small and Medium Enterprises |
| SRLM | State Rural Livelihood Mission |
| SSA | Sub-Service Area |
| SSI | Small Scale Industry |
| ST | Scheduled Tribe |
| StCB | State Cooperative Banks |
| STCCS | Short-Term Cooperative Credit Structure |
| STRBI | Statistical Tables Relating to Banks in India |
| Sub-K | Name of Organization |

| | |
|---|---|
| SVCL | SV Credit Line |
| TAT | Turn Around Time |
| TBA | Total Branch Automation |
| ToT | Trainers of Trainees |
| TRAI | Telecom Regulatory Authority of India |
| TSP | Technical Service Provider |
| UBGB | Uttar Bihar Grameen Bank |
| UCB | Urban Cooperative Bank |
| UCV | Used Commercial Vehicle |
| UIDAI | Unique Identification Division of All India |
| UMANG | Unified Mobile Application for New-age Governance |
| UP | Uttar Pradesh |
| UPI | Unified Payments Interface |
| URC | Unbanked Rural Centre |
| USOF | Universal Service Obligation Fund |
| USSD | Unstructured Supplementary Service Data |
| VDBS | Vertically Differentiated Banking System |
| VID | Virtual ID |
| VJS | Vikas Jan Shakti |
| VO | Village Organisation |
| VSATs | Very Small Aperture Terminal |
| WASH | Water Sanitation and Health Programme |
| WBES | World Bank Enterprise Surveys |
| WSHG | Women SHG |
| YES LEAP | YES Bank's Livelihood Enhancement Action Program |

# Foreword

While the debate on whether the economic downturn is structural or cyclical continues to dominate the national discourse, the first priority of the new, more empowered government is to take necessary policy measures to stem the phenomenon. While several bold supply side initiatives have been taken, and many more are on the anvil; I'm sure there will be equal policy nudges to spur the demand as well. Given this overall emergent and urgent scenario, there hasn't been any important articulation of plans to take the incredible success of the last government's great impetus to financial inclusion forward through new incremental ideas.

The Prime Minister's Jan Dhan Yojana, launched from the ramparts of the Red Fort five years ago, was among the first bold policy initiatives of the newly instituted NDA Government. All through the five-year term of the government, PMJDY was highlighted as among its most successful programs; mostly by the Prime Minister himself. Largely propelled by the PMJDY campaign, according to FINDEX 2017, compared to 2011 the bank accounts of all adults had doubled. As of September 2019, there are almost 370 million PMJDY accounts. Almost 80% of all Indian adults now have a bank account. It was indeed an audacious, ambitious campaign that catapulted India as among the leaders in financial inclusion among developing countries.

However, at a granular level, the success of PMJDY was more in number terms; and perhaps a version 2.0 of the PMJDY needs to be announced, to give a renewed momentum to the campaign. The average balances in the accounts remain nominal; the enrollment under sub-schemes of PMJDY also have remained low: PMJJBY had < 60 million, PMSBY < 155 million and under Atal Pension Yojana, the enrollment is only about 15 million. The uptake of the enhanced overdraft limit of INR 10,000 stands at an abysmally low at 6 million. However, having accomplished near universalization in account opening, I am sure it presents a real time opportunity to leverage this for new and bigger gains in financial inclusion in times to come.

Commercial banks, particularly the government owned ones have led the show. Public sector banks have contributed to 97 % of all PMJDY accounts. Additionally, there are other important expectations of the government from these institutions, even as there is a concerted strategy to bring them back on track through a slew of critical measures. The government has framed a 4R strategy, which included the transparent recognition of NPAs, reforms in the insolvency and bankruptcy framework and recapitalization of the PSUs. In 2017, the Government announced a massive recapitalization of INR 2110 billion of PSBs spread over two years to bolster and clean up their balance sheets. Largely due to this infusion, most affected PSBs are back on track, and 5 PSBs have also reported profits. Consolidation of PSBs has been another policy initiative of the Government. While in 2017, five associate banks and the Bhartiya Mahila Bank were merged with the parent SBI, continuing the trend of consolidation, in the last two years; some more public sector banks were brought together to create fewer larger banks. From 27 in 2017, the number of PSBs now stands at 12. How these measures will contribute to financial inclusion is uncertain, as the SCBs still remain skeptical in extending small loans. Despite this, bulk of the success of PMJDY can be attributed to PSBs through their extensive branch network of almost 60,000 and 143,000 BC outlets.

RRBs too have an important role in the financial inclusion scheme of things. Over the years, since 2005, the number of RRBs has been brought down from 198 to 53 as of today. Although this amalgamation, coupled with recapitalization has seen most RRBs reporting profit; there is a significant deviation from their original charter of lending in rural areas. Number of rural branches has come down and most RRBs have greater interest to serve the urban and semi-urban clientele. However, the largest chunk of the RRB portfolio continues to be agriculture finance, which stands at 72.7 %. With high expectations from SCBs, introduction of new generation SFBs, and significant departure from their original mission, there is often a question on the raison d'être for the continued existence of RRBs. Privatizing them and transforming them into SFBs may give them a new lease of life, and expand the ambit of their operations beyond a single State.

Specifically, for credit needs of low-income households, the MFI sector has done exceedingly well. During 2018-19, the MFI sector recorded a growth of 38 percent. This has been a continued phenomenon over the last few years. With a portfolio of INR 1,863.97 billion and an outreach of 56 million clients, MFIs are making significant contribution to (profitably) advance financial inclusion in the country. In a recent meeting, even the Union Finance Minister acknowledged the abilities of MFIs to effectively reach the bottom of the pyramid. With debt and equity flowing smoothly, MFIs are growing rapidly, particularly the larger ones, with some growing too rapidly. Warburg Pincus made their first MFI investment globally of INR 5,200 million in Fusion Microfinance. Sachin Bansal, the e-commerce star of Flipkart found it attractive to enter the sector with an investment of INR 250 million in Chaitanya India Finance. Given the fascination of MFI methodology in profitably lending to low-income households, and to meet their statutory priority sector obligations, several commercial banks have begun to acquire NBFC MFIs in the past few years. During the year, IndusInd Bank acquired Bharat Financial Inclusion Ltd., the largest MFI in the country and Kotak Bank acquired BSS. Several commercial banks have begun their own microfinance lending programmes while others are partnering with MFIs as BCs. In the last half a decade, the legitimacy of MFIs as an effective channel to deliver financial services to the lowest percentile has been well established. In some manner, it is in this recognition that nine MFIs were awarded small finance bank licenses; and it is quite likely that as the pressure mounts on the need for widening the base for financial services, more MFIs will have an opportunity to become banks in the future, now that licenses will be on tap. This augurs well for financial inclusion in the country, as well as for MFIs, and perhaps for the clients as well.

It is important to highlight that the recognition of the MFI sector as a legitimate channel in the financial sector in India, over the last two decades, is largely due to the tireless efforts of both Sa-dhan and MFIN, with the former completing 20 years and the latter 10 years as industry associations. These two bodies have played an incredible indefatigable role in firmly establishing the contribution and value of MFIs in servicing the non-banked.

However, issues continue to persist in the sector. Reckless and unbridled growth of a few MFIs; skewed regional coverage and area concentration; multiple lending and the specter of over indebtedness; quality of frontline HR; dilution of client engagement at center meetings that was the hallmark of the methodology; lack of innovation in products are issues that need continued attention. Only today's newspapers (November 22) carry stories of overheating in Assam.

The SHG-Bank linkage programme (SBLP) is the other important strand that enables poor women to link with the mainstream financial system. While launched by NABARD in 1992, SBLP had the narrow purpose of linking small informal groups of women to formal credit. The programme has grown steadily under NABARD's stewardship, but saw exponential spike once National Rural Livelihoods Mission (NRLM) adopted the SHG methodology around a decade ago. Now, at each state level, large cadres of State Rural Livelihoods Missions are promoting SHGs and cluster level SHG federations. Across states, SHGs are aggressively being formed, almost to the extent of saturation. However, there still remain a few difficult areas that will require special efforts. While as of March 2019, there were 10 million savings linked SHGs with a membership of over 125 million, those that have been linked to credit are only half the number with credit outstanding of INR 871 billion. Although fresh loans to SHGs during 2018-19 grew by 23%, getting SHGs linked to bank loans has continued to remain a key challenge. Some of this hesitation to lend emanates from SHG level NPAs, which stood at about 5% as of March 2019.

An important initiative under the SHG programme has been the drive to digitize SHG financial data. Towards this, NABARD initiated the E-Shakti pilot programme. As of March 31, 2019, 434,000 SHGs in 100 districts have been on-boarded. Among others, this drive has helped the SHGs to benefit from the larger financial inclusion campaign of the Government and better access social security programmes. Other innovations to spur the SHG programme include the involvement of SHG members as BCs, known as BC Sakhis; deployment of Bank Sakhis in community based repayment campaigns; online submission of loan applications; forming JLGs for higher loan offtake; skill and entrepreneurship training of SHG members, among others. The SHG programme continues to be an important channel for poor women to access loans and entitlements, but we are yet to see, even if a few, path breaking initiatives in SHG programme for truly creating livelihoods and entrepreneurship opportunities for poor women.

While the fortunes of the new category of Payment Banks is unclear with only 4 of the 11 licensees remaining operational; Small Finance Banks are gradually settling down as a new differentiated bank category. As of September, all 10 SFBs have been granted "scheduled" status. The RBI plans to grant more SFB licenses, guidelines for which have been issued. There is a thought to allow even payment banks and urban cooperative banks to convert into SFBs. There are reports that India Post Payments Bank has already expressed its desire to transform into a SFB. Given that 8 of the 10 SFBs are erstwhile MFIs, majority of their portfolio continues to be microfinance loans, with little diversification of product portfolio. The SFB lending rates also remain high. Even while the SFBs are settling, a few already harbor an unspoken ambition to convert into Universal Banks in the next 4-5 years.

"Digital financial services" has been a buzzword within the lexicon of financial inclusion for a while. India is said to be "ground zero" for all this excitement, given the momentum we are seeing. There are great expectations from the fintech revolution unfolding in the financial eco-system. The JAM trinity has created a unique connected market infrastructure that will help providers reach the last mile effectively. As per a target set by MEITY, almost 30 billion digital transactions were made last year. While the government works towards a Digital India vision; how it adds up to advance financial inclusion needs better understanding. The big bold move in 2018 was the "PSB Loans in 59 Minutes" for MSME lending. MSMEs can expect to get an in-principle loan approval of up to INR 5 crore under the scheme after complying with the paperwork within an hour. Till July this year, almost 134,000 loans have been sanctioned. Direct Benefit Transfer (DBT) continues to enable subsidies under various schemes reaching the poor directly into their accounts. As of August 2019, 439 schemes have been covered under DBT. During 2018-19, INR 2,14,092 crores was transferred through the DBT scheme to 129 crore beneficiaries. With several fintechs mushrooming in the country, the RBI has developed a regulatory sandbox to pilot and assess the efficacy of different technologies, products and processes. However, most of these are focused on urban areas. While there is a growing momentum in digital finance, connectivity, negligible digital data points, lack of digital literacy, I guess will slacken the momentum to truly benefit from the digital revolution being currently witnessed.

Is the glass half full or half empty? In the last decade, particularly in the last five years, the country has made incredible strides in advancing financial inclusion in the country. India has come a long way in making universal financial inclusion in the country a near reality. However, there remain several challenges that still need to be addressed. As I view the evolution of the financial inclusion in the country, I am reminded of Robert Frost's poem "Stopping by Woods on a Snowing Evening; specifically:

"…But I have promises to keep, And miles to go before I sleep, And miles to go before I sleep."

I am sure this would be a leading thought among our policy makers, as they continue to design, devise and develop a responsive financial institutional architecture.

I'm glad that both Ajay Tankha and Dr. Alok Misra agreed to continue to author the Inclusive Finance India Report for the second consecutive year. Both Ajay and Alok, as in the past have assiduously put together the Report for 2019, analyzing policy, poring through scattered data and secondary literature, consulting with key stakeholders, undertaking field visits. I am fully aware of the enormous arduous effort that goes into bringing such a report together, collating disparate strands within the financial eco-system. Both are keen researchers of international repute and astute analysts of policy. I'm sure this effort will have great new insights of financial inclusion advancements in the country. It is now 13 years since ACCESS first conceived of the need to have an annual review of financial inclusion as it evolves in the country through a well-analyzed Report. I am happy that, over the years, it has evolved into an important reference document; eagerly awaited each year and I thank both the authors for agreeing to take on the challenge.

I take this opportunity to thank our key supporters to the Report. At the outset I would like to thank Dr. Harsh Bhanwala, Chairman NABARD for his continued conviction that the Inclusive Finance India Report brings good insightful value for a large audience. His support to our endeavors has been very encouraging. Along with him, I also thank L R Ramachandran, CGM, DFIBT, who not only responded to our request with great alacrity but also proffered valuable inputs for the report. I take this opportunity to thank Pawan Bakhshi and the Bill and Melinda Gates Foundation for their continued support to the Report. Besides the Gates Foundation support for several years now, Pawan, each year, specifically provides very valuable new perspectives for the report, which help to enrich its contents. I take this opportunity to also thank Porush Singh, Division President, South Asia, Mastercard and his team comprising of Ashutosh, Latika and Rohan for the continued association with the Report, for the fourth year now. Without this incredible support, it would not have been possible for ACCESS to mount this complex task of bringing together the Report.

Finally, my small team in ACCESS ASSIST, led by Radhika, as always, anchored the full responsibility of ensuring that the Inclusive Finance India Report is released at the Inclusive Finance India Summit. Coordinating with the authors on their chapters, coordinating with the publishers, poring over copy editor's corrections, organizing the travels and meetings; grappling with other related requests; somehow this young brigade manages this task, unflustered and undaunted. Congratulations Radhika, Arya, Priyamvada, and Lalitha for an incredible job, well done.

I look forward to the release of the 2019 Inclusive Finance India Report at the ACCESS Summit. As always, I hope, it will continue to inform, influence and support policy for an Inclusive India.

**Vipin Sharma**
CEO

# Preface

This is the 13th edition of the annual Inclusive Finance India Report, an initiative by Access Development Services to document both policy and operational aspects of financial inclusion in India. Over the years, it has emerged as a repository of financial inclusion initiatives and is referred to by policymakers, practitioners and researchers and through its thirteen annual editions provides a rich account of financial inclusion in India. The authors are thankful to the Access leadership especially Vipin Sharma for again entrusting us with this responsibility. Over the years, the financial inclusion landscape has evolved from microfinance to encompass a variety of players and channels like banks (Universal banks, Cooperative banks, Regional Rural banks, Small Finance Banks and Payments Banks), NBFCs, Fintechs and Banking Correspondents. The institutional diversity is compounded by a host of Government programmes like National Rural Livelihoods Mission (NRLM), Pradhan Mantri Jan Dhan Yojana (PMJDY) and its associated schemes of insurance and pension and Pradhan Mantri Mudra Yojana (PMMY) being overseen by MUDRA. The building of digital rails through Jan Dhan-Aadhar-Mobile, Unified Payment Interface (UPI) and open APIs has seen a focus on innovations in digital channels and has given rise to new generation of fintech lenders as well as increased adoption of digital technology by established players. Overall, while there has been significant progress on the agenda of financial inclusion, the complexity has made the task of narrating the progress difficult. Modularisation or unpacking of financial services, wherein, the design-retailing-servicing of a financial product has been decoupled across different entities has made the compartmentalizing different channels more difficult. In this backdrop, the task of narrating the progress and raising issues was humbling and led to the difficult choice of balancing depth with broader paintbrush of the entire sector.

It is a testimony to the public policy's push and market players' involvement that the country has seen significant progress in recent years. Nearly 80% of the adult population is now covered by bank accounts and number of small borrowers covered through both models of microfinance and small borrowal accounts of Scheduled Commercial Banks stands at around 250 million without counting the overlap. It is an achievement which needs to be celebrated and it is hoped that new initiatives based on technology will spread it wider as also make it more cost effective. However, there is no room for laxity and not only certain old issues persist but new ones are getting added. The problem of regional and sectoral skew in financial services is an old issue but newer issues have got added to it. A review of banking credit during last five years shows that the credit growth is more in case of personal loans and services sector over manufacturing and agriculture. Similarly, the changes in the composition of SCBs deposits and slow growth in deposits is a bigger developmental challenge for the country as banks have been at the forefront of financial inclusion focused lending. Saturation of financial services in regions/pockets is across channels and has been discussed in the first chapter as well in chapters on microfinance. The propensity of credit saturated pockets to manifest stress signals has been seen in the past and continues even now- As the report goes to press, the situation in Assam has become volatile with microfinance borrowers being told not to repay. High growth in Assam is mentioned in Chapter 5 (written in August) as an issue.

The focus on Digital financial services has its related issue of consumer protection and ensuring that in this digital era, vast majority is not left behind. Massive efforts are required in connectivity infrastructure, having a robust grievance redressal and financial literacy. At present, despite rise in digital transactions and mushrooming of fintechs, it remains an urban phenomenon. Associated with digital is the issue of less-cash economy. Policy makers need to acknowledge that in the present scenario, we are far from it and lot of enablers are needed. Things like increasing digital payments acceptance infrastructure, gradual formalization of the informal sector and having policy consistency are essential ingredients of moving towards a less-cash economy and poor clients should not be forced to adopt digital. The policy should veer towards “nudge” and avoid “push” for a sustainable effect.

Institutionally, Public Sector Banks have played a stellar role in financial inclusion but are currently undergoing structural changes in the form of mergers and cleaning of balance sheets. Hopefully, they will emerge stronger. Rural Cooperative banks and Regional Rural Banks have not lived up to their promise and are also seeing changes like delayering and mergers. Small Finance Banks show promise in upping the game in financing of micro and small enterprises but have to demonstrate success in mobilizing retail deposits, lowering interest rates and diversification of loans and advances. Payments Banks operations leave much to be desired and time has come to examine whether the model is viable in its present form? Microfinance Institutions continue to clock high growth and attract investments but questions on geographical concentration, high staff productivity affecting client relationship and cookie cutter product line continue to surface.

The complexity of financial inclusion landscape also has challenges on the regulatory front. Unpacking of financial services and its implications for consumer protection, regulatory arbitrage across institutions active in same segment and dealing with grey zone area created by new players like fintech platforms are some of the key challenges before regulators. Finally, it needs to be kept in mind that financial inclusion is a means for improving the economic and social well being of clients and not an end in itself. Public investments in increasing productive capacity of the population are needed to make extension of financial services have the desired impact.

The detailing of the progress in financial inclusion makes us feel, that the country is witnessing an inflection point, wherein the right mix of policies and practices can achieve universal financial inclusion, set the framework for inclusive development and contribute to achievement of $5 trillion economy. To do so, the issues highlighted in the report need to be addressed and mere outreach numbers should not be the comfort factor.

The report would not have been possible without the data and insights gained from various sources and the authors will like to thank them profusely. The data from the Reserve Bank of India and other Apex financial institutions namely NABARD, SIDBI and MUDRA and other agencies like NPCI has been a key source for this report. Thanks are also due to Micro Finance Institutions Network (MFIN) and NRLM for data support as well as enriching discussions. The roundtable of CEOs of Small Finance Banks and Payments Banks organized by Access Development Services proved to be an invaluable source of information. Immense gratitude is due to a range of stakeholders like Aalok Gupta, CEO of MUDRA, RK Singh, GM, SIDBI, Samit Ghosh of Ujjivan SFB, Baskar Babu and Narayan Rao of Suryoday SFB, MFI CEOs (Arohan, Vaya Finserv, Satya, Fusion, Svatantra) , Anubrata Biswas, CEO of Airtel Payment Bank, technical agencies [Anil Gupta from MicroSave] and policy makers like Madnesh Mishra, Joint Secretary Department of Financial Services, Government of India for sparing their valuable time. Equally significant was the contribution of MFIs and SFBs who responded to the data request. The data provided by Parijat Garg, Crif High Mark Credit Information Services has been valuable in analyzing risks in microfinance. Thanks are also due to Vinay Singh, Doctoral candidate at MDI who kept the authors informed about new developments and helped write the section on Aadhaar.

As in previous years, NABARD was a source of data and inputs for the Report. L. R Ramachandran, Nageswar Rao and team, G. R. Chintala, Gautam Singh and Amita Tripathi discussed policy matters and current issues. Srinivas Bonam of IndusInd Bank, Anshul Swami, Neeraj Sati of RBL Bank and Raul Rebello of Axis Bank outlined the strategy of private banks in rural financial inclusion and Rajinder Babbar provided a copy of a book on HDFC Bank. Ramanna Rao of Andhra Bank and S. D. Mahurkar of Central Bank of India shared insights into their work on inclusive finance. Manoj Sharma, MicroSave, Sasidhar Tumuluri of Sub-K and Mukesh Hajela and team of NICT discussed the finer points of the functioning of the BC model.

Amit Arora, World Bank and Sourav Roy, Tri Vikram, Anil Singh and Ram Gupta of the NRLM Financial Inclusion team, contributed to an understanding of various initiatives and projects implemented by NRLM. Madhu Sharan of Hand-in-Hand India and C. S Reddy and S. Ramalakshmi, APMAS and G.V.S. Reddy, StreeNidhi gave their time and ideas on SHGs and SHG federations.

Sharon Bateau, Parul Aggarwal and Amulya Champatiray of IFMR-LEAD discussed and shared the findings of digitisation in SHGs and other studies conducted by them. Shambhavi Srivastava, Dvara Consulting provided valuable material and inputs on issues related to women's collectives.

From Access, in addition to the leadership provided by Vipin Sharma and Radhika Agashe, the authors are also grateful to Priyamvada Rathore and Lalitha Sridharan for logistical and all-round support. Praveen Khedale provided admirable research assistance and help throughout the assignment. This report would not have been possible but for the generous help of all stakeholders. We apologise to those whose names may have been missed out inadvertently.

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# Financial Inclusion Landscape in 2019: Progress and Challenges

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It is more than a decade since the first national level report on accelerating financial inclusion came out from the Committee on Financial Inclusion in 2008 (headed by Dr C. Rangarajan). However, it must be reiterated that though the term "financial inclusion" has gained traction since 2008, in substance, the objectives of financial inclusion have always been at the core of India's public policy. Starting from nationalisation of banks, formation of specialised institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Regional Rural Banks (RRBs); policies like priority sector, service area approach, programmes like Integrated Rural Development Project (IRDP) provide evidence of a massive policy push for financial inclusion. In recent years, there has been addition of new players like Micro Units Development and Refinance Agency (MUDRA), Small Finance Banks (SFBs), Payments Banks as well as increasing influence of Non-Banking Financial Companies (NBFCs) in financial inclusion. The pivot of recent years' push has been based on Jan Dhan-Aadhaar-Mobile (JAM) trinity, which not only enables new fintech players to enter the inclusion space but also provides cost-effective solutions to established players.

Even if 2008 report is taken as the base, it is time for all stakeholders to measure the progress and review the emerging challenges. The Committee report in 2008 noted:

- 51.4 percent of farmer households are financially excluded from both formal/informal sources,
- 73 percent of farmers have no access to formal sector credit,
- financial exclusion exists across regions, occupations and social groups.

In line with the times, the focus of the Committee was on credit. However, in recent times, it has shifted to payments and savings. It is high time that the progress is measured and the outcome of these changes on the lives of clients is assessed. This report tries to do so across various strands of financial inclusion—banks, banking correspondents, Pradhan Mantri Jan Dhan Yojana (PMJDY) and its associated schemes, microfinance (both MFI model and Self Help Group–Bank Linkage Program (SHG-BLP)), Small Finance Banks (SFBs), Payments Banks (PBs), MUDRA and Digital Finance. This chapter gives an overview of the happenings in the last one year, presents findings from a few reports and highlights issues pertaining to inclusive finance, as well as the broader financial sector.

## OVERVIEW

The discourse is dominated by sluggish demand in the economy leading to slowdown in bank credit, merger of Public Sector Banks (PSBs) and liquidity issues for non-bank lenders. While these broader financial sector issues influenced the landscape during the year, the financial inclusion segment continued to grow and showed its resilience. As a testimony, the NBFC-MFI sector grew by 44 percent in the first quarter of FY 2019–20 as compared to June 30, 2018. Undoubtedly, the liquidity issue has left an impact, especially on smaller NBFCs and MFIs as banks have been risk conscious. While experts debate whether the demand slowdown is structural or cyclical or if it exists at all, it is acknowledged that changes in the banking landscape affect the financial inclusion ecosystem sooner or later. Hence, the key aspects of the banking sector needs to be examined.

## Scheduled Commercial Banks (SCBs)—Expanding Outreach with Steady Growth

Scheduled Commercial Banks, especially the Public Sector Banks (PSBs), have been at the forefront of financial inclusion. As they grapple with the issues of non-performing assets (NPAs), mergers, 4Rs and the Preventive Corrective Action (PCA) framework, their performance on financial inclusion showed a mixed trend. Priority sector lending grew in absolute terms and as a percentage of total credit reached 42.4 percent in March 2018 from 40 percent in March 2017. Small Borrowal Accounts (SBAs) provide another sneak peek into inclusion efforts of banks. During 2017–18, all categories of SBAs show an upward trend (Fig. 1.1) with loans below Rs 25,000 and Rs 25,000 to Rs 2 lakh growing by 10 percent and 15 percent, respectively. Hopefully, the upward movement will be sustained, especially in the light of yearly ups and downs, in the last five years.

Branchless banking in villages through Banking Correspondents (BCs), ATMs and Points of Sale (PoS) of Scheduled Commercial Banks (SCBs) increased to 5,41,129; after the surge in 2014–15, the figure has stabilised. This is supplemented by 52,489 rural branches, showing a growth of 5 percent in 2017–18. Kisan Credit Card accounts touched 49 million by March 2018, implying a coverage of 49 million farmers.

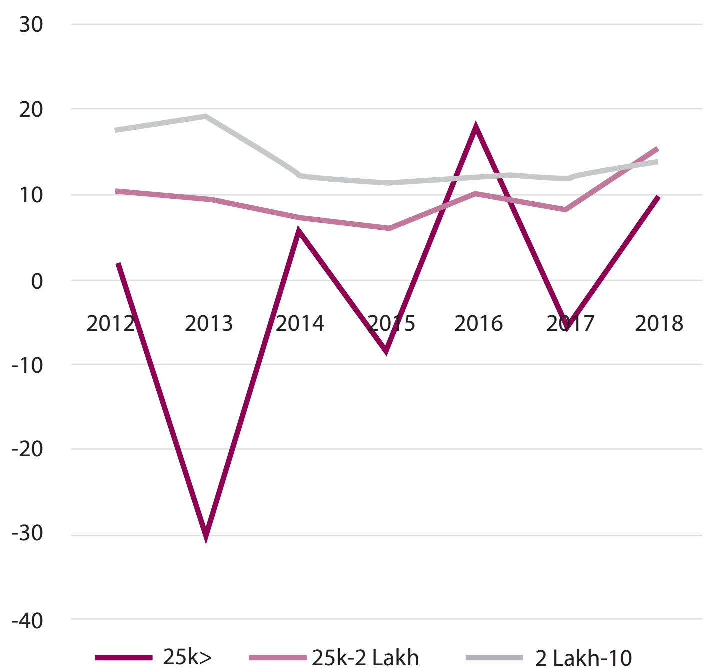


**Figure 1.1:** Annual percentage Growth in Number of Loan Accounts of Small Loan Sizes of SCBs (2012–2018)

*Source:* Basic Statistical Returns of RBI.

## Pradhan Mantri Jan-Dhan Yojana (PMJDY) and Associated Schemes—Growth with New Schemes Added in Last Year

On the savings side, by September 2019, 368.9 million people had PMJDY bank accounts, of which 196.2 million are women. These accounts had an average balance of Rs 2,782. PMJDY is a subset of Basic Savings Bank Deposit Accounts (BSBDAs) reported by RBI and it is heartening that by March 2019, 574 million people had a BSBDA. This is a testimony to the financial inclusion drive started through PMJDY and its associated schemes, which has led to ubiquitous coverage of banking accounts. FINDEX 2017 of the World Bank also reported that the share of adults with an account has more than doubled to 80 percent since 2011. The numbers under insurance schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY), however, have not kept pace with PMJDY numbers. PMJJBY had 59.17 million enrolments by March 2019, while PMSBY had 154.7 million. The performance under Atal Pension Yojana (APY) is even lower at 15.42 million. It is acknowledged that BCs in their varied forms have played a key role in extending the outreach under PMJDY and its associated schemes, however, the issues of attrition and viability continue to affect the system. There is a need for a nationwide study on the viability and stability of BC network, so that outreach remains sustainable.

The policy push on financial inclusion through government schemes received another boost last year with new schemes for farmers and informal sector workers. The Pradhan Mantri Kisan Samman Nidhi (PM KISAN) scheme was made operational from December 1, 2018 as a central sector scheme and envisages an income support of Rs 6,000 per year in three equal instalments to small and marginal farmer families having combined land holding/ownership of up to 2 hectares. It will also ride on the JAM trinity as the fund will be directly transferred to the bank accounts of the beneficiaries. It is noteworthy that a total of 73.90 million farmers have been identified as beneficiaries[1] under the scheme across various states, leaving West Bengal, which has chosen not to implement the scheme. In the Union budget for 2019–20, a new pension scheme for informal workers earning less than Rs 15,000 per month—the Pradhan Mantri Shram Yogi Maan-Dhan (PM-SYM)—was announced. It is a voluntary contributory pension scheme, which provides the scheme holder an assured monthly pay out of Rs 3,000 after the age of 60. The scheme is being implemented by the Ministry of Labour and Employment and as of October 2019, it already had 32.66 million enrolments.[2]

While the existing schemes went through changes (like increase in overdraft facility under PMJDY to Rs 10,000) and new schemes were introduced, the issues of usage, persistence under insurance and pension schemes, low figures under PMJDY overdraft facility and viability of BC points continue to be reported from field. It has been five years since PMJDY was launched and it seems its full potential is still to be realised. Increased flow of funds through these schemes, rise in Direct Benefit Transfer (DBT) and adoption of digital channels is likely to lead to viable business for BCs in the near future.

### *Stellar Role of Public Sector Banks (PSBs) in Furthering Financial Inclusion*

At a time, when the role of PSBs has come under scrutiny, it is worthwhile to mention that PSBs have played a stellar role in furthering financial inclusion. As of March 2019, the State Bank of India, nationalised banks and RRBs together account for 70 percent of rural bank branches.[3] Further, PMJDY accounts and its associated schemes also derive their success from PSBs, with PSBs and RRBs accounting for 97 percent of PMJDY accounts as against 3 percent by private banks. Any future strategy in relation to PSBs must keep in view their financial inclusion contribution among others.

### Differentiated Banking and MUDRA—Mixed Trends

The Small Finance Bank (SFB) landscape continued to slowly grow along the operational metrices of last year. For a majority of SFBs, the portfolio continues to be dominated by microfinance loans and the progress in business diversification has been slow. The slew of products launched by SFBs, despite growth, still have a long way to go and the product category other than microfinance remains universally to be business loans as Loan against Property. As asset business keeps growing, the retail liabilities despite rapid conversion of erstwhile microfinance centres to branches continue to lag behind. Further, higher share of bulk/institutional deposits coupled with high initial cost of conversion to a bank, keeps the lending rate of SFBs high. The review of bigger SFBs for 2018–19 shows that it will take some time, may be three years, for a definitive picture on their performance vis-à-vis the stated objectives. Hopefully, in the next three years, SFBs will be able to demonstrate their resilience in the form of higher share of retail deposits and product diversification. The RBI seems satisfied with their performance; as of September 2019, all 10 SFBs have been granted the "Scheduled" status.

The picture on the other category of differentiated banks—Payments Banks—is clear. The fact that out of the 11 entities which had been granted Payments Bank license only four are operational as of date and the fact that during the year, Aditya Birla Payments Bank decided to close operations, tells a clear story. A review of the remaining operational banks shows that the focus is more on being a platform for retailing loans and other financial products of other companies and services like cash management than on mobilisation of small deposits. Lower yield regime on government securities has made deposit mobilisation an unviable activity. It seems clear that in the current form, the model is not viable and now the spread of Banking Correspondents (BCs) as well as increasing adoption of Unified Payment Interface (UPI) also pose challenges to their remittance business. RBI seems to acknowledge the fact of challenges in Payments Banks model by issuing draft guidelines for on-tap licensing of SFBs and importantly mentioning Payments Banks as an eligible category for transformation as SFB. Importantly, IPPB has already announced its intent to become an SFB. Next year should see key changes in this sphere by way of transformation or changes in guidelines.

MUDRA continued its journey of reporting growing numbers under Pradhan Mantri Mudra Yojana (PMMY), with disbursements touching Rs 3,118 billion in 2018–19 with an annual growth of 25 percent. Other than PMMY numbers, which come from disbursements made by banks, MFIs and NBFCs, there is a serious question on the effect of MUDRA on the lending ecosystem. Its refinance is paltry compared to disbursements, ecosystem development role seems to be only a statement of intent, and expected innovations like risk guarantee and financial literacy also have not seen scale. Rather, the work done by SIDBI under its Udyami Mitra portal and 59 minutes fintech lending platform were more effective for the MSME sector. However, the role played by MUDRA in reporting granular data is credible and provides an insight into functioning of the financial institutions under Micro and Small enterprise lending. Despite the growth in PMMY numbers, its impact on bank lending is not visible. The share of MSME loans as a percentage of non-food bank credit shows a declining trend reaching 33 percent as of March 2019. Further, micro and small segment bank credit as a percentage of total MSME credit also declined to 13.01 percent in 2018–19 as compared to 13.82 percent in the previous year. Job creation under PMMY has been a contentious issue and some insights came from the Labour Ministry survey of PMMY loans for the period April 2015–December 2017. It reported creation of 11.2

million additional jobs. However, 5.10 million were self-employed and only 20 percent used loans for starting a new activity/business. Job creation seems low considering that on an average 50 million loans per year have been given under PMMY; this is probably due to high share of Shishu loans (below Rs 50,000) and lack of clarity on the methodology for measuring jobs created.

### Microfinance—Growth with Concentration under the MFI Model

Microfinance lending through MFIs, NBFCs and banks reached Rs 1,86,397 crore in March 2019 covering 56 million clients. While the overall banking sector credit remains stagnant or in low growth phase, microfinance loans grew by 38 percent in 2018–19. While growth is welcome, the associated issues of client indebtedness, concentration of operations, absence of product differentiators and regulatory arbitrage continue to affect the sector. Though microfinance operations now cover 619 districts, the growth is highly skewed with the leading 100 districts [by portfolio size] having 54 percent share of the all India portfolio. As the maximum two lenders norm applies only to NBFC-MFIs, the entry of banks and BCs is also pushing up per client lenders and the aggregate loan amount. Of the leading 10 districts, six from West Bengal have microfinance portfolio of more than Rs 2000 crore. While the credit needs and dispersed operations in a district are put forth as arguments against saturation, the field situation is not so desirable. There is no denying the fact that the operations are concentrated leading to higher client indebtedness and the good portfolio quality might be coming from recycling loans across lenders. The sector also suffers from mono-type products and the only change introduced in recent years is increasing the repayment frequency from weekly to fortnightly or monthly. Regulatory arbitrage is evident from comparing lending rates of leading NBFC-MFIs and banks/BCs. It is ironical that banks in their direct microfinance lending are charging higher interest rates as compared to NBFC-MFIs who have higher cost of fund. However, lenders and investors seemed comfortable with the risk level as seen through flow of both debt and equity, though the small MFIs did face the brunt of liquidity squeeze.

As argued in last year's report, it is hoped that RBI will think about moving towards a common set of rules for all entities in microfinance lending as also take steps to check lending concentration. However, the sole policy change introduced by the RBI in October 2019 relates to raising the loan limit per microfinance client from Rs 100,000 to Rs 125,000 as also increasing the household income eligibility criteria to Rs 125,000 and Rs 200,000 per annum for rural and urban, respectively.[4]

While the sector has welcomed the move, it is not clear as to how a household having annual income of Rs 125,000 can repay loans of equal amount; even if loans are of two-year duration, it implies that nearly 60 percent of the annual income goes towards debt repayment. Many observers feel that this has the potential to increase client stress and is not a sustainable move. It would have been better to increase the household income criteria, so that more people could be covered, but leave the loan amount threshold unchanged. Microfinance clients requiring higher loan sizes can opt for individual loans; anyway, higher loan amounts put a strain on the concept of joint liability. The need of the hour for regulation is to ensure that microfinance entities move out of their comfort zone—from concentrated areas—and that can be achieved by allowing higher interest spread in less penetrated areas. The industry-led initiative for Code of Responsible Lending covering banks, BCs, NBFCs and NBFC-MFIs also came out of the growing concern of multiple lending.

### SHG Bank Linkage and National Rural Livelihoods Mission (NRLM): Modest Growth as Infrastructure for Digitised Operations and Micro-enterprise is Strengthened

According to data put out by National Bank for Agriculture and Rural Development (NABARD), the number of Self-Help Groups (SHGs) that had savings bank accounts reached 10.03 million as of March 2019 with deposits of Rs 233.24 billion. A little over half the SHGs had loans outstanding totalling Rs 870.98 billion. While the number of savings-linked SHGs and loans disbursed to SHGs during 2018–19 grew at a moderate pace, there has been virtual stagnation in the number of SHGs with loans outstanding and a consistent decline over the years in the percentage of SHGs receiving loans from the banking system. Further, SHG borrowing is largely confined to the southern states and to an increasing extent to those of the eastern region through credit deepening, even as repeat bank linkages in some of the other regions are constrained by past overdues. With the National Rural Livelihood Mission (NRLM) bringing nearly 1 million new and existing SHGs into the fold during 2018–19 to cover about 5 million in all by March 2019, it has become the dominant player in SHG development. A positive development during the year has been in respect to the NPAs of bank loans to SHGs that declined in absolute terms during the year to stand at 5.19 percent of total bank loan outstanding as on March 31, 2019. This was mainly on account of the impressive performance registered by NRLM SHGs.

Two-thirds of NRLM SHGs have been provided with revolving fund to supplement their savings. A similar proportion of SHGs have been federated into over 270,000 Village Organisations and about 25,000 cluster-level federations as of March 31, 2019 for scaling up financial and non-financial intermediation. With NRLM maintaining its own SHG database, there are some differences with NABARD-reported figures. However, these are in the process of being reconciled as both strengthen their MIS towards digitised operations and monitoring.

Several initiatives are expected to give a boost to bank linkage and financial inclusion through SHGs. The Bank Sakhi project has enabled convergence through 3,974 SHG members mainstreamed as Business Correspondents (BCs) by March 31, 2019. The dual authentication facility has allowed BCs to help operate bank account of SHGs at their doorstep. Digital transactions and sanctions for lending through online applications are expected to open up new avenues to branchless banking for SHGs. Finally, though saturation limits are being reached for SHG promotion in many states, both at NRLM, through the newly sanctioned National Rural Economic Transformation Project (NRETP) and NABARD's own support funds, micro-enterprise, livelihoods development and financial literacy are emerging as the focus areas for SHGs.

### Digital Push Continues—Urban Dominance in Surge

The policy thrust on digital mode of financial services, especially payments, continued during the year with the government setting up a target of 45 billion digital transactions for 2019–20. The RBI also played a key role in introducing measures like reduction of charges on NEFT/RTGS transactions, signalling the intent for 24*7 operation of NEFT as also asking each PSB to digitally enable one district each, fully. More significant was the release of Vision Document for Payments by the RBI and the report of the High Level Committee on Deepening Digital Payments, headed by Nandan Nilekani. The report has made wide-ranging recommendations for accelerating digital adoption and action has started on certain recommendations. For example, extension of NEFT transaction time, the creation of an internal ombudsman by non-bank issuers of prepaid payments wallets and the plans by the central bank to give out more granular data covering payment systems authorised by the RBI.

Buoyed by the push, retail digital transactions riding on phenomenal surge under UPI, touched 33 billion in 2018–19 and the Nilekani Committee puts the figure of digital users at 100 million. Fintech space also witnessed increased activity expanding into new areas like health and agriculture but payments companies continue to dominate the fintech ecosystem. In this digital surge, a few things stand out for future work. Though payments dominate the digital push, there is no data regarding which segments or geographies are seeing this increase. News reports suggest that three or four applications make up for nearly 90 percent of digital transactions; considering that these are smartphone users; hence, it can very well be said to be an urban millennials phenomenon. The concentration of fintechs on millennials also tells a similar story. The Economic Survey for 2019, points to this by saying that the digital footprints in case of the poor and excluded are dark. It is pertinent to note that in the digital push, the number of ATMs is constant and PoS machines are not growing at the required speed. The Nilekani Report also reiterates this by saying that the presence of the cash-out infrastructure needs to be boosted to give confidence to the people that they can access cash during need. The RBI in 2019 reiterated the instructions regarding cash withdrawals at PoS devices, enabled for all debit cards/open loop prepaid cards issued by banks, but the same is not happening at ground level. For the digital journey to be inclusive, the focus has to be on boosting connectivity, spreading the digital payments ecosystem based on QR code, boosting cash access points and a nation-wide digital literacy initiative.

## POLICY STACK FOR FINANCIAL INCLUSION

The recent thrust on financial inclusion has given rise to multiple players and channels, and as argued in last year's report, it will be useful to map out a clear roadmap wherein different players play to their strength. News about the RBI working on a National Financial Inclusion Strategy (NFIS) gave hope of such a comprehensive plan. Various countries now have NFIS, which outlines segment-wise roadmap and measurable targets. The RBI's 2018–19 annual report curiously mentions that NFIS 2019–24 has been prepared based on inputs from various stakeholders like the government, financial regulators and banks. However, neither the details nor the report is available in public domain. It would have been better, if on the lines of other policy decisions, the draft report would have been placed for public comments.

### The Ladder Approach

However, among the myriad policy pronouncements, programmes and institutions working for financial inclusion in the country, developments in the last few years do reflect a design principle. Starting

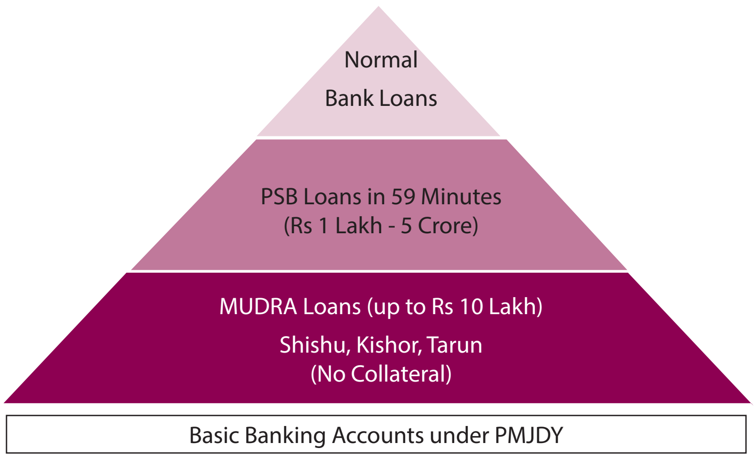


**Figure 1.2:** Ladder Approach

from laying the foundations of an inclusive society through ubiquitous coverage of bank accounts under PMJDY to the desired stage of excluded clients becoming individual clients of banks, imprints of a "ladder" approach are clearly seen (Fig. 1.2). Under this approach, clients get into the formal financial system through the opening of bank accounts. Once he/she has developed savings and banking habit and needs credit to either expand or start business, the facility of collateral free loans under Pradhan Mantri Mudra Yojana (PMMY) is available. The PMMY loans come from MFIs, banks and NBFCs.

At this stage, other options are also available to the client in the form of SHG loans. For middle-scale business credit requirements, the client can go through the recently launched PSB Loans in 59 Minutes portal—a true fintech lender. Loan cycles and repayment under PMMY build the credit history as also comfort with banking transactions and act as enablers for PSB Loans in 59 Minutes; as clients need to have a credit history, banking transactions and GST number. Recently, Personal Loan in-principle approvals for value up to Rs 15 lakh and Home Loan in-principle approvals up to Rs 10 crore have been added to the portal. Support in preparation of business plans and other capacity-building interventions are available through Udyami Mitra portal of SIDBI. Last stage is higher loans from banks under normal route.

In design, the pyramid looks to have solved the credit journey of an entrepreneur but there are a few critical issues pertaining to the middle tier. While bank accounts have now become universal and PMMY loans are easier to get, the middle segment of Rs 10 lakh onwards in its present form is not suitable for unincorporated enterprises. PSB Loans in 59 Minutes is tailored for formal enterprises as it requires GST registration and this excludes the majority at present. However, there is no denying the fact that rails for credit have been laid on the lines of JAM trinity.

## KEY FINDINGS FROM NABARD's ALL INDIA RURAL FINANCIAL INCLUSION SURVEY (NAFIS)

Last year's report documented India's progress on financial inclusion from World Bank's FINDEX, 2017 and CRISIL's Inclusix and only a touching mention was made about NAFIS as the publication dates coincided. The importance of NAFIS over other reports comes from three major aspects. First, it's sample size—a nationwide survey of 40,327 households across 245 districts in 29 states of India. Second, it is primarily focussed on rural and semi-urban segment as its coverage was across tier III to tier VI centres, that is, those with a population less than 50,000. Finally, on account of it covering together, the two interconnected themes of financial inclusion and livelihoods. It rightly observes "poverty and uncertainty of livelihoods in turn affect the eligibility for and affordability of financial products and services for the poor, and poor who are unsure about their ability for repayment have little incentive to approach the formal financial system."[5]

The above approach of NAFIS fits in with the discussion in last year's edition of this report.[6] It was highlighted therein that "Financial inclusion, in being a wider form of microfinance, is rightly based on making a positive change in peoples' lives. However, the broadening of canvas has not correspondingly converted into empirical evidence for positive outcomes … robust micro (client level) economic studies are needed, to establish the link between financial inclusion and positive outcomes". NAFIS provides some insights into the livelihood and income status in rural India and its implications for financial inclusion policy.

### Occupational Profile—Small Land Holdings, Multiple Livelihoods, Low Income

Across the survey sample of 40,327 households, 48 percent were agricultural households of which 87 percent had land holdings of less than 2 hectares and 67 percent less than 1 hectare. The low size of landholding translates into agriculture asset ownership with only 5.2 percent agri-households owning a tractor and 1.8 percent having a power tiller.

Small land ownership is not only reflected in asset ownership but also in livelihood patterns. Insufficient income from farming leads to agricultural households combining different activities to supplement their income from agriculture (Table 1.1). Not only is the per household income low

(Rs 8,931/$127 for agricultural households and Rs 7,269/$109 for non agricultural households), the fact that wage labour constitutes almost equal share with agriculture in agricultural households' income is a telling story on the state of farmers who constitute almost 50 percent of the population.

As averages hide income disparities, the analysis presented through income distribution is also examined. It confirms the above findings for a majority as 70 percent of all households had a monthly income less than Rs 8,333 ($120) (Fig. 1.3). Income disparity in case of top decile is also seen. However, the headline message from this is that majority of population in tier III to tier VI centres survive on paltry incomes.

The impact of this is seen in the disposable income left with the households. NAFIS reports that average savings per year of all households is merely Rs 9,104 with non-agricultural households being able to save even less at Rs 8,603.

Overall, a scenario of low incomes, diverse occupations to supplement income and meagre surplus seems to be the picture across rural households.

## Financial Inclusion; High Bank Account Ownership, Non-Institutional Sources Persist in Credit

Despite meagre income and surplus, it is heartening that 50.6 percent of the households reported saving some amount in the last one year. Similarly, it is also positive that 78.4 percent of savers save with banks followed by 29.4 percent with SHGs. The dominance of the formal channel in savings is a welcome feature seen with capital loss faced due to savings with ponzi schemes and illegal agencies. NAFIS reports that 94 percent of the total savings amount was with formal institutions. The savings behaviour is a clear success of the rural banking push initiated by the government and RBI with 88.1 percent of

**Table 1.1: Average Monthly Household Income in Rupees**

| Source of Income | Agriculture Households | Non-agriculture Households |
|---|---|---|
| Cultivation | 3,140 (35%) | NA |
| Livestock Rearing | 711 (8%) | NA |
| Wage Labour | 3,025 (34%) | 3,940 (54%) |
| Govt./Pvt. Service | 1,444 (16%) | 2,326 (32%) |
| Other Sources | 122 (1%) | 152 (2%) |
| All Sources Combined | 8,931 (100%) | 7,269 (100%) |

*Source:* NAFIS, 2018.

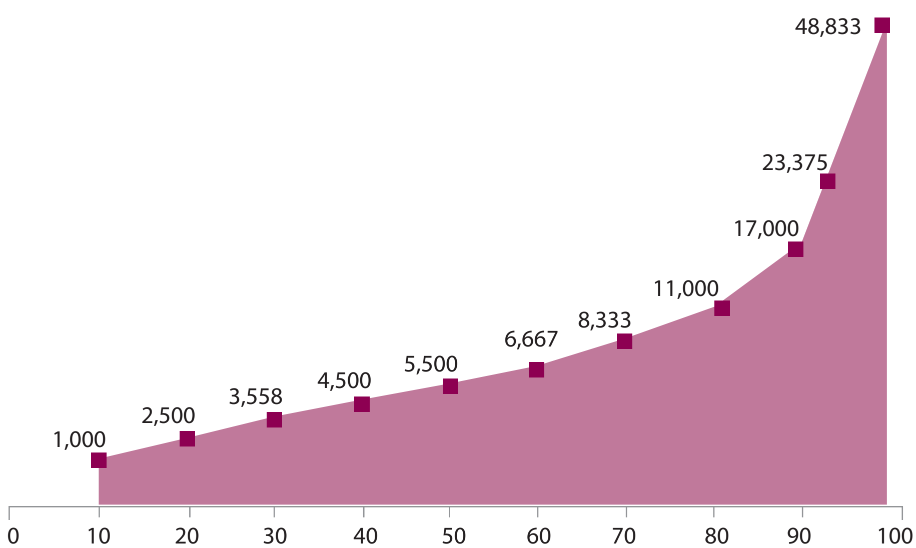


**Figure 1.3:** Percentiles (in Rupees) of Average Monthly Household Income

*Source:* NAFIS, 2018.

households reporting having a bank account. The average savings per household at Rs 9,104 is in line with the low income base.

Indebtedness was defined by NAFIS as having any outstanding loan at the time of the survey. 47.4 percent of households were indebted and the share was higher among agricultural households at 52.5 percent. Interestingly, the percentages of households reporting savings and outstanding loan are almost similar and it would have been worthwhile to examine the link, whether those who save also borrow or is it the reverse or both? However, this aspect has not been examined in the report. Across states, there are wide variations and some interesting patterns. For example, households in Andhra Pradesh have a monthly income of Rs 5,842, much below the all-India figure of Rs 8,059, but have high incidence of indebtedness at 76 percent, which may be related to higher SHG penetration in the state.

Fig. 1.4 points to the continued high persistence of informal sources in credit with lower income clients having higher dependence on informal sources. Agricultural households with landholding (between 0.01 hectare and 0.40 hectare) have 41 percent share of informal non-institutional sources. As expected, the institutional loans are of higher amount and mainly from commercial banks and regional rural banks. The poor state of cooperative banks primarily meant for agriculture loans is reflected in the data, showing that they had only 6 percent share in amount of loans in last one year.

The other surprising fact is that only 10.5 percent agricultural households had a valid Kisan Credit Card (KCC) at the time of survey. This goes against the claim of wide coverage under KCC and the same has been aptly commented on by RBI's recent report of the Internal Working Group to Review Agricultural Credit.[7] It says, "As per 2019 data the number of operative KCCs is approximately 66.2 million and as per the Agriculture Census 2015–16, the number of land holdings were approximately 145 million, which implies that only 45 percent of farmers possessed operative KCCs. However, there may be farmers with multiple KCC cards and the actual coverage may be lower." Additionally, there is income-wise skew in KCC ownership. In case of agricultural households with land more than 2 hectares, valid KCC ownership goes up to 23.8 percent as compared to 5.9 percent for households with land holding of 0.01 to 0.40 hectare.

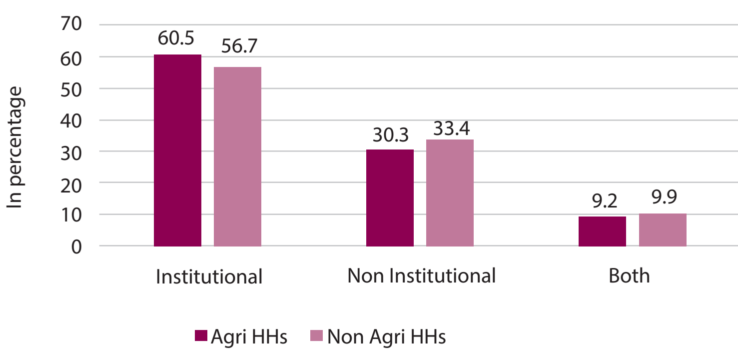


**Figure 1.4:** Source of Loan in Last One Year

*Source:* NAFIS, 2018.

The findings of NAFIS have implications for financial inclusion policy. In a depressed income scenario, the focus has to shift to boosting incomes through production loans, improving land productivity, water conservation, support for livelihood diversification before there is traction in savings and remittances. Further, institutions with an ability to retail bite size financial services can fill the need, high cost-based institutions cannot have a viable business model with this segment. Small land holdings and low income level are also contributing factors towards plateauing the share of institutional sources in credit in last decade or so. The policy needs to keep in mind that exclusive focus on financial inclusion outreach without boosting incomes is like putting a cart before the horse.

## BROADER ISSUES IN FINANCIAL INCLUSION

This section on the lines of last year's edition touches on some of the key issues pertaining to financial inclusion as well as broader financial sector inasmuch as it is relevant for financial inclusion.

### Changing Contours of the Banking System; Decline in Share of Term Deposits and High Share of Personal Loans

The banking sector has been at the forefront of financial inclusion in India since 1969. It not only facilitates bank accounts and remittances but importantly it is the major financial intermediation channel in the country with banking credit being nearly 50 percent of GDP and having a lion's share in the flow of resources to the commercial sector. Further, it also provides loans to SHGs and wholesale debt to MFIs for onward lending. As mentioned earlier, the near universal coverage of population with bank accounts and consistent performance under priority sector lending are other financial inclusion features of the banks.

However, over the years, there have been important changes in both deposits and lending performance of banks, which can have an adverse impact on the economy as well as financial inclusion. The last five years' analysis of scheduled commercial banks' (SCBs) annual growth in deposits and non-food credit shows two things:

- except 2017, which shows the effect of demonetisation on deposits, both credit and deposit growth have been range bound,
- despite the NPA issue, growth in lending in the last two years is better (Fig. 1.5), though it has slumped in 2019–20.

If this is compared to growth in assets under mutual funds, the difference is clear. Mutual fund industry is growing steadily at above 10 percent p.a. and will have an effect on the resources available with the banking system. However, financial inclusion-focussed lending is the sole domain of banks and capital market resources are meant for large corporates. This resource issue is likely to accentuate in future as deposit rates on bank deposits are currently declining and have reached almost sub 6 percent level.

The mix of deposits is also slowly changing (Table 1.2). While the share of current deposits (no interest) in total deposits is constant, the share of savings deposit is growing at the expense of term deposits.

This has implication in terms of banks having lower long-term resources and probably also points to the fact of low rates acting as a disincentive for people to save with banks for a long-term basis.

While Fig. 1.6 shows that non-food credit from banks has grown in the range of 8.36 percent to 12.29 percent in last four years, the growth across various sectors points to a serious challenge and probably an answer to the economic slowdown in the latter half of 2019. Starting from a small range of annual growth across agriculture, industry, services and personal loans till 2014, the growth rates have now diverged widely. While industry and agriculture credit growth rates have plummeted, industry credit has seen negative growth in 2016–17 and credit for personal loans and services have zoomed.

As of March, 2019, credit for personal loans forms 25.72 percent of SCB's credit, while agriculture and allied activities account for 12.87 percent. The lopsided flow of credit for consumption loans at the cost of agriculture and industry is not conducive for India's growth story and the limits of consumption led growth are being seen now. There is no substitute to according high priority to productive sectors of the economy, especially when they are credit starved.

## Persistence of Regional Skew in Credit

The sectoral skew in credit as discussed earlier is made worse by the continued persistence of regional skew in lending by banks. As compared with the sectoral skew becoming prominent in recent years, the regional skew has been persisting for some time (Table 1.3).

Not only has the skew been persisting but the share of various regions has remained almost static over the years. The regional tilt is evidenced across channels, be it banks, MFIs or SHG-Bank linkage [channel-wise details in subsequent chapters]. The recent report of RBI's Internal Working Group (IWG)on Agricultural Credit[8] has pointed to this in

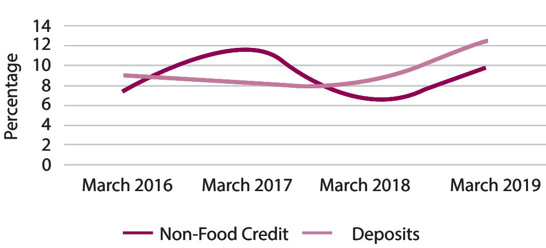


**Figure 1.5:** Annual Growth in Deposits and Non-Food Credits of SCBs

*Source:* BSRs of RBI and Quarterly Statistics, RBI.

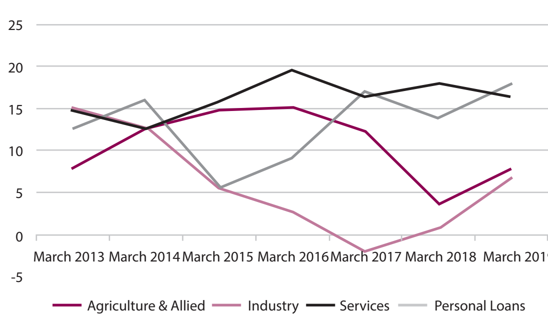


**Figure 1.6:** Annual Growth in percentage of Scheduled Commercial Bank's Non-Food Credit

*Source:* Handbook of Statistics on Indian Economy, RBI.

**Table 1.2: Deposit Composition of SCBs (in percent)**

| | Mar-15 | Mar-16 | Mar-17 | Mar-18 | Mar-19 |
|---|---|---|---|---|---|
| Current | 9.68 | 8.98 | 9.38 | 9.40 | 9.47 |
| Savings | 26.30 | 27.80 | 31.98 | 32.93 | 32.77 |
| Term | 64.02 | 63.22 | 58.64 | 57.67 | 57.77 |

*Source:* Reserve Bank of India, BSR and Quarterly Statistics.

**Table 1.3: Regional Share in SCB's Credit**

| Region | Mar-17 | Mar-18 |
|---|---|---|
| Northern | 21.59 | 21.78 |
| North Eastern | 0.92 | 0.98 |
| Eastern | 7.34 | 7.16 |
| Central | 8.31 | 8.48 |
| Western | 34.88 | 33.70 |
| Southern | 26.96 | 27.90 |

*Source:* BSR, RBI.

agricultural credit. The IWG analysed the disparity amongst the states as it considered states as a better unit than region for analysis and the disparity is seen in the ratio of state-wise total agricultural credit outstanding in relation to its agricultural GDP (Fig. 1.7).

It observes that "some of the states are getting agri-credit higher than their agri-GDP indicating the possibility of diversion of credit for non-agricultural purposes. It also highlights the problem of regional disparity as states falling under central, eastern and north eastern regions are getting very low agri-credit as percentage of their agri-GDP." The report also notes some other patterns. The share of credit to allied activities compared with agriculture as a ratio of its contribution to Gross Value Output of agriculture and allied activities is far lower. Further, there is skewed distribution of state-wise percentage share in overall crop loan as compared to the percentage share in overall crop output. States such as Tamil Nadu, Punjab and Kerala have a loan share much higher than their contribution to output.

The situation under both SHG-Bank linkage programme and MFI model also exhibits similar bias. For example, six states account for 61 percent of microfinance portfolio and 100 districts have 54 percent in microfinance portfolio. Financial institutions' views on this disparity have been primarily based on economic activity concentration in these areas, and credit being a logical corollary. It is a plausible argument and the policy should focus on providing basic catalysts for economic growth in these areas, like infrastructure (physical and digital), and stable law and order. At the same time, however, such disparities in credit across states, occupations and sectors are not defensible. To cite an example, only 40.90 percent of small and marginal farmers have been covered by SCBs and Tamil Nadu having 6 percent share in the total number of small and marginal farmers is the leading state in terms of share in total number of loan accounts (17 percent).[9]

## Digital Financial Services; Regulatory and Consumer Protection Challenges

The growing integration of technology in financial services besides improving efficiencies is also posing challenges to regulation and consumer protection. Use of technology has moved the world of financial services from an in-house design, retail and service model to modularisation of services, wherein the various functions represent modules, with technology enabling separation of origin, distribution and service functions. For example, let us consider a MFI. Though the regulations vest it with limited lending function, it can collect savings as a BC, offer insurance and mutual funds in tie-up with an insurance company, and a Fintech respectively; additional functions not being on its books, but on the books of primary players like banks, for savings. It also shows that an institution

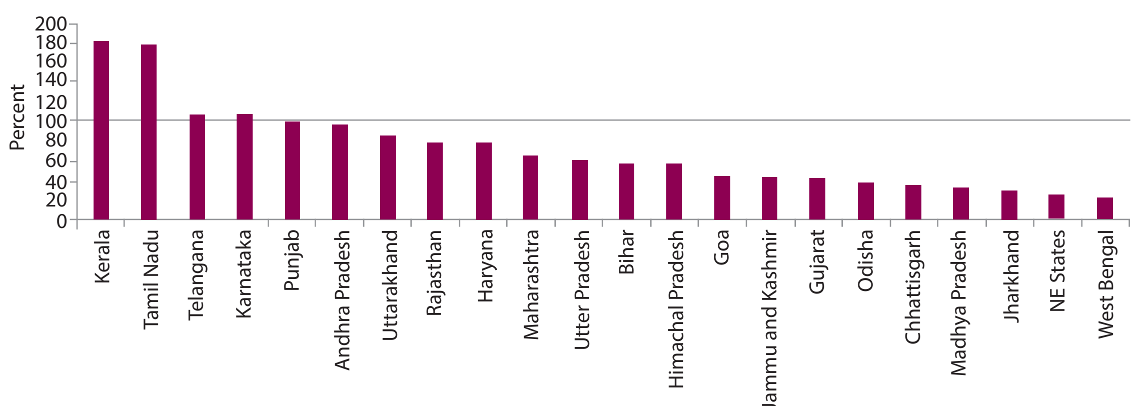


**Figure1.7:** State-wise Total Agri-Credit Outstanding of SCBs as percentage of State Agri-GDP

*Source:* Handbook of Statistics on Indian States.
Methodology: 3 years (2015-2016 and 2017) Data of Agri-Credit and Agri-GDP has been taken and average computed. Ratio of Agri-Credit as percentage of Agri-GDP is based on average.

under the purview of one regulator (RBI), now offers services which come under other regulators like Insurance Regulatory Development Authority (IRDA) and Securities Exchange Board of India (SEBI). Another example can be of a fintech which does not do anything on its book but merely acts as a platform connecting retailers and consumers like insurance platforms and wealth advisory fintech. Such modularisation and disintermediation poses challenges for regulation hitherto focussed on institutional type; it worked in an era when one institution did one activity and reflected that on its own balance sheet.

Consumers, on the other hand, are confused on whom to approach in case something goes wrong; multi-consumer grievance touch-points adding to the confusion coupled with the app-based or IVRS-based systems. In times, when the news of bad loans frauds in banks is frequent, this adds to the mistrust of the financial sector and digital channels.

This issue was also highlighted in last year's edition of the report and this year a comprehensive working paper on this subject has been brought out by Dvara Research.[10]

The paper categorises various fintech activities in India and maps them to existing regulatory jurisdiction. Qualitative analysis of regulation is converted into numeric score using the index of regulatory oversight constructed by the author. Regulation matrix is further divided into three categories with specific scores:

- identification of a regulator (one if the activity has a specific regulator and zero if there is no direct regulatory oversight),
- active regulation (two if actively regulated, one if it is a work in progress and zero in case absent),
- degree of regulatory oversight (two if highly regulated, one if lighter regulation and zero if regulation absent).

Hence, the paper comes with an interesting regulatory map across fintech companies (Fig. 1.8). The author gives a caveat that the scores are ordinal and numeric differences between scores have no significance.

As the paper is focussed on fintech, it excludes examples of traditional lenders offering multiple services and thus retailing products across regulatory jurisdictions. Payments Banks retailing third party products are an example of it, wherein a client is sold insurance or merchandise. Even excluding such cases which primarily arise out of modularisation or unpacking of the product chain, the regulatory infirmities are quite visible in case of fintech in India. The paper also offers an interesting example of modularisation,

> a person wanting a consumer loan could avail of any of the four providers—(i) P2P lenders, (ii) Alternative Lenders, (iii) Credit Enablers, (iv)

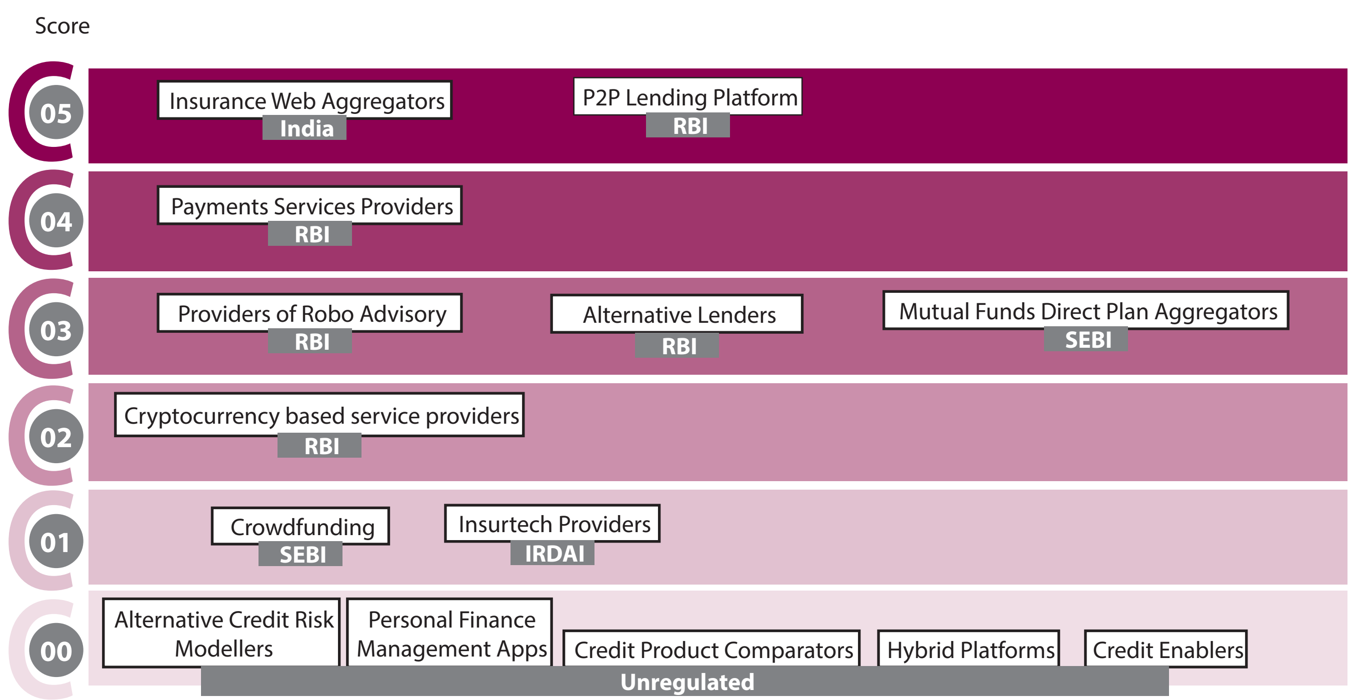


**Figure 1.8:** Regulation Landscape of Fintech Activities in India

*Source:* Financial Regulation of Consumer Facing Fintech in India: Status Quo and Emerging Concerns, Beni Chugh, Dvara Research Working Paper Series No. WP-2019-01, September 2019.

> Credit Product Comparators. While this increases the choice set of providers available to the consumer, it is interesting to note the qualitative differences among their consumer protection regime.

Regulatory arbitrage is also a logical corollary of institution specific regulation and is exhibited in the different set of rules for banks and MFIs doing microfinance lending.

The platform-based fintech companies establish their business model on network effect or the phenomenon wherein the attractiveness of a platform increases with more number of players on either side. Once the platform is big enough, it can skew the consumer choices by including products from select institutions and excluding others. The obvious questions on this aspect are whether platforms should be given a choice to select sellers and whether the captive data of big platforms acts as an entry barrier for competition.

A recent article[11] also highlighted this issue of regulatory gap from platform based lending. It identifies three types of trends

> The relationship between the platform and the lender may take one of the following forms: (a) the platform simply is procuring or referring the credit; the platform has no credit exposure at all; (b) the platform is acting as a sourcing agent and is also providing a credit support, say in the form of a first-loss guarantee for a certain proportion of the pool of loans originated through the platform; (c) the platform provides full credit support for all the loans originated through the platform, and, in return, the lender allows the platform to retain all the actual returns realised through the pool of loans, over and above a certain 'portfolio internal rate of return (IRR).

While (a) is a pure sourcing arrangement, options (b) and (c) are examples of what has been called as "synthetic lending"—technically the platform is only getting a fee for sourcing and some credit risk and is not undertaking lending, but it is also true that it is taking credit risk without having the regulatory approval for lending.

For consumers, the challenges to consumer protection come from various angles especially from mis-selling and the reduced ability to identify a point to seek redressal. If a fintech doing mutual fund advisory, indulges in mis-selling by providing recommendations of inferior products, where does the consumer go? First, it is not clear to many that the first port of call has to be the Asset Management Company (AMC) followed by SEBI and second, it is very much plausible that no action will be taken as the choices were generated by the fintech based on its Artificial Intelligence and Big Data analytics. Numerous such examples can be given which call for a tighter consumer protection framework.

There has been policy action on both of these aspects with the RBI coming out with Regulatory Sandbox guidelines in August 2019 listing out the eligibility criteria, products/services eligible for the regulatory pilot. IRDA has also followed suit establishing a single point contact for regulatory sandbox. While these are welcome moves, there is still not enough clarity on how fintechs, straddling over multiple regulatory jurisdictions, will be overseen and by whom; and what happens to those who are already in the market preceding the guidelines. Experts also believe that the future regulatory regime has to move towards an activity based regulation as well as an unified regulator.

Consumer protection also received attention from the RBI during the year, wherein it asked prepaid issuers to appoint an internal ombudsman as also covered NBFCs under its ombudsman scheme. The issue was also highlighted by the Committee on Deepening of Digital Payments (covered in chapter on Digital Finance). It observed that an annual study should be done on grievance redressal system of banks and pre-paid issuers as also recommended an Online Dispute Resolution System for payments since the report is focussed on payments. This highlights that the concern of grievance redressal is even being noted in case of payments and it is likely to be higher in case of credit, investment and insurance. There is an urgent need for the regulators to study various financial services models and their grievance redress systems. The policy should not merely present a grievance channel but also see its suitability to the population segment to which it caters. While, wealth management consumer could be well served by an online system, a SHG member will require more traditional systems like a physical point. Though it is a cost-intensive proposition, one cannot talk of sustainable finance or inclusive finance without keeping the consumer interest in the fore.

## Client Centricity Leading to Product Differentiation

Often one sees that when financial exclusion is talked about and policies and products designed, those excluded are seen as one segment. The inability of formal finance to reach the poor and the emergence of microfinance is also attributable to the adoption of one-size-fits-all approach of formal finance. Sadly, over the years, microfinance, in its quest for growth has also morphed into the functioning style of the

**Table 1.4: India: Segments at a Glance**

| PROVIDERS | SURVIVORS | FOLLOWERS | INDEPENDENTS | SEEKERS | INFLUENCERS |
|---|---|---|---|---|---|
| • Predominantly older men in rural locations<br>• Self-reliant heads of the household<br>• Use banks and save frequently<br>• Very low risk-takers and closed to new ideas<br>• Use basic phones frequently | • Rural and mostly farmers<br>• In constant debt cycle with extremely volatile income<br>• Very limited use of financial tools<br>• Low confidence and pessimist's outlook on life<br>• Use very little technology and heavily reliant on family | • Mostly rural women<br>• Supported by others or in unstable occupations<br>• Family-oriented with traditional beliefs in authority<br>• Do not use financial tools frequently<br>• Have an appetite for financial risk | • Mostly women<br>• Independent and Self-confident<br>• Use financial tools and very open to new ideas<br>• Low access to technology but willing to try<br>• Potential influencers in their network | • Mostly younger women<br>• Casually employed or dependent on others<br>• Seeking out new ideas and open to financial risk-taking<br>• Do not use financial tools frequently<br>• Use very little technology | • Predominantly men in urban and rural areas<br>• Educated and in full-time employment<br>• Highly independent and self-confident<br>• Embraced digital technologies<br>• Influencers in the network |

*Source:* "The Human Account- India, Country Report," Dalberg, Bill and Melinda Gates Foundation and Rockefeller Philanthropy Advisors.

formal sector. Institutions competing for business in financial inclusion segment are not based on comparative advantage and client-focussed products but have almost similar features.

In this context, an Indian study by Dalberg, Rockefeller Philanthropy Advisors and other local partners[12] funded by Bill and Melinda Gates Foundation has brought the issue in focus. The homogenisation of the excluded is mentioned in the report as "many poor continue to be viewed as a nameless, faceless, homogeneous mass who can be categorised using existing frameworks, and served with pared down versions of current products". The study is an attempt to show the diversity within the excluded segment using a segmentation approach based on demographic, psychometric, behavioural, financial lives; technology use aspects of the poor and the excluded. It used survey technique but importantly supplemented it with human-centred qualitative research.

Based on the above, it identifies six segments (Table 1.4) with specific characteristics and also estimates their size.

Besides segmentation based on slicing of lives of the poor and excluded across different aspects, it also provides design principles for product features of each segment as well as guidance on messaging for product adaptation for each segment. It is not the intention here to recommend report suggestions

**Medical costs, education, and debt are top of mind**

The most pressing financial needs for nearly all consumers are paying for medical issues, clearing debts, and school fees. Consumers are motivated to prioritise these needs above all.

**Consumers are motivated to direct funds to banks and family**

If they had a chance, the majority of consumers would like to allocate an unexpected windfall of cash by saving it in a bank and sharing with family and friends.

**Trust in relationships trumps expertise**

Most people have strong beliefs about who to trust, and known friends and family are seen as more trustworthy than unknown experts, even if the former are not qualified to give financial advice.

**Family is the core information source**

Consumers have a strong belief that family is the most valued source of financial information, even as they also access media sources like television and newspaper.

**Openness is linked with discipline**

Consumers who are open to new ideas are more likely to behave in a dependable way and be strong planners.

**Calls remain central**

Consumers who have basic phones primarily use them for making and receiving calls rather than sending SMS.

**Low mobile wallet penetration**

Ownership of mobile wallets remains very low even among tech-savvy smartphone owners

**Farmers tend to rely on informal finance**

Farmers' financial behaviour is largely centered around informal finance for saving or borrowing money, including family members and peers. Farmers show less reliance on banks due to low trust and negative experiences.

**Formal finance remains deeply underpenetrated**

Higher socio-economic classes have higher access to financial tools but large under served markets exist across all classes. Only a small minority use their accounts more than once per month due to perceived complexity of service and products.

**Figure 1.9:** Common Insights across Different Segments of the Poor/Excluded

*Source:* "The Human Account- India, Country Report," Dalberg, Bill and Melinda Gates Foundation and Rockefeller Philanthropy Advisors.

but to argue for such nuanced research into client lives for designing appropriate services. Offering similar products to different segments leads to compulsive onboarding of clients in the absence of choice, misalignment with need leading to mistrust between providers and clients. It is hoped that financial institutions aiming for mass market will tailor products based on client needs and not their convenience.

Apart from diversity, the report also mentions common characteristics across segments, which provides useful insights (Fig. 1.9) like farmers' dependence on informal sources and low penetration of mobile wallets even among smartphone owners.

It is hoped that financial service providers will increasingly move towards a segment approach to financial inclusion based on human centred research rather than treating entire block as one segment.

### Financial Inclusion as a Means and not End

Recent years have seen focus on broader financial services in place of credit and financial inclusion has emerged as the new buzz word in development. The centrality accorded to it is evident from the fact that five of the 17 Sustainable Development Goals (SDGs) make a mention of financial inclusion which is high on global policy agenda. A common sense interpretation of the importance being attached to financial inclusion is that access to financial services leads to positive outcomes in the lives of clients in the form of higher income, better resilience to shocks and also social empowerment. While a decade back, there were numerous institutional level studies to demonstrate impact, at present the correlation between financial inclusion and positive impact seems to have been taken for granted and much of the evidence comes from macroeconomic studies. However, macroeconomic growth indicators may not always be equally distributed, or even come at the cost of exacerbating the income inequality. Hence, robust micro (client level) economic studies are needed to establish the link between financial inclusion and positive outcomes.

In 2019, Consultative Group to Assist the Poor (CGAP) came out with a focus note[13] collating the research post-2014 on establishing link between financial inclusion and outcomes. The paper notes that the link between financial inclusion and poverty is still unclear. It observes:

> While some studies fail to find any effects of financial inclusion on poverty other studies do…. A study of 37 developing Asian economies found a strong correlation between financial access and declining poverty rates (Park and Mercado 2015). However, in a later study, Park and Mercado (2018) found that these results depend on a country's income group. While financial inclusion appeared to have a significant and positive impact on poverty rates in high- and upper-middle-income economies, this wasn't true for in middle-low- and low-income economies.

Despite unclear evidence on poverty, the paper finds financial services improved resilience and increased women's control and ownership of financial services thereby augmenting their bargaining power.

While there is lack of clear evidence on poverty, there is no denying the fact that financial inclusion has also other positive outcomes. But the point to be kept in focus is that access to financial services might be a necessary but not a sufficient condition for raising incomes. The needs and livelihood choice of the poor depend on local context and the issues of unproductive land holdings, low risk appetite of the poor and their inexperience in setting up micro business persist. These need to be addressed first through public investments in agriculture, availability of risk mitigation mechanisms, skill training and provision of support services like market access among others; financial inclusion in itself can only have minimal impact on poverty.

## REPORT STRUCTURE; OVERALL FOCUS AND CHAPTERS' COVERAGE

### Overall Focus

This report is an attempt to document the various pieces of financial inclusion ecosystems in India, both policy and operational aspects. In order to provide an integrative framework, the issues mentioned above are woven into the narrative across chapters. The report covers the major institutions—banks, RRBs, Co-operative Banks, MFIs, SHGs, SFBs and Payments Banks. The various schemes of financial inclusion, like PMJDY and MUDRA as well as relevant studies and publications are embedded in the relevant chapters. The coverage of SFBs and PBs does not refer to the entire spectrum, as many institutions in these categories have recently started operations, and also there is inadequate data. In each chapter, to the extent possible, we have discussed the emerging new trends and initiatives, subject to limitations of availability of data and reports.

The report intends to be a reference document for sector-level trends, data-based analysis and significant happenings in the financial inclusion space. While there is much research underway which cuts across many years, care has been taken to look at the outputs between October 2018 to mid-October 2019, largely to keep the report current and also to avoid repetitions. The report draws on all the key available sources of data and information in piecing together the financial inclusion narrative like RBI Annual Report, Basic Statistical Returns, Trend and Progress of Banking, NABARD, SIDBI and MUDRA publications, annual reports of individual institutions, NABARD's All India Financial Inclusion Survey (NAFIS), among others.

The authors have made use of their in-person interaction with key stakeholders, field visits, conference proceedings during the year, newspaper and journal articles, but still as is inevitable, some subjective opinions might have crept in.

## Coverage in Chapters

The second chapter of the report "Banking System and Inclusive Finance: Strategy and Outreach" takes a deep dive into the performance of banks. Institution-wise, the chapter covers commercial banks, RRBs and co-operative banks. Starting with the analysis of the macro-environment and policy issues, the chapter analyses the performance of commercial banks in priority sector lending, small borrowal and deposit accounts and financial inclusion plans. RRBs and Co-operative Banks are also analysed on similar lines. Key policy issues like current NPA issue and merger of public sector banks, merger of RRBs and delayering co-operative credit structure and their likely impact on financial inclusion are also examined.

Though the banking correspondents and programmes like Pradhan Mantri Jan Dhan Yojana (PMJDY) are part of the banking architecture, considering their growing importance as well as complexity, a separate chapter like last year was considered necessary. Chapter 3 "Last Mile Banking—Extended Arm, Doorstep Services and Apex Support" covers BCs, PMJDY and its associated schemes Pradhan Mantri Jeevan Jyoti Bima Yojana, Atal Pension Yojana and Pradhan Mantri Suraksha Bima Yojana (PMSBY). The concluding section of the chapter covers the institutional support extended by key stakeholders like RBI and NABARD for financial inclusion.

Chapter 4, "MUDRA and Differentiated Banking: Work in Progress" covers the performance of MUDRA and is about the recent players in financial inclusion space—Small Finance Banks and Payments Banks. The coverage of MUDRA besides its performance during 2018–19 also tries to analyse its usefulness and additionality in increasing credit flow to the Micro and Small Enterprises. The section on SFBs and Payments Banks suffers from absence of current sector level data and as such the discussion in the chapter is based on institutional examples tied together on the common theme of challenges being faced and the possible opportunities. As differentiated banks, the policy objective for them was to accord primacy to financial inclusion and as such this chapter examines whether they have been able to rise to the expectations or is it still a work in progress.

Chapters 5 and 6, "Microfinance Institutions; 56 Million Clients and Growing…" and "SHGs, Bank Linkage and the National Rural Livelihoods Mission (NRLM) Inclusion Agenda", between them, cover the important topic of microfinance having an outreach of nearly ~110 million clients. The coverage not only talks about the performance and the important initiatives/innovations during the year but also flags important policy issues. Chapter 5 covers the issues of microfinance space seeing involvement of multiple agencies and the consequent regulatory arbitrage, the concentration of operations and the weakening of client relationship. The issues of NRLM and its interplay with NABARD's SHG-Bank linkage programme at the ground level, state-wise variances in linkages between number of groups, clients' savings and loans as well as next generation issues for the programme are examined in Chapter 6. The concluding chapter of the report is titled "Digital Finance: Need to Broadbase". The focus of the chapter is on capturing the ecosystem and sector level trends like progress in digital transactions across retail payment channels, AEPS and Direct Benefit Transfer (DBT). The key issues like ground level challenges in pushing digital and on going policy confusion surrounding Aadhaar are also discussed. Emerging models of fintech, progress under DBT and findings from few studies are also covered in this report.

Overall, the financial inclusion space in India is now a diverse ecosystem comprising a variety of players ranging from traditional banks to fintech start-ups, private sector entities like private banks, NBFCs and NBFC-MFIs, Non-Governmental Organisations (NGOs), co-operatives, government programmes (PMJDY and NRLM), new age banks (SFBs and PBs). However, despite the policy push and diversity of players, as indicated in earlier part of the chapter a few critical issues need attention. On one hand, there are pockets of inefficiencies and exclusion, while on the other hand with the use of technology, financial inclusion efforts have moved to next generation issues of regulatory efficiency and consumer protection. In this complex environment, the fundamental issues need to be accorded primacy, to make inclusion meaningful for the last man. In view of the vastness of the area intended to be covered by the report, this is a small effort to document the current landscape of inclusive finance.

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# Banking System and Inclusive Finance: Strategy and Outreach

2

## SOCIAL AND INCLUSIVE BANKING IN INDIA—FIFTY YEARS ON

Inclusive finance is not a relatively new idea in India. It may be claimed that in India there is at least a 50-year history of inclusive banking right since the nationalisation of 14 major banks in 1969 (with a second round in 1980). This promoted a social banking thrust which was directed to increase the accessibility of banks for rural and poor families through various agencies, institutions, instruments and products that evolved over the years.[1] Public Sector Banks (PSBs), especially the Regional Rural Banks (RRBs) that were launched in 1976, were seen as primarily catering to the Below Poverty Line (BPL) population. Indeed, bank loans were the principal component of the Integrated Rural Development Programme (IRDP) in a comprehensive programme designed to provide targeted families with productive assets and a permanent route out of extreme poverty. Despite the widely reported failure of the IRDP through mistargeting and even misappropriation, about 38 to 40 million families probably received nearly 60 million IRDP loans between 1980 and 1999[2]—loan amounts that were as high as the level of the annual household poverty line at the time.[3] A fair number of these families may even have crossed the poverty line on a more-or-less permanent basis. However, after the debt waivers of the early 1990s, the repayment problems of the rural banking system began to be magnified with a subsequent contraction in the flow of credit to small borrower accounts through the banking system. Nevertheless, branch licensing policy and priority sector lending requirement directed financial services to rural and underserved areas. During the 1990s, post-liberalisation, the issue of licenses to private banks and the recapitalisation of RRBs was accompanied by a reduction in the number of rural branches and movement away from promoting state-led banking structures.

Thereafter, the compulsions of profitable functioning served to limit the scope and effectiveness of efforts at inclusive finance. About a decade ago, a financial inclusion strategy, focused on banks, envisaged a rapid increase in the outreach of individual-centred banking services through expansion of the banking infrastructure and innovations in outsourcing financial and non-financial operations of banks. However, it is only in the last five years that a quantum leap has been made both in the outreach of the banking system in terms of virtual universal coverage of households with savings accounts as well as various technologies adopted to reduce cost and increase the efficiency of banking operations directed towards hitherto inaccessible areas. In any event, the hindsight of 50 years tells us that it was critical to have ownership and operational control of the banking system to deliver the larger inclusion agenda.[4] Even at the present, it is the PSBs and RRBs that have been at the forefront of this thrust while they grapple with larger issues related to their overall viability and challenges of organisational structure and reform.

When we consider the year under review, the prior need is to unravel the various policy measures that are underway, almost on a daily basis, as PSBs, RRBs and even cooperatives feel the pressure to consolidate and reform. In this chapter, the government's ongoing multi-pronged strategy to bring the banking system on track, even as the economy shows signs of a dangerous downturn, is first examined, followed by a look at the performance of, and outlook for, Scheduled Commercial Banks (SCBs), rural banks and cooperative institutions in delivering and developing financial services for the priority sector and under-banked sections of the population through various institutional channels and technological innovations. In the following chapter, we examine, in particular, the status of last mile delivery of financial services, particularly the Business Correspondent (BC) channel envisaged as the extended arm of the banking system, the Pradhan Mantri Jan Dhan Yojana (PMJDY), the mission for universal extension of broad-based financial services, and the range of other physical and financial infrastructural efforts by apex banking agencies in supporting inclusive finance.

## THE BANKING SYSTEM—RECENT CRISIS, REFORM MEASURES AND FUTURE OUTLOOK

### Government's 4R Strategy

During the past several years, the banking system in general and PSBs in particular, came in for adverse attention on account of a number of scams and malpractices through excessive and unscrupulous lending, especially to certain corporate clients, which resulted in large losses

**Box 2.1: Government's 4R Strategy for PSB Reform and the EASE Reforms Index**

The PSBs had witnessed a high build-up of stressed assets over the past decade, the reasons for which have been identified, among others, as aggressive lending, weak lending practices, wilful defaults and frauds, and the economic slowdown. Since 2015, the government has implemented the 4R Strategy of recognising NPAs transparently, Resolution and recovery, Recapitalising PSBs and Reforms in the financial ecosystem and PSBs. While the first three reforms are aimed at cleaning up the balance sheets of banks, key areas addressed in PSBs include governance, prudential lending, risk management, technology-driven checks and controls as well as transparency and accountability in the wider financial ecosystem. Some of the achievements of the 4R Strategy to enable Clean and Smart Banking include:

- The *transparent recognition of NPAs* and the bolstering of provisions to meet the expected losses. As a result, the stressed assets of PSBs (standard restructured assets for global operations), which was 7 percent of gross advances at the end of FY 2015 declined to 0.5 percent of gross advances by the end of the third quarter of FY 2019. The provision against NPAs also registered substantial improvement from 46 percent by the end of FY 2015 to nearly 69 percent by the end of the third quarter of FY 2019.
- *Reforms in the insolvency and bankruptcy framework* through the enactment of the Insolvency and Bankruptcy Code (IBC) has led to significant resolution of stressed assets through a comprehensive and time-bound framework by giving greater control to the creditor banks. Enabled by the change in the above reforms PSBs had recovered Rs 2800 billion during April 2015–December 2018.
- *Recapitalisation of the PSBs* has also been initiated by the government on a large scale under the Indra Dhanush plan in August 2015 originally to infuse Rs 700 billion over four financial years. By February 2019, total recapitalisation of Rs 3,400 billion in PSBs had been completed which included Rs 660 billion raised by the PSBs through fresh equity capital and monetisation of non-core assets.

Among the reforms for Clean and Smart Banking, a variety of steps for strengthening risk management and deterring wilful default were undertaken. Similarly, multiple steps have been taken to improve governance by the Banks Board Bureau and the creation of the infrastructure for supporting digital banking and payments, particularly the last mile access to various banking services, the roll-out of the JAM trinity, enabling direct benefit transfers and industry-wide platforms for digital lending, namely, psbloansin59minutes.com, TReDS platform and UdyamiMitra.com. Further, the acquisition of a majority stake in IDBI Bank Ltd by the Life Insurance Corporation of India (LIC) has synergised the largest insurance company with the public sector bank.

As part of the reforms, an **Ease Reforms Index** measures PSB performance on 140 metrics against their benchmarks enables transparent reporting and continuous improvement. The Index includes coverage of a diverse range of initiatives and indicators to be periodically reviewed by the Boards of the banks. An important area covered is that of customer responsiveness, which promoted 'banking from the comfort of the home and mobile'—through mobile banking, call centre and internet banking as the key priority for PSBs, which would enable them to improve efficiency and reduce operating costs. Since branch banking will continue to be the dominant channel for customers, customer convenience devices such as ATMs, cash deposit machines and passbook printers are increasingly being made available. To enhance the last mile access to banking services, the need is identified to increase the proportion of active Bank Mitras and to increase the number of services offered through them so that they may achieve equivalence to bank branches as banking outlets that drive digital payments.

*Source*: Adapted from BCA/IBA (2019).[5]

and high Non-Performing Assets (NPAs). The Reserve Bank of India (RBI) had initiated an Asset Quality Review (AQR) in 2015 to clean up balance sheets of the banks and to streamline, modernise and strengthen the banking sector. The primary reasons for the spurt in stressed assets have been observed to be aggressive lending practices, wilful default, corruption in some cases and economic slowdown. To bring about a broad-based solution to this problem, the RBI introduced the 4R Strategy of Reform which was to be monitored using the EASE Reforms Index (see Box 2.1).

## PCA Framework and Insolvency and Bankruptcy Code (IBC)—Some Positive Outcomes

The RBI's Prompt Corrective Action (PCA) framework to maintain sound financial health of banks was intended to encourage banks to eschew certain riskier activities, improve operational efficiency and focus on conserving capital. RBI placed 11 PSBs, namely, Dena Bank, Central Bank of India, Bank of Maharashtra, UCO Bank, IDBI Bank, Oriental Bank of Commerce, Indian Overseas Bank, Corporation Bank, Bank of India, Allahabad Bank and United Bank of India under the PCA framework. The PCA framework thus addressed the vulnerabilities of weaker banks in improving the health of the banking sector. Under the revised PCA guidelines of RBI for prompt corrective action (dated April 13, 2017)[6] operative for three years and with effect from April 1, 2017, banks faced restrictions on distributing dividends and remitting profits. The owner could be asked to infuse capital into the banks. Besides, the banks were stopped from expanding their branch networks and needed to maintain higher provisions. Management compensation and directors' fees were also capped. Of the 11 banks placed under PCA, five banks have come out of the PCA framework during 2018–19 and a sixth bank also exited because of its merger with Bank of Baroda leaving only five banks with the PCA restrictions by April 1, 2019, namely, United Bank of India, UCO Bank, Central Bank of India, Indian Overseas Bank and IDBI Bank.

The Insolvency and Bankruptcy Code (IBC) was introduced in 2016 towards tackling big cases of loan defaults and to clean the balance sheets of banks and greater accountability of management. This represented a change in credit culture by fundamentally changing the creditor–borrower relationship by taking away control of defaulting companies. However, the restrictions on deposits and borrowings and on opening branches by the banks placed under PCA, inter alia, had the potential to adversely impact the financial inclusion efforts. Further, doubts have been expressed about the efficacy of the IBC process and the procedures. Since it started operating and until June 30, financial creditors (primarily banks whose loans had been defaulted on by corporates) had filed claims worth Rs 2.53 trillion under IBC. The total recovery has been at Rs 1.08 trillion. This means a rate of recovery of 42.8 percent. Out of 2,162 cases referred to the Corporate Insolvency Resolution Process (CIRP), 1,292 are still under review, only 120 cases (out of the remainder) have been closed by resolution and 475 cases by liquidation.[7] As also pointed out by the former governor of the Reserve Bank, the process for executing the IBC has thrown up a worrying number of exceptions.[8]

The Financial Stability Report of June 2018[9] of RBI had noted that stress in the banking sector had continued as the Gross Non-Performing Advances (GNPA) ratio had risen further and profitability of Scheduled Commercial Banks (SCBs) had declined such that all PSBs, barring two, made losses in 2017–18. It had suggested that the GNPA ratio of SCBs could rise from 11.6 percent in March 2018 to 12.2 percent by March 2019. On account of stringent measures undertaken to address the problem, as per the RBI data, the total bad loans of banks (loans which have not been repaid for a period of 90 days or more) which had stood at Rs 10,361.87 billion as on March 31, 2018 had declined to Rs 9,336.25 billion as on March 31, 2019 (provisional figures). The NPAs of PSBs, which were 14.6 percent of outstanding advances in March 2018, were down to 11.2 percent by March 2019. Further, as per RBI's Financial Stability Report, June 2019, macro-stress tests for credit risk indicate that under the baseline scenario, SCBs' GNPA ratio could decline from 9.3 percent achieved in March 2019 to 9 percent in March 2020.[10]

## Recapitalisation or Privatisation of PSBs—the Debate Continues

In October 2017, the government had announced plans of massive capital infusion of Rs 2110 billion in PSBs spread over two fiscal years 2017–18 and 2018–19. In February 2019, the finance ministry announced a capital infusion of Rs 482.39 billion in 12 PSBs to help them meet regulatory capital requirements of the stronger lenders. With this tranche, the government had infused Rs 1,009.58 billion of the Rs 1060 billion bank capitalisation programme for the financial year

2018–19. The balance Rs 50 billion was retained for any contingency or for growth capital where necessary.[11] As evident from Annexure 2.1 of profitability of the PSBs, the most affected PSBs are back on track and despite higher provisions, five of them have registered profits during the financial year 2018–19 as against only two in the previous year. While presenting the Budget for 2019–20, the finance minister announced that the union government will infuse Rs 700 billion into PSBs in 2019–20 to strengthen and enhance their lending capacity. As done during the previous year, the recapitalisation will involve two legs—first, banks will subscribe to bonds floated by the government. In the second leg, the government will infuse that money into PSBs. The same method was adopted earlier for giving capital to banks.[12]

Some commentators are sceptical of recapitalisation of PSBs and point to the need for structural reforms that go beyond periodic injections of money. Instead, these non-financial reforms must encompass organisational culture, structure, technology, talent management, autonomy, oversight and governance to attract investors.[13] Other experts have been of the opinion that much larger doses of recapitalisation would be required; the government had in the recent past considered selling off significant stakes in PSBs to private investors. However, this was possibly turned down on account of the low valuations of the banks and the commitment to financial inclusion under PMJDY for the implementation of which the PSBs had a crucial role.[14] Nevertheless, the call for privatisation continues to be raised in the context of the ongoing recapitalisation and consolidation and the recent mega-merger of PSBs, discussed further in the next section. This includes the views of former RBI governors[15] who strongly favour privatisation.

## Consolidation and Scaling Up—Die is Cast through a Mega-Merger

The past couple of years have also been a period of consolidation, mergers and acquisitions in both the public sector and private banking space. The merger of five SBI associates and Bharatiya Mahila Bank, with the parent bank was carried out on April 1, 2017 to streamline their banking portfolio. A majority shareholding in the debt-ridden IDBI Bank by the Life Insurance Corporation has set a new precedent of a non-banking corporation exercising ownership and control of a bank. During the FY 2018–19, Vijaya Bank and Dena Bank were merged into Bank of Baroda. However, these mergers have not been without their problems. The various plus points are in terms of economies of scale, streamlining of management, decision-making and technology, synergising competencies and diversification of clientele across geographies, etc. At the same time, PSBs have commitments towards social banking and financial inclusion through PMJDY and MUDRA loans that need to be balanced against commercial functioning.

**Box 2.2: Next Generation Public Sector Banks**

| **Consolidated PSBs for Strong National Presence and Global Reach** | **Anchor Bank** | **Amalgamating Bank** |
|---|---|---|
| | 1. Punjab National Bank | Oriental Bank of Commerce<br>Unit Bank of India |
| | 2. Canara Bank | Syndicate Bank |
| | 3. Union Bank of India | Andhra Bank<br>Corporation Bank |
| | 4. Indian Bank | Allahabad Bank |
| **(82 percent of PSB Business and 56 percent of SCB Business)** | 5. State Bank of India | Amalgamated earlier |
| | 6. Bank of Baroda | Amalgamated earlier |
| **To Strengthen National Presence** | **Bank** | |
| | 7. Bank of India<br>8. Central Bank of India | |
| **To Strengthen Regional Focus** | **Bank** | |
| | 9. Indian Overseas Bank<br>10. UCO Bank<br>11. Bank of Maharashtra<br>12. Punjab and Sind Bank | |

Thus some leading banks such as the State Bank of India have successfully merged over the years. However, on August 30, 2019, the government has merged 10 PSBs into four anchor banks. Further, details of the consolidation are given in Box 2.2.[16] In addition, steps were announced towards improved governance by strengthening Boards of PSBs and for leadership development. Thus, the number of PSBs reduced to 12 from 27 in 2017. In this manner, a major consolidation of PSB business has been carried along the lines envisaged by the Narasimhan Committee Report 27 years earlier. However, these mergers have been described as a shotgun wedding brokered by the Finance Ministry, and driven by the Board only in name. It is pointed out that one of the biggest learnings from the 2007–08 global financial crisis is that large banks could pose systemic risks that endanger the entire economy—the "too big to fail" phenomenon.[17]

Finally, as noted by Subba Rao (2019), in the short-term, the mergers will contribute nothing towards engineering a turnaround of the economy and the longer-term outcomes are quite ambiguous; structural reforms are required.

Notwithstanding the banking crisis of recent years and the degree of effectiveness of macro level measures to deal with it, the financial inclusion strategy as directed by the Department of Financial Services and the RBI has its own objectives, methodology, strategy and trajectory involving the banks and their plans, priorities and products in this space. The subsequent sections undertake a more detailed and focussed examination of the role of SCBs, RRBs and cooperative banks in inclusive finance.

## VIABILITY AND OUTREACH OF INCLUSIVE BANKING

### Commercial Banks: Reduced Profits Due to Higher Provisioning

The contours of the ongoing banking crisis and some of the measures (including the recent announcement of the mega consolidation of PSBs reducing their numbers to 12) undertaken have been described above. Table 2.1 illustrates the progress of commercial banking in India as of March 31, 2019. Out of 149 SCBs, there were 53 RRBs, representing a decline from 56 as the process of amalgamation of RRBs is underway. During the year there was a decline in the number of offices of SCBs from 1,46,282 to 1,41,756. Location-wise, while the number of rural branches increased from 49,848 to 50,081 during the financial year 2018–19, there has been a decline in the numbers of semi-urban, urban and metropolitan branches, a result of the increasing share of digital and internet banking in the overall financial services structure.

There is also a steady and substantial increase in deposits of SCBs, which were Rs 1,25,587 billion as on March 31, 2019, though the composition of the deposits has been undergoing changes. Notwithstanding a dip as on March 2017 post-demonetisation, credit of SCBs similarly has been rising steadily to reach Rs 98,184 billion as on March 31, 2019, yielding an improved credit-deposit ratio of 78.2 percent. More recently, as the economy has slowed down there has been a slackening of demand for credit and various measures, including lowering of interest rates, have been undertaken to boost credit off-take.

NPAs of SCBs which had already reached record levels at Rs 7,288 billion continued to rise to Rs 9,626 billion (further details by type of banks and sector in Table 2.3). As also discussed earlier in this chapter, in recent years, despite the steady increase in other growth indicators, the profitability of commercial banks has taken a hit as they attempt to deal with their accumulated NPAs. In 2017–18, a particularly bad year, only two PSBs namely, Indian Bank and Vijaya Bank had positive net profit. At the end of March 2019, their numbers had risen to five, including the State Bank of India. As discussed above, a factor in the diminished profitability over the last couple of years has been the higher provisioning towards accumulated NPAs (Annexure 2.1). This shows that the PSBs collectively reported a loss of Rs 666.08 billion during 2018–19 as against Rs 853.71 billion during 2017–18.

Even though operating profit during 2018–19 was higher at Rs 943.68 billion as compared to Rs 882.70 billion during 2017–18, the profitability of PSBs has been affected by the high levels of provision and contingencies amounting to Rs 1,588.55 billion during 2017–18 and Rs 1,618.38 billion during 2018–19.

The performance of the private banks (Annexure 2.2) was considerably better. Significantly, there was an increase in the share of deposits of private banks, which rose to nearly 45 percent of that of the PSBs as on March 31, 2019. The profitability of the private banks has been far greater with only three private banks, including one new private sector bank, registering losses. However, the profit of all private banks taken together registered a decline from Rs 335.45 billion in 2017–18 to Rs 276.21 billion during 2018–19, with some leading players such as ICICI Bank and Yes Bank

**Table 2.1: Progress of Commercial Banking at a Glance**

| Important Indicators | June 1969 | March 2014 | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
|---|---|---|---|---|---|---|---|
| No. of Commercial Banks | 89 | 151 | 152 | 152 | 152 | 151 | 149 |
| SCBs | 73 | 146 | 148 | 149 | 150 | 149 | 147 |
| Of which: RRBs | - | 57 | 56 | 56 | 56 | 56 | 53 |
| Non-Scheduled Commercial Banks | 16 | 5 | 4 | 3 | 2 | 2 | 2 |
| Number of Offices of SCBs in India^ | 8,262 | 1,17,280 | 1,25,672 | 1,32,587 | 1,37,770 | 1,46,282 | 1,41,756 |
| (a) Rural | 1,833 | 45,177 | 48,498 | 46,577 | 48,232 | 49,848 | 50,081 |
| (b) Semi-Urban | 3,342 | 31,442 | 33,703 | 36,464 | 37,880 | 39,476 | 39,063 |
| (c) Urban | 1,584 | 21,448 | 22,997 | 23,867 | 24,877 | 27,213 | 25,498 |
| (d) Metropolitan | 1,503 | 19,213 | 20,474 | 25,679 | 26,781 | 29,745 | 27,114 |
| Population per office (in thousands) | 64 | 11 | 10 | 9.4 | 9.05 | 9.61 | 9.31 |
| Deposits of SCBs in India (Rs. billion) | 46 | 79,134 | 88,989 | 96,599 | 1,07,514 | 1,14,345 | 1,25,587 |
| of which: (a) Demand | 21 | 8,272 | 7,801 | 35,190 | 44,144 | 48,407 | 53,041 |
| (b) Time | 25 | 70,862 | 81,188 | 61,409 | 63,370 | 65,938 | 72,546 |
| Credit of SCBs in India (Rs. billion) | 36 | 61,390 | 64,998 | 75,209 | 79,270 | 87,670 | 98,184 |
| Deposits of SCBs as percentage of National Income (NNP at Factor Cost (current prices)) | 16 | 86 | 80 | 102.84 | 98.83 | 77.00 | 74.58# |
| SCBs' Advances to PSL (Rs. billion) | 5 | 21,549 | 23,782 | 27,577 | 29,302 | 32,200 | |
| Share of PSL in Total Credit of SCBs (percent) | 14 | 35 | 37 | 36 | 37 | 36.7 | |
| Credit Deposit Ratio | 78 | 78 | 73 | 77.9 | 68.78 | 75.60 | 78.20 |
| Investment Deposit Ratio | 29 | 28 | 29 | 31.45 | 31.62 | 29.03 | 26.89 |
| Cash Deposit Ratio | 8 | 5 | 6 | 5.59 | 5.99 | 5.11 | 5.09 |

*Source:* Basic Statistical Returns of Commercial Banks in India Volume 47, Mumbai, RBI (2019), accessed on July 2, 2019.
*Notes:* ^ Excludes Administrative Offices.
Population numbers are from the immediate previous census.
#Author's computation based on provisional estimates of National Income from Government of India's 'Economic Survey 2018-19' (https://www.indiabudget.gov.in/economicsurvey/, accessed on August 24, 2019).

reporting considerably diminished profits to less than half of the previous year levels. This was on account of a similar situation prevailing with the private sector banks in respect of increased provisioning. While operating profits of all private banks put together rose from Rs 1192.73 billion during 2017–18 to Rs 1292.12 billion, net profit diminished considerably on account of the increased provisioning from Rs 857.28 billion to Rs 1015.91 billion.[18]

## Bank Credit—Share of Priority Sector Lending Unchanged

To unravel the degree of success of the relatively new thrust towards financial inclusion, we start with an examination of the priority sector lending (PSL) performance of the SCBs, which require, among others, a portion of their portfolio statutorily earmarked for selected 'priority' sectors and segments such as agriculture, micro, small and medium enterprises (MSMEs), education and housing and for the weaker sections of society,[19] with the rest of the advances designated as non-PSL.

Table 2.2 shows the achievement under PSL advances by various categories of banks for the year ending March 31, 2018, the latest year for which data is available. The total credit to the priority sector at the end of March 2018 was Rs 30,220 billion up from Rs 29,302 billion a year earlier. A small increase was registered in all sub-categories (Fig. 2.1).

The overall performance for all categories was as per the targeted levels, with a small increase in the Adjusted Net Bank Credit (ANBC) of the PSBs and a more substantial increase in the ANBC of private banks. The share of priority sector lending in total lending increased marginally from 40.32 percent to 42.41 percent. The targets for agriculture were largely maintained. Lending to weaker sections by private banks continued to be relatively lower, in comparison to the PSBs, while they performed better in the case of loans to the

**Table 2.2: Achievement under PSL Advances by Categories of Banks, March 31, 2018**

| | March 2017 | | | | March 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Public Sector | Private Sector | Foreign Banks | Total | Public Sector | Private Sector | Foreign Banks | SFB | Total |
| ANBC (in Rs billion) | 51,040 | 17,877 | 3,756 | 72,672 | 51,457 | 21,004 | 3,364 | 94 | 75,919 |
| Off Balance Sheet (in Rs billion) | 7,697 | 4,157 | 1,793 | 13,646 | 4,381 | 4,420 | 1,684 | 0 | 10,486 |
| Credit to Priority Sector (in Rs billion) | 20,435 | 7,587 | 12,780 | 29,302 | 21,992 | 8,713 | 1,379 | 116 | 32,200 |
| Total Agri (in %) | 18.55 | 16.63 | 4.96 | 17.38 | 18.68 | 17.57 | 9.99 | 61.58 | 18.04 |
| MSME (in %) | 14.54 | 19.90 | 8.96 | 15.57 | 16.78 | 18.68 | 14.21 | 112.76 | 17.31 |
| Housing (in %) | 5.76 | 5.44 | 0.96 | 5.44 | 5.63 | 4.47 | 1.55 | 11.62 | 5.14 |
| Educational (in %) | 1.18 | 0.16 | 0.00 | 0.86 | 1.14 | 0.15 | 0.00 | 0.21 | 0.81 |
| Total Priority Sector (in %) | 40.04 | 42.44 | 34.08 | 40.32 | 42.74 | 41.48 | 40.98 | 123.99 | 42.41 |
| Of which Weaker Section (in %) | 11.77 | 9.25 | 2.13 | 10.65 | 11.99 | 9.22 | 5.90 | 140.77 | 11.12 |

*Source:* Basic Statistical Returns of SCBs from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9, accessed on June 26, 2019.

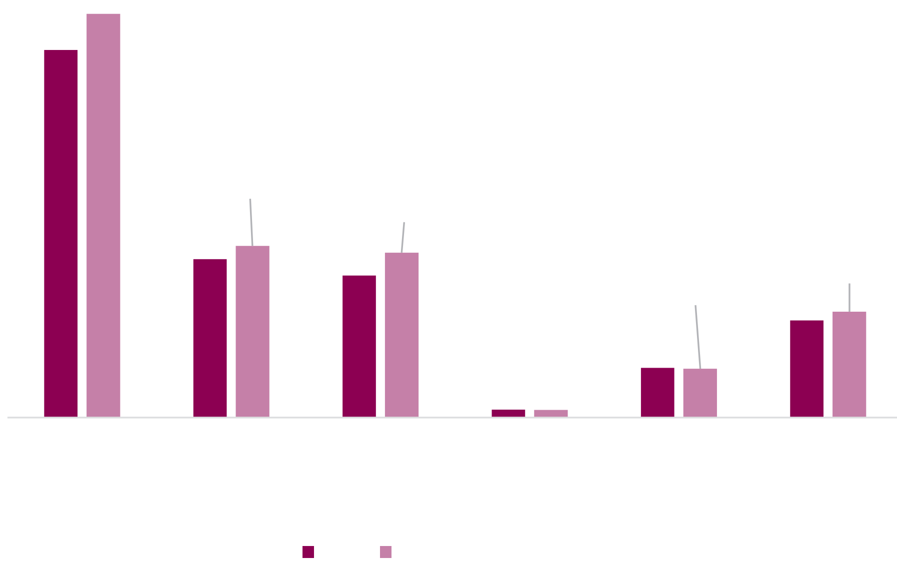


**Figure 2.1:** Credit to the Priority Sector—as on March 31, 2017 and March 31, 2018, Amount in Rs billion

*Source:* Basic Statistical Returns of SCB from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9, accessed on

micro-small and medium enterprises (MSME) sector. Private banks, in particular, have resorted to buying Priority Sector Lending Certificates (PSLCs)[20] to meet the shortfalls in the sub-targets, particularly of the small and marginal farmer category. While the PSL lending performance has been satisfactory, the issue of build-up of NPAs under both PSL and non-PSL lending continued to be an area of concern.

## Non-PSL NPAs Continue to Rise While PSL Remains under Control

Sector-wise NPAs of various types of commercial banks are given in Table 2.3. The NPAs of banks, particularly of PSBs, had come in for a great deal of adverse attention during the previous year particularly in view of bank scams involving a few large borrowers. Indeed, they have acquired a political dimension with charges being traded as to whether the current government or the previous one was responsible.

The position of gross NPAs for all SCBs of banks as of March 2018 was particularly alarming, having reached a peak of Rs 9,626 billion as against Rs 7,288 billion in March 2017 and Rs 2,395 billion in March 2014, registering a more than three-fold increase in four years.[21]

However, during the year 2017–18, the percentage of priority sector NPAs to total NPAs further declined from 23.4 percent to 21.8 percent, even though its gross NPAs increased from Rs 1,703 billion to Rs 2,076 billion. The share of the NPAs of PSB lending to the priority sector similarly declined marginally. While there has been an increase in the gross NPAs of agricultural and MSME sectors during 2017–18, the share of agriculture in percentage of total NPAs has only gone up marginally, whereas the share of micro and small enterprise has actually declined by nearly 2 percent. It seems that NPA levels for these categories of bank borrowers have not been seriously affected by demonetisation, the full impact of which on these sectors was expected during the financial year 2017–18.

Finally, if we compare the NPAs as a percentage of total outstanding for PSL and non-PSL advances (Fig. 2.2) we find that NPAs in respect to priority sector advances were only 6.45 percent of the total outstanding as on March 31, 2018, as against as much as 17 percent for non-PSL advances of all SCBs. Even in the case of PSBs, the NPAs for PSL advances were 8.53 percent of the total outstanding, as against 22 percent for the non-PSL category of advances.

Thus, NPAs of priority sector advances, though increasing, continue to be at a much lower level than that for the non-priority sector advances along with a small decline in their share in total NPAs. This would also suggest that the many ills of the banking system identified with the high NPAs can be attributed to the non-PSL advances rather than the advances to some of the less bankable categories of clients covered under PSL.

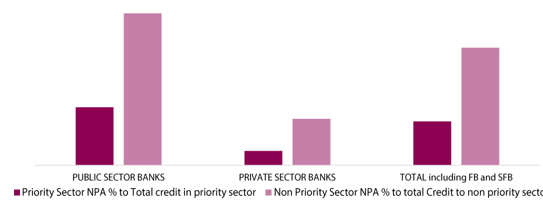



**Figure 2.2:** NPAs as percentage of Outstanding for Priority and Non-priority Sector Advances—as on March 31, 2018

*Source:* Report on Trend And Progress of Banking in India 2017-18 from https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2018_FE9E97E7AF7024A4B94321734CD76DD4F.PDF and Basic Statistical returns of SCB from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!9, accessed on July 2, 2019.

**Table 2.3: Sector-wise NPAs of Banks (at end-March)—Amount in Rs. billion**

| Bank Group | Year | Priority Sector | | of which | | | | | | Non-priority Sector | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Agriculture | | Micro and Small Enterprise | | Others | | | | | |
| | | Amt. | Percentage in Total NPA | Amt. | Percentage in Total NPA | Amt. | Percentage in Total NPA | Amt. | Percentage in Total NPA | Amt. | Percentage in Total NPA | Amt. | Percentage in Total NPA |
| PSBs | 2017 | 1,543 | 24.1 | 548 | 8.5 | 757 | 11.8 | 238 | 3.7 | 4,868 | 75.9 | 6,411 | 100 |
| | 2018 | 1,875 | 22.2 | 753 | 8.9 | 821 | 9.7 | 301 | 3.6 | 6,580 | 77.8 | 8,455 | 100 |
| PVBs | 2017 | 133 | 18 | 53 | 7.2 | 64 | 8.7 | 16 | 2.2 | 605 | 82 | 738 | 100 |
| | 2018 | 184 | 18 | 78 | 7.6 | 80 | 7.8 | 26 | 2.6 | 840 | 82 | 1,024 | 100 |
| FBs | 2017 | 24 | 17.8 | 1 | 0.5 | 4 | 3.1 | 19 | 14.3 | 112 | 82.2 | 136 | 100 |
| | 2018 | 12 | 8.6 | 1 | 0.6 | 6 | 4 | 6 | 4 | 126 | 91.4 | 138 | 100 |
| All SCBs (including SFBs) | 2017 | 1,703 | 23.4 | 602 | 8.3 | 828 | 11.4 | 273 | 3.7 | 5,587 | 76.6 | 7,288 | 100 |
| | 2018 | 2,076 | 21.6 | 832 | 8.6 | 910 | 9.5 | 334 | 3.5 | 7,555 | 78.4 | 9,626 | 100 |

*Source:* Report on Trend and Progress of Banking in India 2017-18 from https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2018_FE9E97E7AF7024A4B94321734CD76DD4F.PDF, accessed on July 2, 2019.

**Table 2.4: Details of Credit to Small Borrowal Accounts over the Years**

| Year ending March 31 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| **Loan amount Less than Rs. 25,000** | | | | | | |
| Number of accounts (million) | 30.88 | 32.57 | 29.86 | 35.29 | 33.25 | 36.51 |
| Percentage to total accounts | 24.10 | 23.50 | 20.70 | 21.70 | 19.30 | 18.54 |
| Amount outstanding (billion) | 737 | 436 | 360 | 459 | 413 | 439.84 |
| Percentage to total Outstanding | 1.30 | 0.60 | 0.50 | 0.60 | 0.50 | 0.50 |
| **Loan amount Rs. 25,000 to Rs. 2,00,000** | | | | | | |
| Number of accounts (million) | 71.43 | 76.66 | 81.27 | 89.65 | 97.01 | 112.04 |
| Percentage to total accounts | 56 | 55.20 | 56.30 | 55.20 | 56.30 | 56.88 |
| Amount outstanding (billion) | 4,412 | 4,895 | 5,315 | 5,748 | 6,173 | 6,863 |
| Percentage to total Outstanding | 8.00 | 7.80 | 7.70 | 7.60 | 7.80 | 7.83 |
| **Total Up to Rs. 200,000** | | | | | | |
| Number of accounts (million) | 102.31 | 109.23 | 111.13 | 124.94 | 130.26 | 148.55 |
| Percentage to total accounts | 80 | 79 | 77.00 | 76.90 | 75.60 | 75.4 |
| Amount outstanding (billion) | 5,148 | 5,332 | 5,675 | 6,207 | 6,586 | 7,303.06 |
| Percentage to Total Outstanding | 9.30 | 8.40 | 7.75 | 8.20 | 8.30 | 8.3 |

*Source:* Basic Statistical Returns for the years 2013, 2014, 2015, 2016, 2017 and 2018, Mumbai: RBI (2019), accessed on July 1, 2019.

## Analysis of Small Borrowal Accounts (SBAs)

### *Loans—Share of SBAs Unchanged While Very Small Loans Register a Decline*

The small borrowal and deposit accounts, as the name suggests, represent the bottom end of the financial services market and the financial services operations of banks. As such, the SBAs of banks necessitate special analysis in inclusive finance. SBAs pertain to loan account with a sanction limit of Rs 2,00,000. Within this, a smaller sub-category can be defined as loans up to Rs 25,000, which was the definition of SBAs till 1999.

Table 2.4 gives the distribution of credit to SBAs over the five years up to March 31, 2018. It is observed that there has been a more or less consistent decline in the percentage of accounts with loans of less than Rs 25,000, the numbers of which stood at 36.51 million at the end of March 2018. Though this represents a 10 percent increase over the previous year, it also represents a decline in the share of these accounts in total loan accounts of SCBs from 19.30 percent to 18.54 percent. The share of loan accounts with loans in the range of Rs 25,000–2,00,000, which numbered 112.04 million at the end of March 2018, increased by about 15 percent over the previous year. However, its share in total number of accounts remained unchanged at less than 57 percent of the total accounts. Thus the overall picture for small borrowal accounts, with the increases above, aggregates a total of 148.55 million accounts, reflecting a fair increase in numbers over the previous year (Fig. 2.3). However, the share of all small borrowal accounts in total loan accounts remained quite steady at a little over 75 percent of the total loan accounts numbering nearly 197 million as on March 31, 2018.

It is in respect of the loan amount outstanding in SBAs that a particularly skewed picture emerges. The amount outstanding in accounts of less than Rs 25,000 as on March 31, 2018, though somewhat higher than a year earlier was less than Rs 440 billion (Fig. 2.4). This was only 0.50 percent of the total outstanding in all loan accounts of SCBs amounting to nearly Rs 87670 billion—the lowest share in the previous five years. Similarly, the loan amount outstanding in accounts of Rs 25,000–2,00,000 was only Rs 6863 billion or 7.83 percent of the amount outstanding in total SCB loan accounts as on March 31, 2018. Overall, while the total number of accounts of loans up to Rs 2,00,000 was 75.4 percent of the total accounts, the percentage of loan amount outstanding in these accounts to total as on March 31, 2018, was only 8.3 percent. These ratios have remained virtually constant over the past several years. The above numbers reflect, despite the recent financial inclusion measures, the extremely low share of small loans in overall bank lending which continues to persist.

If we consider the purpose-wise break of SBAs as on March 31, 2018 (Table 2.5) the number of

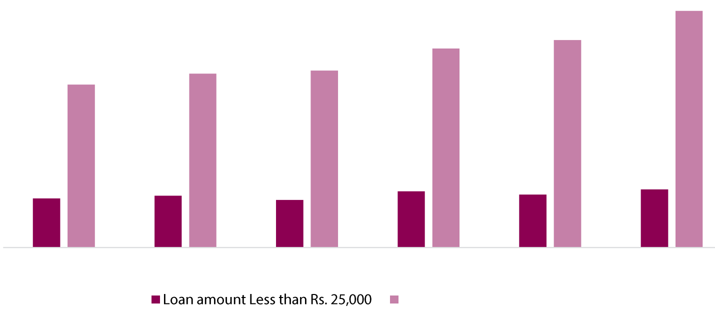



**Figure 2.3:** Small Borrowal Accounts over the Years—Number of Accounts in million

*Source:* Basic Statistical Returns for the Years 2013, 2014, 2015, 2016, 2017 and 2018, accessed on July 1, 2019.


**Figure 2.4:** Loan Outstanding of Small Borrowal Accounts over the Years—Amount in Rs. billion

*Source:* Basic Statistical Returns for the Years 2013, 2014, 2015, 2016, 2017 and 2018, accessed on July 1, 2019.

accounts for agriculture among loans of under Rs 25,000 was 15.9 million, which was marginally higher than the 15.84 million as on March 31, 2017.[22] (The other major category of loans was the 'personal loans' category with 42.5 million accounts up from 38.5 million the previous year with 'trade' accounting for less than 10 million accounts as on March 31, 2018.) However, agricultural loan accounts of Rs 25,000–2,00,000 increased in number from 54.61 million to 60.9 million contributing the lion's share of the increase in the total loan accounts for agriculture from 70.46 to 76.8 million during the year.

The loan outstanding in all SBA accounts for agriculture as on March 31, 2018 was Rs 4.7 trillion out of Rs 7.30 trillion for all SBAs of which only Rs 245.4 billion or a little over 5 percent of the total outstanding to all small borrower agriculture accounts (and 2 percent of the total accounts for agriculture) was contributed by accounts of up to Rs 25,000. As regards accounts of Rs 25,000 to Rs 2,00,000, there was a small percentage increase in the amount outstanding during the year, which reached Rs 4491.2 billion or 37 percent of the total outstanding to agriculture as on March 31, 2018. There was no real change in the share of SBAs in total outstanding over the previous year. The overall picture is thus of relative stagnation in small loans for agriculture. Nevertheless, it contributed 76.8 million accounts out of 142.28 million SBAs or 54 percent of the total SBA loan accounts and 66 percent of the total loan amount outstanding in SBAs. However, SBAs while constituting 85 percent of total accounts for agriculture accounted for only 39 percent of the outstanding loan amount. This represents a quite unsatisfactory state of affairs for what can be considered to be the major banking product for an important target group for financial inclusion. Particularly significant is the fact that the number and share of SBAs of less than Rs 25,000 that represents the bottom end of the spectrum of farmer borrowers, has been declining.

Though SBAs are not necessarily accounts of the 'poor', there has been in recent years the emergence of both institutions in the form of small finance banks as well as products such as MUDRA loans, which have served to increase the coverage of the banking system in favour of the SBA portfolio. (A detailed examination of MUDRA loans is undertaken in Chapter 4.) Further, the acquisition of NBFC MFIs by certain private banks is expected to enhance bank lending to the under-banked population, particularly in rural areas, through smaller loans. The improvement in the numbers and loan outstanding for Rs 25000–Rs 200,000 category could in part be explained by these developments. However, the smaller ticket size loans do not appear to have registered any significant increase.

The reluctance of SCBs to extend such small-size loans is understandable. This is a segment of the market that is served by microfinance institutions (NBFC-MFIs) and self-help groups (SHGs) by lending funds borrowed from banks. Despite the entry of the banks by lending through business correspondents (BCs) in this segment, the microfinance sector continues to grow at a rapid pace (Chapter 5). This illustrates the fact that there is as yet substantial unmet demand, particularly at the bottom end, for credit from the banking system in both rural and urban areas.

### *Small Deposits Accounts—Decline in Numbers and Steep Decline in Deposit Amount*

The number of small deposit accounts (i.e., term deposits of up to Rs 25,000) over the years is given in Table 2.6. The number of small deposit accounts displays a pattern of uneven growth in recent years.

**Table 2.5: Size of Credit Limit-wise Classification of Outstanding Credit of Scheduled Commercial Banks According to Occupation - March 2018**

| Details | Accounts of up to Rs. 25,000 | | | | Accounts between 25,000 and Rs. 2 lakh | | | | Total Small Borrowal Accounts | | Total Accounts | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Accounts (million) | % of Total | Outstanding (Rs. billion) | % of Total | Accounts (million) | % of Total | Outstanding (Rs. billion) | % of Total | Accounts (million) | Outstanding (Rs. billion) | Accounts (million) | Outstanding (Rs. billion) |
| Agriculture | 15.9 | 18 | 245.4 | 2.05 | 60.9 | 67 | 4,491.2 | 37 | 76.8 | 4,736.7 | 90.9 | 11,992.6 |
| *Direct* | 14.5 | 17 | 224.7 | 2.06 | 58.8 | 68 | 4,372.8 | 40 | 73.3 | 4,597.5 | 86.8 | 10,910.4 |
| *Indirect* | 1.4 | 35 | 20.7 | 1.91 | 2.1 | 51 | 118.5 | 11 | 3.5 | 139.2 | 4.1 | 1,082.2 |
| Industry | 3.0 | 36 | 34.8 | 0.11 | 3.3 | 40 | 155.6 | 1 | 6.3 | 190.5 | 8.2 | 30,387.3 |
| Transport Operators | 0.2 | 8 | 2.5 | 0.13 | 1.1 | 39 | 71.6 | 4 | 1.3 | 74.0 | 2.8 | 1,951.4 |
| Professional & other Service | 1.8 | 28 | 17.8 | 0.28 | 3.0 | 47 | 149.9 | 2 | 4.7 | 167.7 | 6.2 | 6,364.0 |
| Personal loans | 8.5 | 12 | 57.5 | 0.31 | 34.5 | 50 | 1,472.2 | 8 | 42.9 | 1,529.7 | 68.3 | 18,648.9 |
| Housing | 0.1 | 1 | 1.8 | 0.02 | 1.3 | 16 | 102.6 | 1 | 1.5 | 104.4 | 8.3 | 9,686.8 |
| Consumer Durables | 0.2 | 26 | 1.4 | 1.58 | 0.4 | 52 | 22.0 | 24 | 0.6 | 23.5 | 0.7 | 91.5 |
| Other Personal loans | 8.1 | 14 | 54.3 | 0.61 | 32.8 | 55 | 1,347.5 | 15 | 40.9 | 1,401.9 | 59.3 | 8,870.6 |
| Trade | 3.5 | 28 | 45.0 | 0.53 | 6.4 | 51 | 354.3 | 4 | 9.9 | 399.3 | 12.5 | 8,442.5 |
| Wholesale trade | 0.3 | 26 | 3.0 | 0.07 | 0.3 | 33 | 20.1 | 0 | 0.6 | 23.1 | 1.0 | 4,186.8 |
| Retail Trade | 3.3 | 28 | 42.0 | 0.99 | 6.0 | 52 | 334.2 | 8 | 9.3 | 376.2 | 11.5 | 4,255.7 |
| Finance | 0.3 | 29 | 4.0 | 0.06 | 0.5 | 43 | 34.1 | 0 | 0.8 | 38.1 | 1.2 | 7,288.9 |
| All others | 3.3 | 49 | 32.7 | 1.26 | 2.5 | 36 | 134.4 | 5 | 5.8 | 167.1 | 6.9 | 2,594.2 |
| Total | 36.51 | 18.5 | 439.84 | 0.50 | 112.0 | 56.8 | 6,863.2 | 7.8 | 148.5 | 7,303.1 | 197 | 87,669.7 |

*Source:* Basic Statistical Returns of SCBs in India 2019 Table No. 5.04 – Size of Credit Limit-wise Classification of Outstanding Credit of Scheduled Commercial Banks According to Occupation - March 2018, accessed on July 2, 2019.

While rising steadily up to the year ending March 31, 2014, there is an up and down movement thereafter there is virtually no increase in their numbers between 2014 and 2018 (Fig. 2.5). There was a massive decline in the number of small deposit accounts during the financial year 2016–17 which has been partly made up for during 2017–18 with the numbers reaching 67.63 million.

Interestingly, the amount deposited in these accounts more than doubled during 2016–17, from Rs 704 billion to Rs 1,717 billion and reduced thereafter during 2017–18 to Rs 791 billion at the end of March 2018 (Fig. 2.6). This has been reflected in the wild swings in growth rates of small deposit accounts and particularly the deposit amounts over the past five years (Fig. 2.7). Thus an increase by 144 percent during 2016–17 in the small deposits is followed by a decline by 54 percent even as the number of accounts has increased by 6 percent during 2017–18. Indeed, with the number of accounts and the amount deposited moving in different directions the variation in average deposits in the small deposit accounts is even more dramatic. This erratic pattern is difficult to explain. However, for the year 2016–17, the effect of demonetisation, including the phenomenon of *benami* deposits into smallholder accounts, particularly the 'no frills' Basic Savings Deposit Accounts (BSDAs) has been raised, among others, by the RBI and has been the subject of enquiry. The picture is further complicated and confounded by the reduction of the total amount held in the form of small deposits during 2017–18 after the spectacular increase in the previous year.

An RBI study suggests that the impact of the shock of the event of demonetisation in this case, and its backwash, appears to have produced a permanent shift in deposit behaviour with households' preference shifting to savings deposits and away from term deposits. Overall, it is concluded that deposit and payment habits are inflexible across most states/union territories in India and tend to return to steady state, even after large shocks. This has implications for banks' deposit mobilisation strategies and business models.[23] It is imperative that the Department of Financial Services or the RBI puts out a comprehensive analysis of this phenomenon particularly on the savings and deposits of small account holders.

**Table 2.6: "Small" (<Rs.25,000) Term Deposits from Bank Customers over the Years**

| Year ending March 31 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Number of accounts (million) | 55.7 | 66.8 | 62.97 | 73.56 | 63.93 | 67.63 |
| % of total number of accounts | 30.9 | 33.3 | 32.0 | 33.9 | 35.0 | 28.3 |
| Growth (%) | 3.32 | 16.61 | -5.73 | 16.81 | -13.09 | 6 |
| Amount (Rs. billion) | 1,387 | 1,130 | 421 | 704 | 1,717 | 791 |
| % of total deposits collected | 3.10 | 2.20 | 1.40 | 2.10 | 1.60 | 1.20 |
| Growth (%) | 0.9 | -22.8 | -62.7 | 67.2 | 143.8 | -53.9 |

*Source:* Basic Statistical Returns of SCBs in India 2019. Mumbai: RBI (2019), accessed on July 2, 2019 data calculated from Table 1.16 (total deposits and total number of deposit accounts), and Table 1.27 (percentage for <Rs 25,000 deposit).

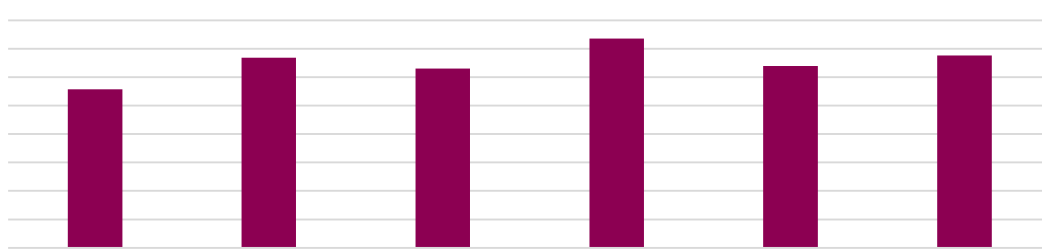


**Figure 2.5:** Number of Small Term Deposit Accounts (<= Rs. 25,000)

*Source:* Basic Statistical Returns of SCBs in India 2019. Mumbai: RBI (2019), accessed on July 2, 2019 data calculated from Table 1.16 (total deposits and total number of deposit accounts), and Table 1.27.

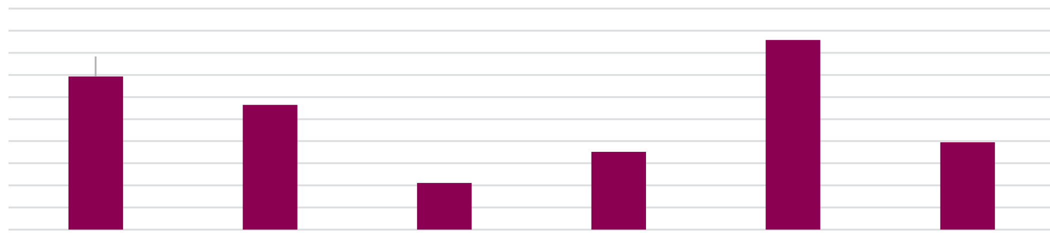


**Figure 2.6:** Amount in Small Deposit Accounts (<= Rs. 25,000)

*Source:* Basic Statistical Returns of SCBs in India 2019. Mumbai: RBI (2019), accessed on July 2, 2019 data calculated from Table 1.16 (total deposits and total number of deposit accounts), and Table 1.27 (percentage for <Rs 25,000 deposit).

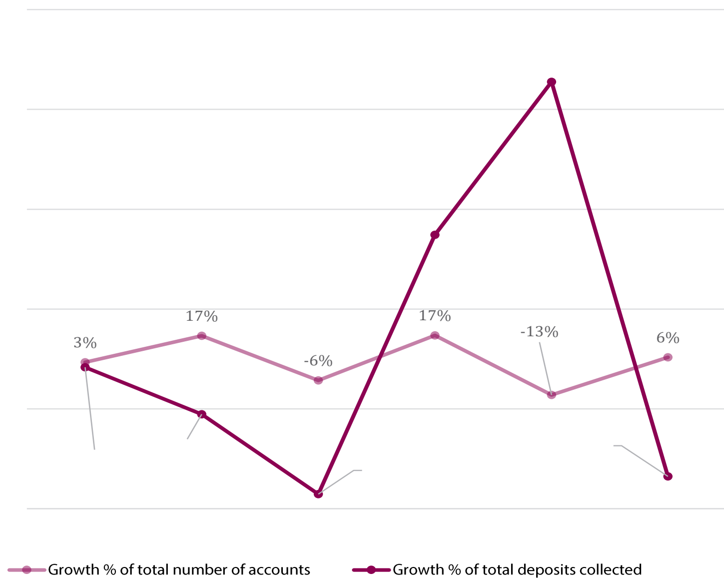



**Figure 2.7:** Annual Growth Rate of Small (< Rs 25,000) Term Deposits

*Source:* Basic Statistical Returns of SCBs in India 2019. Mumbai: RBI (2019), accessed on July 2, 2019 data calculated from Table 1.16 (total deposits and total number of deposit accounts), and Table 1.27 (percentage for <Rs 25,000 deposit).

## Financial Inclusion: Plans and Performance of Banks

Since April 2010, all public and private sector banks have been required to draw up three-year Financial Inclusion Plans (FIPs) to facilitate the universal provision of banking services through various modalities and outlets such as various types of bank branches, BCs and Automatic Teller Machines (ATMs). A major initiative during this period was the launching in mission mode of the Prime Minister's Jan Dhan Yojana (PMJDY) on August 15, 2014, progress under which is discussed in greater detail in Chapter 3. Under the PMJDY Mission, all villages across the country were to be mapped to ensure at least one fixed-point banking outlet catering to 1000–1500 households, called a Sub-Service Area (SSA). Three phases of financial inclusion plans have been completed by March 2019. In the latest phase, banks have been asked to provide data at the district level across population groups. The progress made by the Commercial Bank Branch Network (CBBN) under various parameters tracked by the financial inclusion plans is presented in this section.

Finally, with effect from April 2019, a National Strategy for Financial Inclusion (NSFI) initiated by the RBI and approved in March 2019 is to be implemented. Further details on the National Strategy as made available by the RBI are given in Chapter 3.

### *Commercial Bank Branch Network—Small Increase in Both Rural and Urban Locations*

Fig. 2.8 depicts the outreach of the commercial banking system as on March 31, 2019 and in recent years. In the three years since March 31, 2016, the number of branches of SCBs in rural areas has remained virtually constant. At the same time, the number of branches in semi-urban, urban and metropolitan areas has increased by a small percentage. The most significant increase has been in metropolitan areas. Banks have not been expanding their branches into villages in view of losses; further, RBI's PCA directives in the case of PSBs bar them from opening branches in rural areas.

However, the new definition of banking outlets notified by the RBI, vide their guidelines on bank branch authorisation dated May 18, 2017, has enabled some private banks to extend their branch network in rural (tier V and tier VI) centres, by notifying well-functioning BC kiosks as banking outlets after fulfilling various requirements regarding opening hours, accommodation, signage, etc.

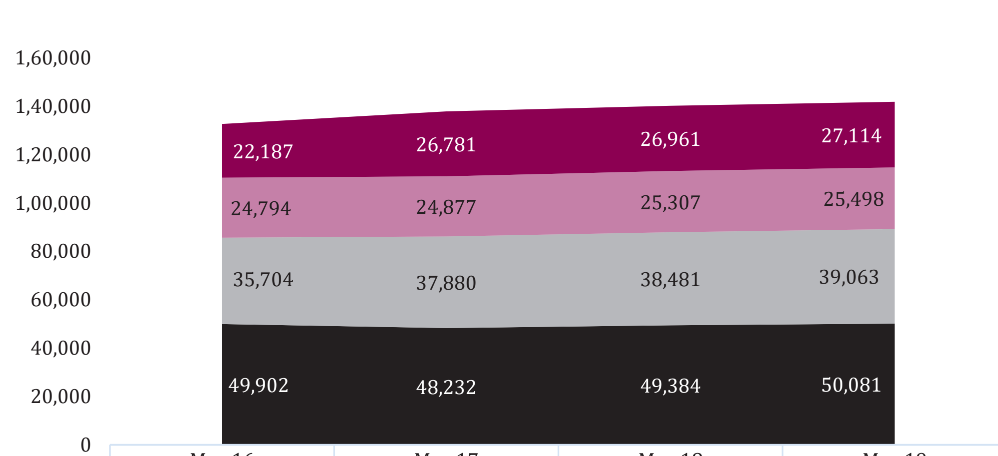
### *Steady Growth in Business Correspondent (BC) Network*

Since the introduction of the Financial Inclusion Plans (FIPs) of banks, there has been a significant improvement in the physical infrastructure of banking operations, through various types of banking outlets and devices such as ATMs, Point of Sale (PoS) terminals, e-kiosks, mobile vans, etc. A summary of the progress made under the FIPs during the past few years in respect of various parameters is given in Table 2.7.

The main features of progress made, especially during the last five years, are as under:

The growth in the numbers of various types of touch-points over the years is charted in Fig. 2.9. The number of banking outlets in villages at the end of March 2019 totalled 5,97,155. Of these, the number of bank branches in villages by the end of March 2019 was 52,489, which represents a small increase over the figure of 50,805 at the end of the previous year. This figure has, in all probability, been augmented as a result of the opening of new branches in tier V and tier VI centres, under the new guidelines for branch authorisation.

Branchless banking outlets in villages, whose numbers grew substantially during 2014–15 and 2015–16 have since more or less levelled out and numbered 5,41,129 at the end of March 2019. The BC channel covered in these numbers has from all accounts begun to show increased viability with the increase in the number of financial services covered. The number of BC outlets opened in urban locations during the year increased by nearly 40 percent during 2017–18 to 1,42,959. The data for March 2019 in respect of BCs in urban




| | Mar-16 | Mar-17 | Mar-18 | Mar-19 |
|---|---|---|---|---|
| Metropolitan | 22,187 | 26,781 | 26,961 | 27,114 |
| Urban | 24,794 | 24,877 | 25,307 | 25,498 |
| Semi-urban | 35,704 | 37,880 | 38,481 | 39,063 |
| Rural | 49,902 | 48,232 | 49,384 | 50,081 |

**Figure 2.8:** No. of Branches of Scheduled Commercial Banks

*Source:* Quarterly Statistics on Deposits and Credit of SCBs. RBI. Accessed on July 2, 2019 from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4.

**Table 2.7: Financial Inclusion: Summary of Progress (SCBs, including RRBs)**

| Particulars | Year ended March 2014 | Year ended March 2015 | Year ended March 2016 | Year ended March 2017 | Year ended March 2018 | Year ending March 2019 |
|---|---|---|---|---|---|---|
| Banking Outlets in Villages – Branches | 46,126 | 49,571 | 51,830 | 50,860 | 50,805 | 52,489 |
| Banking Outlets in Villages – Branchless Mode[1] | 3,37,678 | 5,04,142 | 5,34,477 | 5,43,472 | 5,15,317 | 5,41,129 |
| Of which, BCs in villages less than 2000 population | | | | 4,38,070 | 4,14,515 | 4,10,442 |
| Banking Outlets in Villages – Total | 3,83,804 | 5,53,713 | 5,86,307 | 5,98,093 | 5,69,547 | 5,97,155 |
| Urban locations covered through BCs | 60,730 | 96,847 | 1,02,552 | 1,02,865 | 1,42,959 | 4,47,170# |
| BSBD A/c through branches (No. in million) | 126 | 210 | 238 | 254 | 247 | 255 |
| BSBD A/c through branches (Amt. in Rs. billion) | 273 | 365 | 474 | 691 | 731 | 878 |
| BSBD A/c through BCs (No. in million) | 117 | 188 | 231 | 280 | 289 | 319 |
| BSBD A/c through BCs (Amt. in Rs. billion) | 39 | 75 | 164 | 285 | 391 | 532 |
| Total BSBD A/c (No. in million) | 243 | 398 | 469 | 533 | 536 | 574 |
| Total BSBD A/c (Amt. in Rs. billion) | 312 | 4,440 | 638 | 977 | 1,121 | 1,410 |
| OD Facility availed in BSBDAs (No. in million) | 6 | 8 | 8 | 9 | 6 | 6 |
| OD Facility availed in BSBDAs (Amt. in Rs. billion) | 16 | 20 | 14.8 | 17 | 4 | 4 |
| KCCs (No. in million) | 40 | 43 | 47 | 46 | 46 | 49 |
| KCCs (Amt. in Rs. billion) | 3,684 | 4,382 | 5,131 | 5,805 | 6,096 | 6,680 |
| GCCs (No. in million) | 7 | 9 | 11 | 13 | 12 | 12 |
| GCCs (Amt. in Rs. billion) | 1,096 | 1,302 | 1,493 | 2,117 | 1,498 | 1,745 |
| ICT A/cs BC Transaction during the year (No. in million) | 329 | 477 | 827 | 1,159 | 1,489 | 2,084 |
| ICT A/cs BC Transaction during the year (Amt. in Rs. billion) | 524 | 860 | 1,687 | 2,652 | 4,292 | 5,884 |
| ATMS of banks (public, private foreign banks) | | | 1,99,099 | 2,06,409 | 2,07,052 | 2,04,291 |
| India Post | | | | 982 | 991 | 996 |
| ATMs of Payments Banks | | | | | 4,847 | 6 |
| ATMs of Small Finance Banks | | | | 724 | 1,207 | 1905 |
| ATMS of co-operative banks (both urban and rural) | | | 4,664 | 5,829 | 2,343** | |
| ATMs of RRBs | | | 1,024 | 1,038 | 1,000* | |
| White Label ATMs | | | 14,169 | 15,195 | 15,197 | 20,849 |

*Sources:* ATM Statistics for Banks for 2018 and 2019 is for month of June from https://m.rbi.org.in/Scripts/StateRegionATMView.aspx, accessed on August 29, 2019.

ATM statistics for RRBs and rural cooperative banks for 2018 are as of August 31, 2018, provided by NABARD.

ATM statistics for India Post for 2018 and 2019 from their annual reports, https://www.indiapost.gov.in/VAS/DOP_PDFFiles/Annual%20Report%20 2018-19English.pdf

Reserve Bank of India, RBI Annual Report, 2014, 2015, 2016, 2017, 2018 and 2019 (Mumbai: RBI), NPCI, NABARD.

*Notes*: [1] The branchless mode outlets include business correspondents (BCs), Automated Teller Machines (ATMs), Point of Sale (PoS) points, Ultra Small Branches (USBs) and mobile vans.

BSBDA: basic savings and bank deposit account; OD: overdraft; KCC: Kisan credit card GCC: General Credit Card

#: Out of 447,170 outlets, it is reported that 388,868 outlets provide limited services like only remittances or sourcing of loans, etc.

*Excludes data for Gujarat, Maharashtra, Uttar Pradesh and West Bengal.

**Rural cooperative banks only.

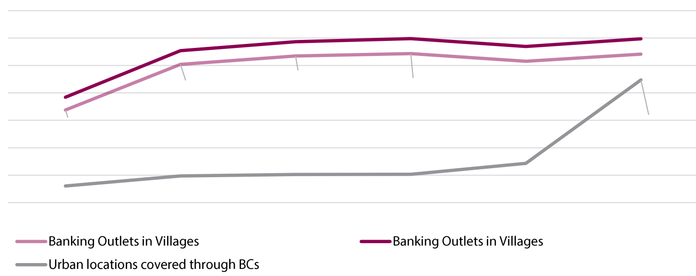



**Figure 2.9:** Touch-Points of the Banking System

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

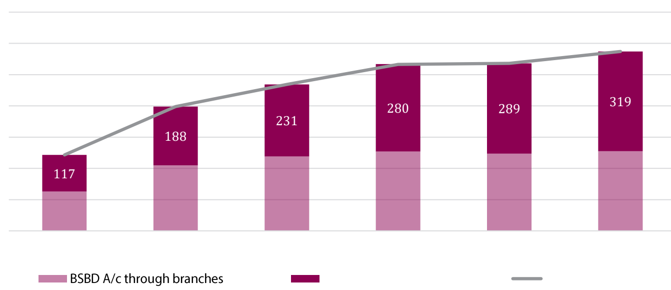



**Figure 2.10:** BSBDA Accounts (No. in million)

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

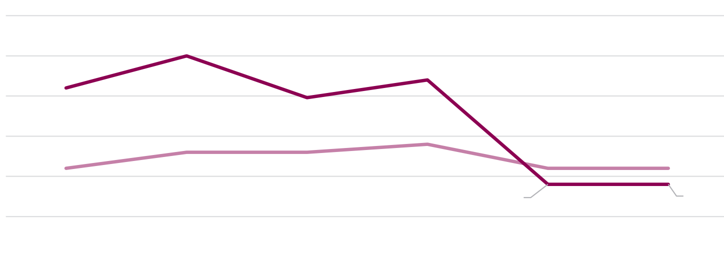


**Figure 2.11:** OD Facility availed in BSBDAs

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

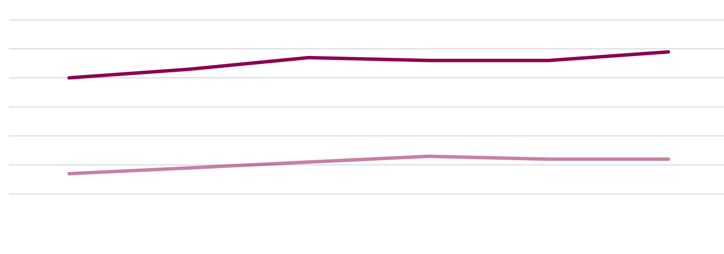


**Figure 2.12:** KCC and GCC (No. in million)

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

locations reports 4,47,170 outlets. Out of these, 3,88,868 outlets are identified as those that provide limited services like remittance facilities and loan sourcing. The augmentation in the numbers of BCs of commercial banks and RRBs by agents of payments banks and fintech companies has been happening in the recent past. In its Annual Report 2018–19, the RBI has for the first time made the distinction between BCs in terms of the nature of service provided. Including all types of outlets, the number of branches, BCs and BC outlets in rural and urban areas put together constitute over one million touch-points.

### *Growth in BSBDA Accounts Levelling Off*

The total number of Basic Savings Bank Deposit Accounts (BSBDAs) at the end of March 2019 was 574 million. Out of this, 319 million or 56 percent had been facilitated through BCs. The growth rate of BSBDAs has levelled off in recent years, as coverage of the entire country has virtually been achieved (Fig. 2.10). Deposits in BSBDAs have also steadily increased to reach Rs 1,410 billion by March 31, 2019. As far as availing of the overdraft facility is concerned, only about 6 million or barely 1 percent of all BSBDAs were reported as availing this facility with an outstanding amount of only Rs 4 billion, representing virtually no change over the previous year (Fig. 2.11). Despite the announcement of an enhanced facility, this component of the PMJDY package continues to show serious underperformance even as the blanket facility envisaged, as in the case of SHG members with PMJDY accounts (as announced in the budget for 2019–20), is a source of apprehension for banks.

### *Stagnation in KCCs and ATM Numbers*

*Kisan Credit Card (KCC)* numbers, which had virtually stagnated at around 46 million in the previous several years, showed a small increase to 49 million at the end of March 2019 (Figs. 2.12 and 2.13). With the conversion of KCCs into RuPay ATM cards, 30 million farmers had been brought onto the digital platform as of March 2018. It was proposed to cover all farmers in mission mode with RuPay Kisan Credit Cards (RKCCs). General Credit Cards (GCCs), introduced in rural and semi-urban areas, with a view to providing credit card like facilities in rural areas with limited Point-of-Sale (POS) and ATM facilities, too stagnated around the 12 million mark.

The number of ATMs of scheduled commercial banks continues to stagnate and even decline as other means of digital transactions become more

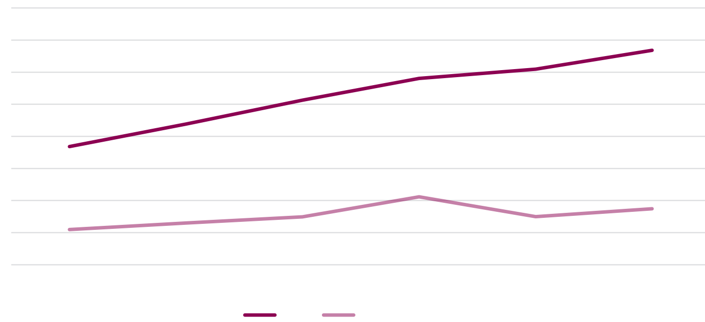


**Figure 2.13:** KCC and GCC (Amount in Rs. billion)

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

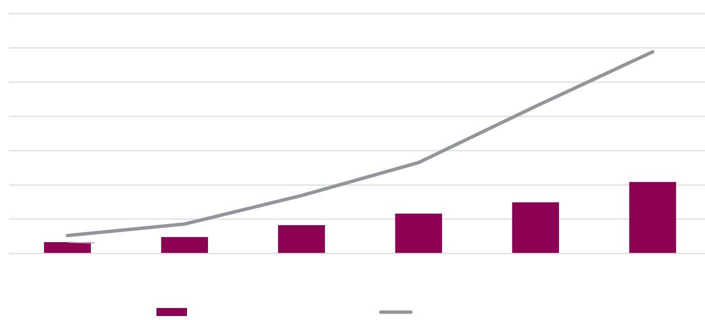


**Figure 2.14:** ICT Accounts—Transactions over the years

*Source:* RBI, Annual Reports of 2014, 2015, 2016, 2017, 2018 and 2019, Reserve Bank of India, Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

popular. Thus ATM numbers at the end of March 2019 of 2,04,291 were substantially lower than the figures for the two preceding years. However, other players, such as SFBs and payments banks, have brought about small additions to the ATM numbers.

### *Impressive Increase in Number and Volume of ICT Transactions*

The number of Information and Communication Technologies (ICT) transactions by BCs continues to register an impressive increase. During 2018–19, the number of ICT transactions through BCs was in excess of 2.08 billion, as against 1.49 billion during the previous year—a 40 percent increase. Equally impressive has been the value of transactions in these accounts, which reached Rs 5,884 billion during 2018–19, i.e., an increase of over 37 percent (Fig. 2.14). (However, it still represented only a very small fraction of the ICT transactions of the banking system as evidenced by the fact that the total number of retail digital transactions reached 33.06 billion during 2018–19.)

Thus, it will be seen that the parameters of financial inclusion reflect uneven growth with certain parameters reaching saturation and others in the expansion phase with still others giving way to more advanced and efficient technological and digital devices and channels. Apart from the data and parameters covered above, various institutional and technological innovations have been introduced by banks, in pursuance of their financial inclusion plans and their corporate strategies. This has resulted in a highly diversified array of products and infrastructural elements developed, even as they have adopted a range of fixed and mobile delivery channels on the supply side, while at the same time facilitating access of potential clients through financial literacy centres and other devices to help the underserved segments of the population to access financial services. The host of recent measures undertaken by RBI and NABARD to facilitate the financial inclusion are discussed in Chapter 3.

## REGIONAL RURAL BANKS—MERGER AND CONSOLIDATION UNDERWAY

Regional Rural Banks, in view of their origins and mission thrust in favour of the weaker sections of society continue to have a special place in priority sector lending and inclusive finance and have been at the forefront of innovation and implementation of programmes for this purpose. Though RRBs were initially established to provide credit in rural areas primarily for the BPL population, over the years, recapitalisation and reorientation towards profitable functioning has enabled them both in improving profitability as also relatively shifting from their original focused mission. A process of amalgamation since 2005 had brought down the number of RRBs to 56 at the end of March 31, 2018 and to 53 by March 31, 2019. It is expected that in the process of amalgamation their numbers will be further reduced to 45 by the end of 2019–20 (Annual Report NABARD, 2018–19) with the longer-term objective to have only one consolidated RRB for all except the largest states.

### Recapitalisation and Amalgamation of RRBs—Work in Progress

Three simultaneous processes of rationalisation and consolidation of RRBs are under way, namely, amalgamation, recapitalisation and privatisation/ commercialisation through dilution of the capital ownership structure, though there appears to be less movement on the latter during 2018–19.[24] Nevertheless, there remains the unanswered question of how these processes could reinforce the original mandate of the RRBs or whether that space is to be opened up for newer entities.

A proposal for the recapitalisation of 10 RRBs, namely, Odisha Gramya Bank, Utkal Grameen Bank, Madhyanchal Gramin Bank, Vidharbha Konkan, Ellaquai Dehati Bank, Nagaland Rural Bank, Bangiya Gramin Vikash Bank, Sutlej Gramin Bank, Assam Gramin Bank and Uttar Bihar Gramin Bank was sent by NABARD to Government of India. The total amount requested for recapitalisation was Rs 10.59 billion with a 50 percent contribution from the Central government. During 2018–19, recapitalisation assistance of Rs 1.08 billion was released to four RRBs, namely, Madhyanchal Gramin Bank (Rs 467.3 million), Utkal Grameen Bank (Rs 578.7 million), Nagaland Rural Bank (Rs 9.3 million) and Arunachal Pradesh Rural Bank (Rs 24.7 million) by Government of India.[25] Rs 2.35 billion has been provided towards recapitalisation of the RRBs in the budget for 2019–20 to meet their regulatory requirements.

NABARD provided extensive inputs to the Government of India for building the road map for Phase III of the amalgamation of RRBs initiated in 2018–19, which aims to reduce the number of RRBs in India to 38–40 (the count was at 53 as on March 31, 2019). During the year the Bihar Gramin Bank and the Madhya Bihar Gramin Bank were merged to form the Dakshin Bihar Gramin Bank in December 2018, whereas in the Punjab, the Malwa Gramin Bank and the Sutlej Gramin Bank were amalgamated in January 2019 into the Punjab Gramin Bank to form one entity. In February 2019, Department of Financial Services (DFS), Government of India (GoI) also approved the merger of two RRBs in Karnataka—Kaveri Grameena Bank and Pragathi Krishna Grameena Bank. Canara Bank will be the sponsor bank for the merged entity.[26] Subsequently, two RRBs of Madhya Pradesh, namely, Central MP Gramin Bank and Narmada Jhabua Grameen Bank have been merged to form the Madhya Pradesh Grameen Bank on April 1, 2019. Finally, a merger of RRBs in Telangana and Andhra Pradesh will bring down the number of RRBs in the two states from five to three—one for Telangana and two for Andhra Pradesh—during the year 2019–20. The Andhra Pradesh Grameen Vikas Bank (APGVB) would be merged with the Telengana Grameen Bank. While the Andhra Pragathi Grameena Bank is likely to continue in Andhra Pradesh, the second RRB in that state will emerge from a three-way merger of APGVB, Saptagiri Grameena Bank and Chaitanya Godavari Grameena Bank.[27] Amalgamation of RRBs within a state has been carried out with a view to enable RRBs to minimise their overhead expenses, optimise the use of technology, enhance the capital base and area of operation and increase their exposure.[28]

### RRB Performance—Diminished Profitability Due To Higher Provisioning for Employee Pensions

As of March 2019, the RRBs had a branch network of 23,397, deposits of Rs 4,344 billion and gross loan outstanding of Rs 2,808 billion (Table 2.8). Low cost deposit mobilisation (Current Accounts and Savings Accounts (CASA) deposits) was 54 percent. 40 RRBs were in profit with an overall profit of Rs 18.81 billion. However, 13 RRBs incurred losses aggregating to Rs 21.43 billion. Therefore, RRBs as an agency earned losses of Rs 2.62 billion.[29] This compares with a net profit of Rs 15.01 billion during the previous year and indeed is the first time where the RRBs as a whole have registered a net loss over the past several years.

**Table 2.8: Performance of RRBs Over the Years (Figures for March 31 of each year)**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| No. of RRBs | 82 | 64 | 57 | 56 | 56 | 56 | 56 | 53 |
| No. of branches | 16,914 | 17,867 | 19,082 | 20,024 | 20,924 | 21,593 | 21,747 | 23,397 |
| Net profit (Rs. billion) | 18.86 | 22.73 | 26.94 | 29.21 | 22.06 | 29.49 | 15.01 | -2.62 |
| Profit/loss making RRBs | 79/3 | 63/1 | 57/0 | 51/5 | 50/6 | 50/6 | 45/11 | 40/13 |
| Deposits (Rs. billion) | 1,863 | 2,054 | 2,333 | 2,730 | 3,135 | 3,718 | 4,005 | 4,344 |
| Loans & Advances (Rs. billion) | 1,130 | 1,359 | 1,589 | 1,810 | 2,065 | 2,286 | 2,527 | 2,808 |
| CD ratio (%) | 63.3 | 64.82 | 66.56 | 66 | 66 | 61 | 63.09 | 65 |
| Share of CASA in deposits (%) | 58.51 | 57 | 56.88 | 52 | 51 | 53 | 53 | 54 |
| Share of Priority Sector Advances (PSAs) (%) | 80 | 86 | | 84 | 87 | 90 | 90 | 91 |
| Share of advances to agriculture to total (%) | 53 | 63 | | 59.5 | 64.3 | 68 | 69 | 70 |
| Share of advances to SF/MF (%) | | | | | 42.31 | 44.97 | 45.9 | |
| Advances to Weaker Sections (%) | | | | | 52.61 | 54.73 | 55.85 | |
| Gross NPA (%) | 5.03 | 6.08 | 6.09 | 6.15 | 6.58 | 7.71 | 9.47 | 10.7 |
| Net NPA (%) | 2.98 | 3.59 | 3.52 | | 3.94 | 4.73 | 3.77 | |

*Source:* Trend and Progress of Banking in India, Various Years. Mumbai: Reserve Bank of India, Financial Statements of RRBs, Mumbai: NABARD, Regional Rural Banks Key Statistics 2019, NABARD.

During the seven years since the last round of consolidation in 2012, profitability, though steady, had tended to stagnate with an increasing number of loss-making RRBs. Nevertheless, these unexpected overall losses can to a large extent be attributed to the increased provisioning for RRBs as a whole which went up from Rs 50.16 billion for the year 2018–19 to Rs 58.41 billion, necessitated by the fresh commitments which materialised following the pension scheme proposed by the Central Government by which all retired employees of RRBs would get pension with effect from April 2018.[30]

Though around 90 percent of the lending was directed at the priority sector, till the current year, RRBs had been able to show a creditable performance, especially as compared to commercial banks. However, the gross NPA percentage too has reached unprecedented levels in the recent past -10.7 percent as on March 31, as against 9.47 percent for the previous year.

The high proportion of CASA deposits has been a source of low-interest mobilisation of resources for RRBs but it has not resulted in increased lending to the target population. One of the disquieting features of RRB operations generally in respect of inclusive finance, which continues in the year under review, is the less than satisfactory credit-deposit ratio—which is no more than 65 percent, similar to earlier levels. Despite the access of RRBs to low-cost funds through their savings products, this has resulted in an investment pattern that favours investment in government securities and transfer of resources to the sponsor banks rather than in greater lending to the target population.[31] The advent of the SFBs is likely to challenge the dominance of the RRBs in both deposits and lending space in the rural areas and in serving the needs of agriculture, small and marginal farmers and the weaker sections.

## Steady Increase in Branch Network but Decline in Share of Rural Branches

The RRB branch network has been growing at a steady pace over the years. During 2018–19, there was a small increase in the number of branches, which reached 22,227 on March 31, 2019 (Fig. 2.15).

When we consider the distribution of RRB branches by location, the relative share in the overall banking network in 2019 has declined slightly from over 16 percent as on March 31, 2012 to 15 percent as on March 31, 2019 (Table 2.9). However, the share of RRBs in rural branches has declined to 30 percent in 2019 as compared to over 36 percent in 2012.[32]

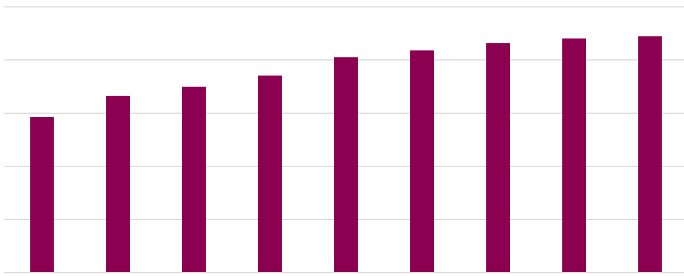


**Figure 2.15:** RRB Branch Network Growth Over the Years

*Source:* Bank Branch Statistics, DBIE RBI 2019, accessed on July 1, 2019 from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications

**Table 2.9: Distribution of RRB Branch Network by Location**

| Location | No. of Branches (2012) | Share of RRBs in the Banking Network (2012) | No. of Branches (2018) | No. of Branches (2019) | Share in Total Branches (2019) | Share of RRBs in the Banking Network (2019) |
|---|---|---|---|---|---|---|
| Rural | 12,263 | 36% | 15,644 | 15,325 | 68.95% | 30% |
| Semi Urban | 3,192 | 12% | 4,628 | 4,817 | 21.67% | 12% |
| Urban | 1,009 | 5% | 1,414 | 1,645 | 7.40% | 6% |
| Metro | 165 | 1% | 328 | 440 | 1.98% | 1% |
| Total | 16,629 | 16% | 22,014 | 22,227 | 100% | 15% |

*Source:* Bank Branch Statistics, DBIE RBI 2019, accessed on July 1, 2019 from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications

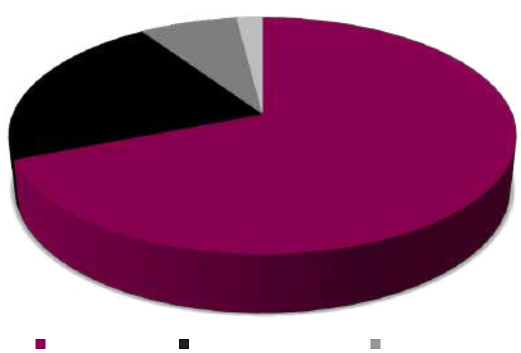


**Figure 2.16:** RRB Branch Network Location—2019

*Source:* Bank Branch Statistics, DBIE RBI 2019, accessed on July 1, 2019 from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications

Indeed, the share of RRBs in semi-urban, urban and metro locations has increased by a small percentage over the seven-year period. Fig. 2.16 gives the share of the RRBs by location as on March 31, 2019. Nearly 69 percent of the branches are in rural locations in 2019 as compared to about 74 percent in 2012.

Other parameters too suggest that RRBs are increasingly serving the urban and semi-urban clientele. The RBI has recently extended to RRBs the Branch Authorisation Policy for SCBs on opening of new place of business and transfer of existing places of business notified on April 6, 2017 which, among others, redefines banking outlets and unbanked rural centres in tier V and tier VI locations.[33]

## Priority Sector Portfolio of RRBs—Lending for Agriculture Dominates

Table 2.10 shows the purpose-wise break-up of credit accounts of RRBs, as of March 31, 2018.

While the PSL target of 75 percent for RRBs has consistently been exceeded, this has been as a result of a large percent of the portfolio being directed at agriculture. There was a small increase in the total bank credit outstanding to Rs 2,552.52 billion in 24.99 million accounts, as on March 31, 2018. This compares with an outstanding amount of Rs 2,297.04 billion in 24.12 million accounts, as of March 31, 2017. The share of agriculture in the number of accounts as on March 31, 2018 was 18.16 million or 72.7 percent of the total accounts and Rs 1,649.96 billion or about 64.6 percent of the total amount of bank credit outstanding from RRBs. Lending to other sub-sectors and categories was considerably smaller and scattered across loan purpose.

## Small Borrowal Accounts of RRBs—Decline in Share in Loan Outstanding Continues

Table 2.11 that presents data for the year ending March 31, 2018 has details of loans made to SBAs of RRBs (of up to Rs 2,00,000), further divided into two sub-categories—(i) up to Rs 25,000 and (ii) in the range between Rs 25,000 and Rs 2,00,000.

In the former sub-category of loans, there has been a steady decline in the number of such accounts, which stood at 5.02 million as on March 31, 2018. Indeed, the share of such accounts, of loan amount of less than Rs 25,000, has come down from 45 percent as on March 31, 2012, to a little over 20 percent, as on March 31, 2018. However, the loan accounts in the latter sub-category have steadily risen, as also their percentage to total accounts. Figs. 2.17 and 2.18 give the evolution of the share of SBAs of RRBs over the period 2012 to 2018, illustrating their declining share over the years.

If we consider the loan amount outstanding as on March 31, 2018, the share of the sub-category of loan amount less than Rs 25,000, is only a

**Table 2.10: Purpose-wise Break-up of Credit Accounts of RRBs as of March 31, 2018**

| Purpose | No. of Accounts (million) | % to Total | Amount Outstanding (Rs. billion) | % to Total |
|---|---|---|---|---|
| I. AGRICULTURE | 18.16 | 20.0 | 1,649.96 | 13.8 |
| 1. Direct Finance | 16.94 | 19.5 | 1,561.02 | 14.3 |
| 2. Indirect Finance | 1.22 | 29.9 | 88.94 | 8.2 |
| II. INDUSTRY | 0.70 | 8.5 | 86.63 | 0.3 |
| III. TRANSPORT OPERATORS | 0.06 | 2.2 | 11.87 | 0.6 |
| IV. PROFESSIONAL AND OTHER SERVICES | 0.57 | 9.2 | 75.76 | 1.2 |
| V. PERSONAL LOANS | 2.03 | 3.0 | 342.06 | 1.8 |
| 1. Housing | 0.54 | 6.4 | 156.33 | 1.6 |
| 2. Consumer Durables | 0.09 | 13.4 | 13.17 | 14.4 |
| 3. Vehicles | 0.14 | 1.8 | 29.02 | 1.3 |
| 4. Education | 0.10 | 3.9 | 24.02 | 3.1 |
| 6. Others | 1.15 | 6.1 | 119.53 | 2.3 |
| VI. TRADE | 1.61 | 12.8 | 145.41 | 1.7 |
| 1. Wholesale Trade | 0.09 | 9.2 | 8.90 | 0.2 |
| 2. Retail Trade | 1.51 | 13.1 | 136.50 | 3.2 |
| VII. FINANCE | 0.36 | 30.9 | 53.62 | 0.7 |
| VIII. ALL OTHERS | 1.51 | 21.9 | 187.22 | 7.2 |
| TOTAL BANK CREDIT | 24.99 | 12.7 | 2,552.52 | 2.9 |

*Source:* Basic Statistical Returns of SCBs in India Volume 47 (Table 5.5). Accessed from https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on June 21, 2019.

**Table 2.11: Details of Credit to Small Borrowal Accounts of RRBs over the Years**

| Year ending March 31 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| **Loan amount less than Rs. 25,000** | | | | | | | |
| Number of accounts (million) | 9.33 | 7.77 | 6.89 | 6.33 | 6.05 | 5.45 | 5.02 |
| Percentage to total accounts | 44.99 | 38.32 | 32.07 | 28.48 | 25.92 | 22.59 | 20.09 |
| Amount outstanding (Rs. billion) | 162.22 | 142.52 | 108.92 | 102.07 | 109.83 | 89.23 | 83.16 |
| Percentage to total Outstanding | 13.94 | 10.49 | 6.86 | 5.63 | 5.31 | 3.88 | 3.26 |
| Loan amount Rs. 25,000 to Rs. 2,00,000 | | | | | | | |
| Number of accounts (million) | 10.29 | 10.95 | 12.6 | 13.62 | 14.69 | 15.59 | 16.44 |
| Percentage to total accounts | 49.63 | 53.98 | 59 | 61.29 | 62.89 | 64.63 | 65.81 |
| Amount outstanding (billion) | 612.33 | 696.36 | 812.91 | 912.86 | 1,032.21 | 1,107.14 | 1,200.55 |
| Percentage to total Outstanding | 52.61 | 51.26 | 51 | 50.37 | 49.90 | 48.20 | 47.03 |
| **Total up to Rs. 200,000** | | | | | | | |
| Number of accounts (million) | 19.62 | 18.72 | 19.49 | 19.95 | 20.75 | 21.04 | 21.46 |
| Percentage to total accounts with RRBs | 94.62 | 92.30 | 91 | 89.77 | 88.80 | 87.23 | 85.90 |
| Amount outstanding (billion) | 774.56 | 838.89 | 921.84 | 1,014.93 | 1,142.03 | 1,196.37 | 1,283.71 |
| Percentage to total outstanding with RRBs | 66.55 | 61.75 | 58.02 | 56.00 | 55.21 | 52.08 | 50.29 |

*Source:* Basic Statistical Returns of SCBs in India for the years 2012, 2013, 2014 and 2015, 2016, 2017 and 2018. Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

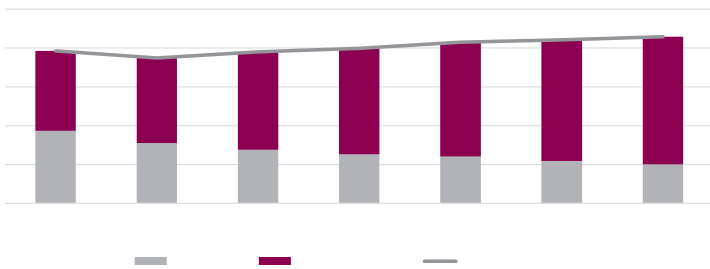


**Figure 2.17:** Growth of Small Borrowal Accounts (No. in million)

*Source:* Basic Statistical Returns of SCBs in India for the years 2012, 2013, 2014 and 2015 2016, 2017 and 2018. Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

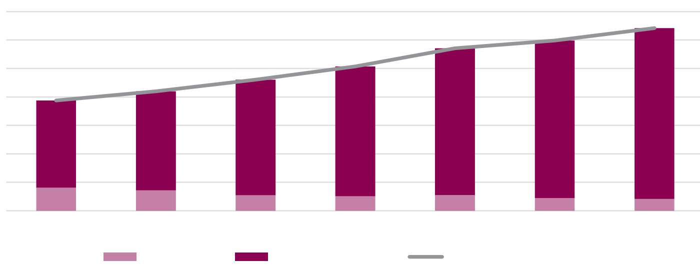


**Figure 2.18:** Growth of Outstanding Credit to Small Borrowal Accounts of RRBs (in Rs. billion)

*Source:* Basic Statistical Returns of SCBs in India for the years 2012, 2013, 2014 and 2015, 2016, 2017 and 2018 . Mumbai: Reserve Bank of India, 2019. Accessed on July 3, 2019.

little over 3 percent for all RRBs. Loan accounts having amount outstanding of Rs 25,000–Rs 2,00,000 constituted over 47 percent of the total outstanding of RRBs. Taken together, though the total small borrowal accounts of up to Rs 2,00,000 constituted nearly 86 percent of total accounts of RRBs as of March 31, 2018, their percentage share in total outstanding of RRBs was only a little over 50 percent.

## Deposit Accounts of RRBs—Term Deposits Significant, Share of Women Clients Rising

Table 2.12 shows the classification of deposits of RRBs according to location of branches as of March 31, 2018. The bulk of deposit accounts with RRBs were savings accounts, which number over 216 million, with deposits of Rs 2,010 billion. Term deposits were held in 19.21 million accounts, with deposits of Rs 1,807 billion. Thus, though the numbers of savings accounts are more than 10 times the numbers of deposit accounts, the amount in term deposits was nearly 90 percent of the amount in savings deposits accounts.

Figures 2.19 and 2.20 give the distribution of savings deposits in RRBs by population group. The main share was that of rural deposits accounts, which numbered nearly 167.5 million and accounted for deposits of Rs 2123 billion. Interestingly, rural deposit accounts constituted over 70 percent of total deposit accounts, but only 54 percent of total amount in these accounts. This pattern is virtually unchanged from that observed in the previous year. On the other hand, urban and metro accounts accounted for 6.2 percent of accounts but contributed nearly 20 percent of deposits of RRBs as on March 31, 2018.

Finally, as far as the gender-disaggregated distribution of deposit accounts in RRBs is concerned (Table 2.13), it displays a somewhat expected pattern, with ownership of deposit accounts by men predominating, though there appears to be a small improvement in the share of women as of March 2018 as compared to a year earlier. Male account holders held 49.3 percent of the accounts with females owning 25.5 percent and institutional holders owning 25.2 percent of RRB deposit accounts. However, the share in the deposit amount held by women was only slightly lower than their share in the number of deposit accounts as on March 31, 2018 (Fig. 2.21).

**Table 2.12: Deposits of RRBs Classified according to the Location of Branches as of March 2018 (Accounts in thousands, Amount in Rs. billion)**

| Type of Deposits | | Current | | Savings | | Term | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| Population Group | No. of Offices | No. of Accounts | Amount | No. of Accounts | Amount | No. of Accounts | Amount | No. of Accounts | Amount |
| Rural | 15,082 | 1,338 | 39 | 1,54,527 | 1,259 | 11,632 | 827 | 1,67,498 | 2,124 |
| Semi Urban | 4,736 | 818 | 30 | 50,033 | 507 | 4,890 | 466 | 55,741 | 1,003 |
| Urban | 1,560 | 353 | 21 | 9,864 | 203 | 2,311 | 403 | 12,528 | 627 |
| Metro | 427 | 51 | 4 | 1,916 | 42 | 382 | 111 | 2,348 | 158 |
| All India | 21,805 | 2,560 | 94 | 2,16,340 | 2,010 | 19,214 | 1,807 | 2,38,114 | 3,911 |

*Source:* Basic Statistical Returns of SCBs in India Volume 47, Mumbai: RBI. RBI Data warehouse at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on July 4, 2019.

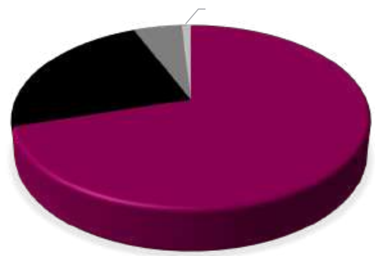


**Figure 2.19:** Total Number of Deposit Accounts of RRBs according to Population Group (2018) in '000s

Source Basic Statistical Returns of SCBs in India Volume 47 Mumbai: RBI. RBI Data warehouse at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on July 4, 2019.

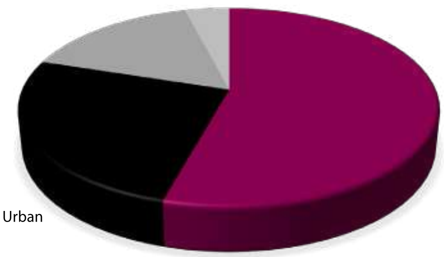



**Figure 2.20:** Total Deposit Amount of RRBs according to Population Group (2018) in Rs. billion

*Source:* Basic Statistical Returns of SCBs in India Volume 47 Mumbai: RBI. RBI Data warehouse at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on July 4, 2019.

**Table 2.13: Deposits of RRBs Classified according to Ownership of March 2017 and 2018 (Accounts in million, Amount in Rs billion)**

| Details | Mar-17 | | Mar-18 | | Mar-17 | | Mar-18 | |
|---|---|---|---|---|---|---|---|---|
| | Accounts | % of Total | Accounts | % of Total | Amount | % of Total | Amount | % of Total |
| Male | 107 | 48 | 113 | 47.3 | 1878 | 51.4 | 1929 | 49.3 |
| Female | 70 | 31 | 76.54 | 32.1 | 860 | 23.5 | 998 | 25.5 |
| Institutions | 48 | 21 | 48.92 | 20.5 | 919 | 25.1 | 984 | 25.2 |
| Total | 225 | 100 | 238 | 100.0 | 3657 | 100.0 | 3911 | 100.0 |

*Source:* Basic Statistical Returns of SCBs in India Volume 47 (Table 1.20). Mumbai: RBI (2019). RBI Data warehouse at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on July 2, 2019.

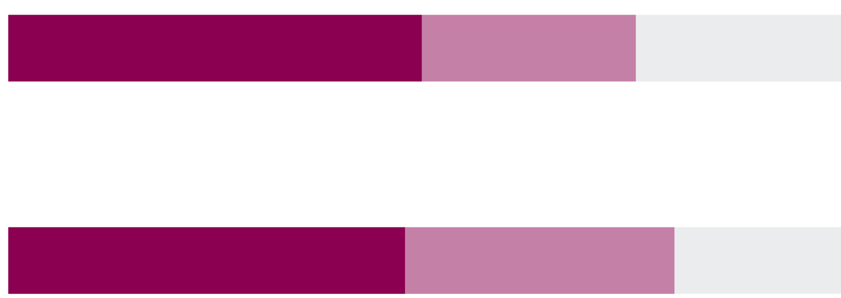


**Figure 2.21:** Deposits of RRBs Classified According to Percentage of Ownership—March 2018

*Source:* Basic Statistical Returns of SCBs in India Volume 47 Mumbai: RBI (2019). RBI Data warehouse at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications, accessed on July 4, 2019.

## RRBs and the Inclusive Finance Agenda

The RRBs, perhaps even more than the commercial banks, have been deeply involved in financial inclusion and last-mile innovation by virtue of being closer to the grassroots both in view of their mission as well as their diversified rural presence.

As in the case of commercial banks, RRB schemes, campaigns and products represent a rich diversity in design and intent often led by the strengths and products of the sponsor bank. They have been, often, ahead of commercial banks in terms of institutional and technological innovation. At the same time, as the data shows as well, the RRBs have increasingly started to serve the urban and semi-urban clientele and in recent years have sought for a level playing field with the commercial banks and greater freedom from priority sector commitments and other restrictions placed on their operations.

The move for the further merger of RRBs, however, a year ago, had been described by the All India RRB Officers Association as a regressive move which will create umpteen problems for rural people and hamper efforts towards providing better banking services for them.[34] It instead favoured recapitalisation and consolidation through a merger of RRBs with the respective sponsor banks.[35] It is not clear to what extent the mergers are an outcome of consultation with the staff or even the leadership of the respective RRBs. However, some of these apprehensions are quite real even as in the name of technology, efficiency and economies of scale the amalgamations are being pushed through. As a result, the RRBs could soon find themselves ending up as neither regional nor rural banks.

Hence, the role of RRBs in the emerging financial architecture remains a contested one with new players entering the space hitherto occupied by them as they themselves are distanced from traditional clientele and mandate. In fact, it would be appropriate for the RRBs to re-examine the place of inclusive finance in their operations and lending portfolio. Through institutional innovation they could form partnerships with MFIs and other agents, to provide services to the poor segment by adoption of the increasingly organised and viable BC channel as well as provision of wholesale funding to MFIs. Indeed, commercial banks, both in public and private sectors, have utilised these channels to serve this segment. There is a need for RRBs to revisit serving SHGs through bank linkage, where the experience of both RRBs and commercial banks has shown that a critical mass of such clients could be the source of viable operations. RRBs could, in this manner, reinstate their development-oriented role as well as more rigorously pursue the objectives and programmes of financial inclusion.

## RURAL COOPERATIVES—LITTLE PROGRESS AND NO CLEAR DIRECTION

The co-operative banking structure, particularly its rural component, constitutes a very widespread but relatively neglected sector within the banking sphere. Operating through state and district level banks and Primary Agricultural Co-operative Societies (PACS), it is nevertheless an integral part of the system. As of March 31, 2018, there were 33 State Co-operative Banks (StCBs) and 363 District Central Co-operative Banks (DCCBs) operating in the country, which along with 95,240 PACS constitute a massive delivery channel for financial services.

### PACS—Viability Concerns and Untapped Potential

The National Federation of State Co-operative Banks Ltd. (NAFSCOB) provides data for PACS, which is the forum to address issues related to co-operative credit banking.

As observed from Table 2.14, total number of PACS was 95,240, which is more or less at the same level as at the end of the previous year, i.e., March 2017. Viable PACS constituted 64,380 and potentially viable PACS 17,970. There were 8,850 PACS that were operating as multi-purpose societies. The dormant and defunct PACS totalled 4,250. Though these are only modest levels of performance, the fair proportion of viable PACS thus constitutes a potential that can be developed for the delivery of rural financial services.

**Table 2.14: Number of PACS as of March 2018 (No. in thousands)**

| Region | Total PACS | Viable PACS | Potentially Viable PACS | Dormant PACS | Defunct PACS | Others |
|---|---|---|---|---|---|---|
| Central | 13.39 | 10.78 | 1.99 | 0.39 | 0.16 | 0.07 |
| Eastern | 18.57 | 14.12 | 2.86 | 0.58 | 0.41 | 0.59 |
| North-Eastern | 3.40 | 1.76 | 0.46 | 0.68 | 0.40 | 0.10 |
| Northern | 15.52 | 6.31 | 1.96 | 0.12 | 0.11 | 7.04 |
| Southern | 14.57 | 10.10 | 3.25 | 0.38 | 0.13 | 0.71 |
| Western | 29.80 | 21.31 | 7.45 | 0.56 | 0.34 | 0.14 |
| Total | 95.24 | 64.38 | 17.97 | 2.71 | 1.54 | 8.64 |

*Source:* Performance of PACS 2017-18 at http://nafscob.org/basicdata/PACS-2018.pdf, accessed on August 15, 2019.

**Table 2.15: Membership Details of PACS as of March 2018 (No. in millions)**

| Region | Membership | Scheduled Castes | Scheduled Tribes | Small Farmers | Rural Artisans | Marginal Farmers and Others |
|---|---|---|---|---|---|---|
| Central | 8.00 | 2.93 | 1.15 | 2.34 | 0.28 | 1.30 |
| Eastern | 28.44 | 2.55 | 3.40 | 7.96 | 0.72 | 13.81 |
| North-Eastern | 4.62 | 0.67 | 1.06 | 1.11 | 0.38 | 1.39 |
| Northern | 18.28 | 1.51 | 1.02 | 4.51 | 0.63 | 10.62 |
| Southern | 53.71 | 6.10 | 1.70 | 23.26 | 4.73 | 17.92 |
| Western | 17.49 | 1.11 | 1.11 | 4.51 | 0.53 | 10.23 |
| Total | 130.55 | 14.88 | 9.44 | 43.70 | 7.25 | 55.27 |

*Source:* Performance of PACS 2017-18 at http://nafscob.org/basicdata/PACS-2018.pdf, accessed on August 15, 2019.

When we consider membership levels of PACS (Table 2.15), it totals to 130.55 million, with nearly 99 million members or over 75 percent from the small and marginal farmer category and a further 5 percent membership, i.e., 7.25 percent of rural artisans. There is also a fair percentage of scheduled caste and scheduled tribe members. The largest number of PACS is to be found in the western region, though it is the southern region which has by far the largest membership at 53.71 million, followed by the eastern region with 28.44 million members. However, the number of borrowing members was relatively small. According to the NABARD, Annual Report 2018–19, only 40 percent (5.2 million) of the total of the 131.2 million members of PACS as on March 31, 2017 were borrowing members.

Table 2.16 shows the position in respect of advances and overdues of PACS as of March 2018. Loans disbursed during the year were over Rs 2,037 billion and loans outstanding at the end of the year were Rs 1,696.30 billion. The overdue percentage of the country as a whole, while quite high at 24.35 percent, represents a small improvement for the previous year's figure of 26.58 percent. (These figures compare unfavourably with the overdues percentage which was only 19 percent on March 31, 2016.) However, performance varied considerably across regions, ranging from about 11 percent in the southern region to over 29 percent in the northern region; and still higher in the under-served north-eastern region. A negative impact on repayments post-demonetisation that was experienced in the cooperative sector during 2016–17 appears to have carried over to the financial year 2017–18 as well. Expectations of loan waivers during an election year too would have served to affect performance.

Table 2.17 details the performance of PACS and the physical infrastructure as of March 2018. During 2017–18, 46,405 PACS were making profits and 37,838 PACS (over 45 percent of reporting PACs)

**Table 2.16: Position of Advances and Overdues of PACS as of March 2018 (Rs. in billion)**

| Region | Loans Disbursed | Loans Outstanding | Overdue Percentage |
|---|---|---|---|
| Central | 55.35 | 55.14 | 31.20 |
| Eastern | 84.82 | 80.31 | 29.63 |
| North-Eastern | 0.67 | 0.82 | 64.28 |
| Northern | 399.49 | 310.12 | 49.31 |
| Southern | 1,264.63 | 1,009.90 | 10.99 |
| Western | 268.25 | 240.01 | 29.78 |
| Total | 2,073.22 | 1,696.30 | 24.35 |

*Source:* Performance of PACS 2017-18 at http://nafscob.org/basicdata/PACS-2018.pdf, accessed on August 15, 2019.

**Table 2.17: Details of Performance of PACS and Physical Infrastructure, March 2018**

| Region | Profit making PACS | Loss making PACS | PACS with Godowns | Number of Villages covered | Staff Strength | Societies with full time Secretary |
|---|---|---|---|---|---|---|
| Central | 6,689 | 4,097 | 12,007 | 1,67,153 | 24,521 | 4,095 |
| Eastern | 4,272 | 9,800 | 11,459 | 1,94,105 | 37,951 | 12,011 |
| North-Eastern | 739 | 703 | 1,128 | 32,208 | 8,373 | 2,156 |
| Northern | 10,860 | 4,470 | 5,656 | 1,22,902 | 22,769 | 3,722 |
| Southern | 9,072 | 4,739 | 12,343 | 80,210 | 65,265 | 13,363 |
| Western | 14,773 | 14,029 | 9,346 | 42,764 | 13,408 | 6,549 |
| Total | 46,405 | 37,838 | 51,939 | 6,39,342 | 1,72,287 | 41,896 |

*Source*: Performance of PACS 2017-18 at http://nafscob.org/basicdata/PACS-2018.pdf, accessed on August 15, 2019.

were going into losses, which represent a virtually unchanged performance as compared to the previous year. The proportion of loss-making PACS was particularly high in the eastern and western regions, with the northern and southern regions being the better performers. The PACS covered 639,342 villages, which represents an increase of over 5 percent over the previous year, and appears to approach close to full coverage of the villages in the country. The staff employed by them numbered to 172.287; 51,939 PACS had godowns as well. Though the performance of PACS has not been satisfactory, it is abundantly clear that they contribute significantly to the provision of short-term credit facility to agriculture and other related services. NABARD provides both financial as well as technical support to this sector.

## State and District Central Co-operative Banks (DCCBs)—Uneven Performance

The performance of State Co-operative Banks (StCBs) during 2016–17 and 2017–18 is presented in Table 2.18.

As on March 31, 2018, there were 33 StCBs in India, of which 20 have a three- tiered structure and the rest were two-tiered. While the deposits of the StCBs grew only marginally during 2017–18, the loans and advances grew moderately. During 2017–18, 32 out of 33 StCBs earned profit aggregating Rs 10.37 billion while one StCB, namely, Assam StCB incurred a loss of Rs 70 million. Goa and Jharkhand StCBs, which were in the red during 2016–17, earned profit during 2017–18. As on March 31, 2018, only Goa StCB and Manipur StCB had Capital to Risk-weighted Assets Ratio (CRAR) of less than the regulatory minimum of 9 percent. The accumulated losses of StCBs declined from Rs 6.05 billion as on March 31, 2017 to Rs 5.27 billion as on March 31, 2018.

**Table 2.18: Performance Indicators of StCBs (Rs. in billion)**

| | 2016-17 | 2017-18 | % Change |
|---|---|---|---|
| Number of Banks | 33 | 33 | 0.0 |
| Share Capital | 51.61 | 55.42 | 7.4 |
| Reserves | 102.94 | 112.4 | 9.2 |
| Deposits | 1,220.39 | 1,235.34 | 1.2 |
| Borrowings | 808.92 | 721.7 | -10.8 |
| Total Loans Outstanding | 1,270.48 | 1,319.34 | 3.85 |
| Number of Banks in Profit | 31 | 32 | |
| Amount of Profit | 9.70 | 10.37 | |
| Number of Banks in Loss | 2 | 1 | |
| Amount of Losses | 0.18 | 0.07 | |

*Source:* NABARD Annual Report 2018 and 2019.

The comparative performance of DCCBs during 2016–17 and 2017–18 is given in Table 2.19. The number of DCCBs declined from 370 to 363 during 2017–18 with the merger of seven DCCBs of Jharkhand with the Jharkhand StCB. DCCBs as a whole reported a small increase in profits from 16.67 million during 2016–17 to 17.44 million in 2017–18, even as deposits rose by 5 percent to nearly Rs 3,480 billion and loans outstanding by 10 percent to over Rs 2,770 billion. 311 DCCBs were in profit, with 52 DCCBs operating in losses. Net NPAs of the DCCBs as of March 31, 2018 were 11.2 percent, which were only fractionally higher than the average figure of 10.98 percent for all SCBs as on March 31, 2018.

## Co-operative Banks and Financial Inclusion

A major complaint of NABARD and NAFSCOB is that the co-operative banking system does not get its due recognition as an agent of financial inclusion. Since PACS are not considered to be banking entities within the RBI framework, the co-operative banking structure is not added in the FIPs of banks; StCBs and DCCBs are also not included in financial inclusion initiatives like mobile banking and internet banking. As noted in the Inclusive Finance Report 2018, NABARD data August 31, 2018, reported that 363 co-operative banks were on the CBS (Core Banking Solution) system and operated 2,343 rural ATMs. It would appear that only when PACS are brought within the ambit of CBS that the co-operative banking structure can be integrated within the banking system.

Further, while the amalgamation and merger of RRBs has picked up pace once again, the process of improving the functioning of co-operatives and delayering the multi-tier structure does not appear to be making much progress. Co-operative reform pertains to the merging of the upper tiers in the three-tier system rather than reform of PACS. The question of restructuring is a prerogative of the state government through the Co-operative Societies Act. It is understood that the contested merger of the higher co-operative institutions in Kerala, the amendment of the Kerala Co-operative Societies Act, 1969 by the state through 13 out of 14 District Co-operative Banks (DCBs) (excluding Malappuram DCB) voting for a merger with the proposed Kerala Bank[36] is understood to be awaiting the response from the RBI. The RBI had also given approval for merging six DCCBs with Chhattisgarh State Co-operative Bank—the apex banking entity in the state in October 2018[37] but the fate of the merger is unclear following the change of government in the state.

**Table 2.19: Performance Indicators of DCCBs (Rs. in billion)**

| | 2016-17 | 2017-18 | % Change FY17-18 |
|---|---|---|---|
| Number of Banks | 370 | 363 | -2 |
| Share Capital | 186.74 | 196.93 | 5 |
| Reserves | 197.66 | 209.31 | 6 |
| Deposits | 3,309.04 | 3,479.67 | 5 |
| Borrowings | 914.38 | 903.12 | -1 |
| Total Loans Outstanding | 2,526.55 | 2,770.79 | 10 |
| Number of Banks in Profit | 315 | 311 | |
| Amount of Profit | 16.67 | 17.44 | 5 |
| Number of Banks in Loss | 55 | 52 | |
| Amount of Losses | 7.57 | 8.93 | 18 |
| Gross NPA | 264.15 | 308.94 | 17 |
| NPA % of Loan Outstanding as on 31st March | 10.45 | 11.2 | |

*Source:* NABARD, NABARD Annual Report 2018 and 2019 (Mumbai: NABARD, 2018, 2019).

NABARD has been attempting to persuade various states to undertake the delayering exercise being attempted by the states, as mentioned above, through the merger of DCCBs and state central co-operative banks. However, DCCBs are highly politicised power centres in most states that are generally resisting such change. Political parties too are placed on different sides on this issue. During the past year, elections and change of governments have also been a factor in the slow progress being made. Co-operatives have a long history of political interference, accumulated losses and inefficient functioning but it is not clear whether this move by itself would constitute a satisfactory resolution of on-going problems in all cases.

Apart from the above, there is disappointment within NAFSCOB at the absence of positive policy pronouncements favouring the co-operative sector, particularly in the budget for 2019–20. Some of the steps suggested by them to ensure that the short-term co-operative credit institutions can be healthy, viable and member-driven are listed as under:[38]

- Recapitalisation assistance to DCCBs on the lines of Revival Package recommended to Short Term Co-operative Credit Structure (STCCS) by the Task Force on Revitalisation of Cooperative Credit Institutions.
- Completion of the process of implementation of Revival Package for PACS.
- Implement computerisation of PACS as announced in the Union Budget of 2017–18.
- Support the implementation of a roadmap to enhance the share of co-operatives in agricultural credit.

## CONCLUDING OBSERVATIONS ON BANKS AND INCLUSIVE FINANCE

The banking system in India is currently in a state of flux. Commercial banks, in particular, the PSBs, are in the process of consolidation and wide-ranging reform, the outcomes of which are not easy to predict. Though PSBs have played a crucial role in the spread of the banking system, and in more recent years, in the implementation the government's financial inclusion strategy, their NPAs and operational losses and the uncertainty about their functioning continue to be a source of concern. In terms of their commitments to priority sector lending, and to small borrowers and depositors, the performance has been no more than satisfactory. Indeed, the poor credit-deposit ratio of both SCBs and RRBs, particularly in the rural sector, reflects a serious shortcoming from the perspective of inclusive banking. The mega consolidation of leading PSBs, while based on principles of scale and efficiency, does not carry with it a clear path for greater financial inclusion.

There is also evidence that RRBs are increasingly serving urban clients and are less focused on rural areas. They have also shown a decline in their small borrowal accounts. RRBs too are in the process of rapid amalgamation, which is changing the complexion of the rural financial structure and could distance them from their traditional clientele even as new players such as small finance banks enter into the space that was occupied by them.

The co-operative system continues to be characterised by a large proportion of non-viable PACS, and plans for merger of the upper tiers of the co-operative system in various states do not appear to have made much progress. Though it constitutes a widespread network covering the vast majority of villages that can play a significant role in the last-mile delivery of financial services, it has as yet not been fully integrated with the banking system.

Overall, there are uncertainties about the future of the banking system particularly state-run banks and their sustained efforts at financial inclusion. Nevertheless, formal financial institutions are no strangers to lending to the poor and disadvantaged sections. While PSBs and even RRBs may have, over the years, strayed from their social mission, with the possibility of using information technology and low-cost agents with good local knowledge even private banks are beginning to view such financing as profitable. In fact, the formal sector through its extensive network can provide the last-mile delivery of the whole suite of financial services that have been developed for the weaker sections of society. The evolving BC delivery models provide ample scope and space for banks partnerships to deliver loans at moderate interest rates, as also provide savings and other financial services, with government infrastructural support, as part of the larger financial inclusion drive. The progress of these programmes is discussed in the following chapter.

**ANNEXURE 2.1: Profitability of Public Sector Banks (in Rs. billion)**

| S. No. | Banks | As on March 31 | | |
|---|---|---|---|---|
| *I* | *NATIONALISED BANKS* | **2017** | **2018** | **2019** |
| 1 | Allahabad Bank | (3.14) | (46.74) | (83.34) |
| 2 | Andhra Bank | 1.74 | (34.13) | (27.86) |
| 3 | Bank of Baroda | 13.83 | (24.32) | 4.34 |
| 4 | Bank of India | (15.58) | (60.44) | (55.47) |
| 5 | Bank of Maharashtra | (13.73) | (11.46) | (47.84) |
| 6 | Canara Bank | 11.22 | (42.22) | 3.47 |
| 7 | Central Bank of India | (2439) | (5105) | (5641) |
| 8 | Corporation Bank | 5.61 | (40.54) | (63.33) |
| 9 | Dena Bank | (8.64) | (19.23) | (63.39) |
| 10 | Indian Bank | 14.06 | 12.59 | 3.22 |
| 11 | Indian Overseas Bank | (34.17) | (63.00) | (37.38) |
| 12 | Oriental Bank of Commerce | (10.94) | (58.72) | 0.55 |
| 13 | Punjab & Sind Bank | 2.01 | (7.44) | (5.43) |
| 14 | Punjab National Bank | 13.25 | (122.83) | (99.75) |
| 15 | Syndicate Bank | 3.59 | (32.23) | (25.88) |
| 16 | UCO Bank | (18.51) | (44.36) | (43.21) |
| 17 | Union Bank of India | 5.55 | (52.47) | (29.47) |
| 18 | United Bank of India | 2.20 | (14.54) | (23.16) |
| 19 | Vijaya Bank | 7.50 | 7.27 | (24.34) |
| | **TOTAL OF 19 NATIONALISED BANKS** | **(48.52)** | **(705.85)** | **(674.70)** |
| *II* | *STATE BANK OF INDIA (SBI)* | 104.84 | (65.47) | 8.62 |
| *III* | *ASSOCIATES OF SBI* | | | |
| 1 | State Bank of Bikaner & Jaipur | (13.68) | | |
| 2 | State Bank of Hyderabad | (27.60) | | |
| 3 | State Bank of Mysore | (20.06) | | |
| 4 | State Bank of Patiala | (35.79) | | |
| 5 | State Bank of Travancore | (21.52) | | |
| | *Total of 5 Associates [ III ]* | (118.67) | | |
| | **TOTAL OF STATE BANK GROUP [II + III]** | (13.83) | | |
| *IV* | *OTHER PUBLIC SECTOR BANKS* | | | |
| 1 | IDBI Ltd. | (51.58) | (82.38) | |
| 2 | Bharatiya Mahila Bank | 0.04 | | |
| | **TOTAL OF PUBLIC SECTOR BANKS [I+II+III+IV ]** | **(113.88)** | **(853.71)** | **(666.08)** |

*Source:* Indian Banks' Association website - https://www.iba.org.in/depart-res-stcs/key-bus-stcs.html, accessed on August 24, 2019.

**ANNEXURE 2.2: Profitability of Private Sector Banks (in Rs. billion)**

| S. No | Banks | As on March 31 | | |
|---|---|---|---|---|
| | | 2017 | 2018 | 2019 |
| 1 | City Union Bank Ltd. | 5.03 | 5.92 | 6.83 |
| 2 | Tamilnad Mercantile Bank Ltd. | 3.17 | 2.22 | 2.59 |
| 3 | The Catholic Syrian Bank Ltd. | 0.02 | (0.97) | (1.97) |
| 4 | Dhanlaxmi Bank Ltd | 0.12 | (0.25) | 0.12 |
| 5 | The Federal Bank Ltd. | 8.31 | 8.79 | 12.44 |
| 6 | The Jammu & Kashmir Bank Ltd. | (16.32) | 2.03 | 4.65 |
| 7 | The Karnataka Bank Ltd. | 4.52 | 3.26 | 4.77 |
| 8 | The Karur Vysya Bank Ltd. | 6.06 | 3.46 | 2.11 |
| 9 | The Lakshmi Vilas Bank Ltd. | 2.56 | (5.85) | (8.94) |
| 10 | Nainital Bank Ltd. | 0.48 | 0.49 | 0.27 |
| 11 | RBL Bank | 4.46 | 6.35 | 8.67 |
| 12 | The South Indian Bank Ltd. | 3.93 | 3.35 | 2.48 |
| *I* | *TOTAL OF 12 PRIVATE BANKS [I]* | 22.33 | 28.78 | 34.00 |
| *II* | *NEW PRIVATE SECTOR BANKS* | | | |
| 13 | Axis Bank Ltd. | 36.79 | 2.76 | 46.77 |
| 14 | DCB Bank Ltd. | 2.00 | 2.45 | 3.25 |
| 15 | HDFC Bank Ltd. | 145.50 | 174.87 | 210.78 |
| 16 | ICICI Bank Ltd. | 98.01 | 67.77 | 33.63 |
| 17 | IndusInd Bank Ltd. | 28.68 | 36.06 | 33.01 |
| 18 | Kotak Mahindra Bank Ltd. | 34.12 | 40.84 | 48.65 |
| 19 | YES Bank | 33.30 | 42.25 | 17.20 |
| 20 | Bandhan Bank | 11.12 | 13.46 | 19.52 |
| 21 | IDFC First Bank Ltd. * | 10.63 | 8.59 | (194.4) |
| 22 | IDBI Ltd. # | n.a. | (82.38) | (151.16) |
| *II* | *TOTAL OF NEW PVT BANKS [II]* | 400.14 | 306.67 | 242.21 |
| *III* | *TOTAL OF PVT BANKS [I+II]* | 422.47 | 335.45 | 276.21 |

*Source:* Indian Banks 'Association website https://www.iba.org.in/depart-res-stcs/key-bus-stcs.html accessed on August 24, 2019.
*Notes:* * formerly IDFC Bank Ltd [merger of Capital First with IDFC Bank Ltd. w.e.f. December 18, 2018].
# IDBI Bank categorised as Pvt. Sec. Bank w.e.f. 21.01.2019.

## NOTES AND REFERENCES

1 The role of cooperative credit institutions also needs to be acknowledged even as they predate bank nationalisation by some 65 years.

2 Author's estimates from contemporary data.

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19 For all scheduled commercial banks operating in India, 40 percent of Adjusted Net Bank Credit (ANBC) is required to be directed to the "priority" sector. Eighteen percent of ANBC is the target for agriculture with a sub-target of 8 percent for small and marginal farmers; 7.5 percent of ANBC is earmarked for microenterprises and 10 percent for the weaker sections of society.

20 Priority Sector Lending Certificates (PSLCs) are a mechanism introduced in April 2016 to enable banks to achieve the priority sector lending targets and sub-targets by purchase of these instruments in the event of shortfall. This also incentivises surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under the priority sector.

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# Last Mile Banking: Extended Arm, Doorstep Services and Apex Support

3

The critical concern of inclusive finance in India is to provide access to financial services to a population spread over 600,000 villages, often in extremely remote and inhospitable areas. Towards this end, various initiatives have been conceived and evolved to meet a challenge, which can be described as last mile banking. These include the attempt to 'extend the arm' of the banking system by outsourcing banking services through what have come to be known as Business Correspondents (BCs). Along with technological innovation and digitisation, the BC relationship has been seen as essential to the provision of services to populations which banks find uneconomical to serve. The BC model can involve a great variety of intermediaries and agents and varying dynamics of stakeholder relationships. Indeed, the BC model, while slow to take root, has evolved over the years and has begun to show signs of stabilisation. BCs have now become an integral part of the operations of the banking channel for both public and private banks, as also RRBs and SFBs.

Simultaneous with the evolution of the BC channel, both in liability products as well as in credit delivery, government and the RBI have attempted to extend the outreach of the banking system through target-driven financial inclusion plans since April 2010. Hence, the focus has been more on the physical infrastructure represented by bank branches, and kiosks, Automated Teller Machines (ATMs) and debit cards, Point of Sale (PoS) devices and digital operations. This process was accelerated with the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) on October 15, 2014. Along with it, the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and subsequently, the Atal Pension Yojana (APY) was initiated to deliver a social security package of comprehensive basic financial services at the doorstep of all households in the country. After five years of functioning, the status of this ambitious programme will undergo evaluation.

Finally, the banking system, particularly the PSBs and the RRBs, which have been at the forefront of the financial inclusion strategy, have required the institutional backing and support provided by the RBI, NABARD and other development agencies in creating the physical and financial infrastructure for the universal delivery of doorstep financial services. These apex institutions have facilitated and enhanced the capability of the various financing agencies in technology and product innovation, strengthening data and Management Information Systems (MIS) and operationalisation of credit bureaus; and providing a necessary platform for all financial operations and communications, in particular, to the RRBs and the co-operative banks. The Reserve Bank and NABARD have also supported a nation-wide campaign for financial literacy, and the institutional infrastructure for the mainstreaming of the unbanked sections of the population in digital banking processes.

This chapter seeks to review three important areas of innovation that underlie India's recent thrust towards inclusive finance. First, the status of the BC model and the challenges faced; second, the outreach and prospects of PMJDY and related schemes; third, the role of apex institutions in supporting and supplementing the efforts of banks and various stakeholders towards the expansion of doorstep banking services to all corners of the country and to all sections of the population.

## BUSINESS CORRESPONDENTS—EXTENDED ARM OF THE BANKING SYSTEM

### Role of Business Correspondents—Multi-Faceted and Still Evolving

When the government introduced the guidelines for the appointment of business facilitators and BCs by banks in 2006, the object was to help lower the transaction costs of banks by outsourcing certain financial and non-financial functions to a variety of intermediaries. Initially, it was expected that private banks would use BCs for micro-lending to a range of end users including individuals, Joint Liability Groups (JLGs) and Self-Help Groups (SHGs), as piloted by the ICICI Bank through its partnership model. However, as the BC model evolved, the PSBs began to rely, first on individual agents linked to rural branches, and later on experienced corporate entities capable of providing technical services for the use of ICT applications for more economically viable operations. These entities, directly or indirectly through their own affiliates or field agencies, started managing networks of Customer Service Providers (CSPs) or BC Agents (BCAs). What emerged was not merely a set of BCs or Business Facilitators (BFs) linked to a rural bank branch to assist in last mile service delivery, but a network and superstructure of stakeholders in service delivery, accompanied by a related fee structure for various banking operations.

The financial inclusion thrust created a role for the BCA in the opening of the basic savings deposit accounts (BSBDAs) and later the PMJDY accounts. The opening and operation of these accounts and transactions that took place therein were the main arena for the role of BCs in doorstep banking. In addition to this function, BCAs were also intended as facilitators of the massive Aadhaar-enabled Direct Benefit Transfer (DBT) programme. This appeared as a means by which poor households could access high quality banking services on par with other users. Thus, the BC channel was mainly involved in account opening, cash-in and cash-out services and limited liability products. It is only recently that with the improvement of technological capabilities and devices available with BCs, diverse and more comprehensive services have become possible.

As far as the credit side is concerned, private banks, which had earlier not deployed BCs on a large scale to facilitate a business strategy of micro-lending, have in recent years come up with a range of partnerships by which MFIs are able to undertake extensive lending on behalf of the banks. Besides, through the acquisition of microfinance agencies, some private banks have created an in-house BC and deployed productively for smaller ticket-size lending. Overall, at present, the BC space has a large set of players and relationships, on both the liability and credit side, which have reached a degree of stability in performing an important role in the provision of last mile banking services.

### Viability of the BC Model, Improving but Issues Remain

A running concern over the past decade has been of the viability of the BC model. Despite the progress made in financial inclusion, questions remain about the range of services provided by the BCs to serve the last mile, directly or through corporate agents. Several studies in the initial years pointed to the mismatch between costs and revenues of BC operations, which resulted in a high rate of attrition. An additional dimension to BC operations was major connectivity issues for smooth functioning in remote areas. In fact, the RBI survey in 2014 had found that 47 percent Bank Mitras (as the designated BCs were called following the launch of the Financial Inclusion Mission) were untraceable. Besides, BC operations were initially restricted to account opening, cash-in and cash-out operations and minimal savings collections. The BC intermediary was not effectively employed to address the demand for loans, a deficiency that is still to be addressed. Extensive research by MicroSave projected a weak performance in generating transaction volumes and incomes as compared, for example, to agents under the M-PESA in Kenya.

While there have not been any fresh studies during the last year, MicroSave's most recent study showed that many operational constraints in the functioning of the model had since been removed resulting in improved incomes and profits. MicroSave Helix's The State of the Agent Network, India 2017 Report highlighted that there had been a shift from account opening to account usage, with much improved support systems as also the emergence of new players such as Payments Banks and Common Service Centres. Indeed, the survey pointed to a dramatic improvement in viability through a near doubling of transactions, incomes and profits of rural and non-metro agents between 2015 and 2017. However, the incidence of fraud was high with an average of 22 percent agents experiencing fraud and 29 percent of the high-performing ones.[1]

With a higher range of products and services offered, and the increased availability of the facility for inter-operable transactions, banks too were encouraged to deploy BCs on a larger scale. This phenomenon extended not only to public and private sector banks but also to RRBs and the newly launched SFBs, which have seen the potential of BCs to provide last mile banking services, particularly with the explosion in account numbers through the outreach of PMJDY. Nevertheless, the viability question was not satisfactorily settled as the range of incomes generated through BC operations can vary across different geographies. A field visit in connection with this study in urban and semi-urban areas of Indore district confirms this impression. According to the BCFI, the representative body of BC networks,[2] glitches and miscommunication between various stakeholders have caused the model to become unviable.[3] Issues regarding interoperability between sponsor banks and identification mechanism of tax-exempt accounts for systematic transfer of benefits as per the latest taxation regime were raised in the meeting of BCFI with the Nandan Nilekani-led RBI's Committee for Deepening Digital Payments (CDDP). BCFI also continues to take up with DFS the question of high attrition and the need for a minimum remuneration for BCs.

## Who is a BC? Varied BC Types, Functions and Estimates

In Chapter Two, the coverage of villages by BCs and the volume of BC-initiated transactions has been discussed. Table 3.1 presents data from the RBI Annual Reports on BC banking outlets and transactions. There has been a substantial increase in the number of rural banking outlets and villages covered by BCs, as well as the number of urban BC locations. Similarly, since 2014, ICT transactions have experienced further dramatic growth. Thus, as of March 2019 there were over 1 million banking outlets in villages and urban locations covered through BCs.

However, the information on BC numbers continues to be a subject matter of some confusion. As the figures suggest, over the years, the data in the RBI Annual Reports has not been captured uniformly. The RBI data also does not generally refer to the number of BCs but to the number of villages covered or that have rural banking outlets. Until March 2018, it was not clear to what extent the touch-points of Payments banks like FINO and Paytm had been included in these numbers. For the data in respect of end March 2019, the RBI reports that 3,88,868 out of 4,47,170 BC outlets in urban areas provide limited services like remittances or sourcing of loans. It is worth noting that FINO is stated to be the largest BC network in the world with over 30,000 banking touch points in 499 districts (see Box 3.1).

At the same time, it is reported that Paytm has 200,000 BCs in 550 districts who enable *direct money transfers*.[4] Adding to the numbers is the mass induction of BC agents, particularly by private banks,

**Table 3.1: BC Banking Outlets and Transactions, 2012 to 2019**

| As on end-March | Rural Banking Outlets through BCs/ Villages Covered by BCs (1) | Total Rural Banking Outlets—Branchless Mode@ (2) | Banking Outlets in Villages—Bank Branches (3) | Banking Outlets in Villages—Total (4) (2+3) | Urban Locations Covered through BCs (5) | ICT Accounts BC Transaction during the Year (in million) (6) | ICT Accounts BC Transaction during the Year (in Rs billion) (7) |
|---|---|---|---|---|---|---|---|
| 2012 | 1,41,136 | 1,44,282 | 37,471 | 1,81,753 | 5,891 | | |
| 2013 | 2,21,341 | 2,27,617 | 40,837 | 2,68,454 | 27,143 | | |
| 2014* | >3,33,000 | 3,37,678 | 46,126 | 3,83,804 | 60,730 | 329 | 524 |
| 2015 | 3,57,856# | 5,04,142 | 49,571 | 5,53,713 | 96,847 | 477 | 860 |
| 2016 | 4,15,207# | 5,34,477 | 51,830 | 5,86,307 | 1,02,552 | 827 | 1,687 |
| 2017 | 5,43,472 | 5,47,233 | 50,860 | 5,98,093 | 1,02,865 | 1,159 | 2,652 |
| 2018 | 5,15,317 | 5,18,742 | 50,805 | 5,69,547 | 1,42,959 | 1,489 | 4,292 |
| 2019^ | 5,41,129 | 5,44,666 | 52,489 | 5,97,155 | 4,47,170## | 2,084 | 5,884 |

*Source:* RBI Annual Reports for 2012–13, 2013–14, 2014–15, 2015–16, 2016–17, 2017–18, 2018-19 (Mumbai: RBI, 2013, 2014, 2015, 2016, 2017, 2018, 2019).

*Notes:* @ Includes other modes such as ATMs and mobile vans.

* 2,48,000 BCs were deployed as reported by banks through their financial inclusion plans.

# No. of villages covered by BCs as reported by State Level Bankers' Committees (SLBCs).

^ Provisional.

##: Out of 4,47,170 outlets, it is reported that 3,88,868 outlets provide limited services like only remittances or sourcing of loans, etc.

**Box 3.1: BC Operations of FINO**

FINO Paytech is the largest business correspondent in India and the world, having extensive reach in as many as 499 districts. It also implements the government's Electronic Benefit Transfer scheme to beneficiaries across India. Its BC services enable banks to financially include the underserved and unserved rural masses, with financial services like savings, deposits, insurance and remittance through a pan India network. FINO Paytech Limited provides BC services through its affiliate company FINO Fintech Foundation (FFF), a Section 25 company under the Indian Companies Act, 1956. The role of FFF involves creating an agent network, designing new products, and managing training and audit calendars with banks.

*Source:* http://www.finopaytech.com/what-we-do/services/business-correspondents-services


**Figure 3.1a:** BC Certificate

in areas other than their area of banking operations. Thus, YES Bank will cover more than 20,000 ration shop owners and over 7 million citizens in 12 districts of Maharashtra. As part of the initiative, the lender will engage fair price shops to provide banking services such as small-value cash deposits into any bank account, including domestic remittances and withdrawal from any bank account via Aadhaar-Enabled Payment System (AEPS).[5] Fair price shops have similarly been involved as BCs in other states such as Odisha. Finally, on September 9, 2019 the India Post Payments Bank (IPPB) announced the roll-out of Aadhaar Enabled Payment Services. A full range of digital last mile doorstep banking services are now available across more than 136,000 Post Offices and delivered by over 195,000 trained and certified postmen and Gramin Dal Sewaks (GDS) reaching every village on an almost daily basis.[6]

Meanwhile in 2018, the DFS reported that inter-operable BCs have covered 126,000 out of 159,000 Sub-Service Areas (SSAs). This figure in recent reports has been variously updated to 130,000 and 135,000. Thus, there is lack of clarity about who is to be regarded as a BC and what essential services are to be provided by the BC agent. The frontline staff of BC partners of banks, while engaged in operations involving cash but not necessarily deal with liability products, are also counted as BCs. Indeed, requirements for training and certification of BCs issued by the RBI and the IBA suggest that frontline staff and even supervisory staff of MFI partners of banks too would have to undergo training and certification along the lines of other BCs. Finally, the original guidelines for outsourcing of bank functions also conceived of the category of business facilitators (BFs). These include, for example, the Bank Sakhis appointed under the aegis of the National Rural Livelihoods Mission, positioned at bank branches to facilitate banking operations of SHG members but not handling cash as done by the BC Sakhis (i.e., SHG members engaged as regular BCs of banks).

## BC Registry, Training and Certification and Outstanding Issues

The RBI Annual Report for the year 2016 brought out the need for training and certification of BCs and the creation of a BC registry. Tthe Indian Bank Association (IBA) successfully launched the BC Registry Portal for public use in July 2019.[7] Now the public can locate BCs in a specific area by entering pin code, sub-district, district and state.

The first phase of a BC certification course has also since been introduced by the IBA using content developed by the Indian Institute of Banking and Finance (IIBF). According to the latest regulatory requirements, all new BCs need to carry a certificate through a course conducted in-house by banks and the existing BCs have to undergo training and update their certification by June 2019 (see BC certificate in Fig. 3.1a). The date for the certification of all BCs has been pushed to March 2020. The importance of relevant training and certification of BCs cannot be understated. As noted by one researcher, perhaps 85 percent information on financial services that a client solicits is from the BC agent. Thus, they are not just transaction points, they are also the chief sources of information. BC agents actually constitute the largest network of financial literacy centres that is available in the system. Nevertheless, the time-bound training and certification of over a million agents constitutes an enormous challenge.[8] BCFI has designed an alternative course with the help of MicroSave with an in-built testing mechanism. BCFI are looking for a third party as certifying agency and communicating with DFS/RBI for the recognition of this certification.

Notwithstanding the improving prospects of the BC relationship and the universal deployment of BCs by various banking agencies, some of the issues in respect of the relationship of BCs vis-à-vis the banks, which were reported in Inclusive Finance India Report 2018, do not appear to have been resolved as yet. The claim of the BCs to be treated as employees of banks have been rejected by all other stakeholders of the model—ranging from the RBI and IBA to the BCFI. They have together resisted efforts of the Labour Ministry to cover BCs under the Provident Fund regulations. An interesting development in which 6,000 BCs were reported to have joined the All India Bank Employees Association (AIBEA) does not appear to have made any progress. In the matter of the chargeability of GST on BCs, no final decision has been taken by the DFS. Selected issues raised by the BCFI with DFS, Government of India (GoI) at a meeting on April 11, 2019 are listed in Box 3.2.[9]

**Box 3.2: BCFI Proposals and Solutions for Strengthening BCs**

**Towards Economic Viability**

- Need for an activity-based costing and pricing study towards standardising costing and pricing for 12 financial inclusion services for quick implementation.[10]
- An initial minimum monthly remuneration of Rs 15,000 to be provided for BC agents to prevent high levels of attrition.
- All transactions originating from BC agents to be charged at nil rate of GST.
- Financial inclusion to be deepened through product offerings of multiple banks by a BC agent.
- Incentives to be given to BC agents for enrolling merchants to promote financial inclusion programmes.
- BC agents to be viewed as entrepreneurs and not employees of banks or corporate agents.

**Promoting Product Usage**

- Promote products relevant to customers' and merchants' needs through Gram Sabhas and the print and electronic media.
- Encourage savings through micro-deposit/recurring deposit products on daily/weekly basis.
- Re-price the AEPS services towards DBT transfers at 3.15 percent so that the service remains a viable proposition for all stakeholders.
- Incentivise merchants to promote the use of RuPay cards.
- Extend co-origination and digital lending to corporate BCs and Fintechs, not just to NBFCs and MFIs.

**Improving Quality of Access**

- Improve quality of BCs through training by Corporate Business Correspondent (CBC) members of BCFI. Only Agent Business Correspondent (ABCs) with a valid code on the BC registry to be allowed to offer financial inclusion services.
- Unscrupulous ABCs to be blacklisted on the BC registry and not permitted to operate.
- Heat Map of products and ABCs to be made available in the public domain.
- Registry of rogue companies to be maintained and made available to industry.

**Ensuring Ubiquitous Availability of BC Network**

- Guidelines to be issued on priority for Inter-Operable BCs (IOBCs)/White Labelled BCs (WLBCs) to sell multiple products of all banks to ensure healthy competition and customer service.
- Allow NPCI employed IOBCs to set up the merchant acceptance infrastructure across the country.

*Source:* BCFI. http://bcfi.org.in/wp-content/uploads/2019/04/BCFI-DFS-Brainstorming-Session-on-FI-Submission-of-Problems-Solutions-150419.pdf, accessed on September 23, 2019.

Some of these proposals have since materialised, for instance, the successful launching of the BC Registry Portal mentioned in an earlier section. Others like that of the Inter-Operable BC or White-Label BCs, which allow BCs to partner with multiple banks towards taking innovative financial products to the last mile, have a sound economic basis by ensuring optimal utilisation of the BC network and have the strong support of BCFI.

Finally, a recent report indicates that private banks such as ICICI Bank, YES Bank, Axis Bank, IDFC First Bank and Kotak Mahindra Bank are either not keen to expand their BC networks or are re-evaluating their business strategies for financial inclusion. As noted by a banker in this report, the cost of managing a corporate BC network and ensuring complete audit of its activities and systems far outweighs the money banks make from the business.[11] The nature and scope of the Bank–BC relationship may thus yet undergo further changes. Indeed, some bankers feel that mobile banking could phase out the BC model in the near future with a more limited role for BCs as touch-points.

## Selected BC Experiences from the States

### *Kiosk Banking in Madhya Pradesh*[12]

Madhya Pradesh (MP) is a state that has not been seen much on the radar of development initiatives. However, in the area of BC operations there have been some notable successful innovations. MP had been at the forefront in the introduction of e-governance through Common Service Centres (CSCs). The Network for Information and Technology (NICT), a leading Corporate BC has been at the forefront of kiosk banking using CSCs and BCs. It started its kiosk operations in 2009 in Dewas district. By 2013, they had approximately 250 kiosks in MP and Chhattisgarh. They currently have more than 10,000 kiosks in virtually all states of India.[13] Currently, NICT are BC partners of Bank of India, State Bank of India, Bank of Baroda and 10 regional rural banks. NICT kiosks were acting as CSCs along with BC operations. Various services like insurance, mobile recharge, electricity bills, etc., were provided along with banking at CSCs. Later, the CSC operation shifted to MP Online and NICT continued as BC of banks managing kiosks run by Village-Level Entrepreneurs (VLEs) of whom a large proportion are women.

Some of the salient points emerging from NICT's association as BC with banks for kiosk operations in MP and other states are:

Professional relations between banks have improved significantly over the years. With kiosk operators managing transactions of MNREGA payments they were able to create good traction in banking services. Financial support was earlier given to kiosk operators (Rs 25,00 per month) till the financial year 2015–16. This support has now been withdrawn. Earlier kiosk operators were seen as a liability by banks but nowadays bank managers and staff view them as business partners.

All kiosks in the NICT network are geo-tagged and the linked bank branch official has mandatory target of visiting these centres. The SBI have solicited the services of retired bank officials for these activities. Except in a few areas, network connectivity has improved a lot. Banks use the kiosk network for many other services like RuPay-card activation through camps. These services bring in additional revenue for the operator.

The BCs have gained the trust of customers as banking service providers and the kiosk model is successful from the operator's point of view. The Bank of India has come up with "Star BC" concept where the kiosk works as a small branch of the bank. There are more than 120 Star BCs in the NICT network. Many BCs have enough business to have additional staff for their functioning.[14] Some BCs have adopted various standards like a dress code for their team, window-based operation and a bank branch type set-up in certain places. Various social development schemes of the state government like Janani Suraksha Yojana, school uniforms, bicycles for schoolgirls, etc., where financial assistance is provided to beneficiaries, have helped kiosk operators to increase customer base and transactions.

One of the important areas of technological innovation for BCs as agents of financial inclusion in MP is the operation of SHG accounts that require dual authentication in view of the fact that there are two signatories to the account. Narmada Jhabua Gramin Bank (now amalgamated into the Madhya Pradesh Gramin Bank) was one of the first banks that developed and introduced the system of dual authentication, even before its parent bank. However, some bankers are of the opinion that BC Sakhis appointed from among the SHG members are not able to achieve viable functioning.

It is mandatory for BC/BFs to clear the IIBF certification examination by the end of the year. As of now, more than 60 percent kiosk operators under NICT have cleared the examination. NICT has conducted training courses for their kiosk operators for this certificate. It is expected that certification will help in improving the quality of BCs.

Some of the outstanding issues in BC operations are to be found in the state as well. While some BCs are doing well, others work for only modest returns. For example, kiosk operators in rural and poor areas have large number of transactions with small amounts. This increases their workload without increasing their remuneration.[15] The profile and operational details of a few kiosk operators visited near Indore are given in Annexure 3.1. They represent different backgrounds and include a BC Sakhi of the MP Gramin Bank.[16] The monthly transactions range from Rs 2,50,000 to Rs 10 million and the monthly income from Rs 1,000 to Rs 50,000. Except the city-based Star BC who operates on a larger scale proximate to the bank branch, the other agents have to rely on alternative sources of business and income as well.

Inactive accounts are one big issue with BC operations. Many accounts had been opened with liberal KYC norms for children that have subsequently remained inoperative. Also, many people have opened multiple Jan Dhan Yojana accounts due to the misconception that Rs 5,000 would be paid into their accounts. These zero balance accounts have resulted in a high number of inoperative accounts in the system.

The BC model as a tool for financial inclusion has helped in generating employment for more than 30,000 people by the NICT network along with providing banking services to otherwise unbanked clients. The BC network enables the creation of an ecosystem where people in remote locations can be reached through information technology. This ecosystem can be leveraged to deliver other services like health, health education, patient monitoring, pre-primary learning, education, agriculture services and reverse market linkage. The BC kiosk could work as an anchor point for these extension services.

### *BC Model Operations in the North-East Region*

North-eastern India has been in the past a neglected region. The outreach of financial services to the remote areas was absent and such places were ill served by the banking system. The notable attempts made to reach these areas with doorstep services through BCs are summarised below.

a. Women BCs and Bank Sakhis in Sikkim:[17]
The involvement of SHG women members as BCs was piloted by GIZ in western UP and MP. Subsequently, the National Rural Livelihoods Mission expanded the area of operations of these women BCs or BC Sakhis with the target of the appointment of 5,000 BC Sakhis during 2018–19. With the North East Rural Livelihoods Project (NERLP), supported by the World Bank, banks in Sikkim's western and southern districts engage local women SHG members as their BCs. Equipped with palm-sized microATMs, biometric readers and internet-connected thermal printers, BCs now help villagers deposit their money easily, earn interest and withdraw whenever they need. The impact of BC operations on available credit is also visible. Until mid-2017, when the BC Sakhis had not yet been introduced, only 60 SHGs in these two districts received loans from the formal banking system. By February 2019, this had soared to 1,636—or half the number of SHGs in these two districts.

A woman BC engaged by IDBI Bank was able to do 260 transactions worth Rs 2.4 million in March 2019. She has started earning Rs 10,000 per month from the bank by way of transaction fees and commission and has used the payment/income to set herself up as an entrepreneur. The project has set up another financial service by which Bank Sakhis acting as business facilitators (BFs) help the village folk and SHG members to fill out forms and apply for loans.

b. RBL Bank's BC focus in the North East:[18]
RBL Bank started its operations in the North East in September 2017 by opening its first BC branch in Assam. Today, RBL Bank through its 50 BC branches has presence in three states of the North-East—Assam, Meghalaya and Tripura. Out of these 50 BC branches, 31 are classified as banking outlets. State-wise distribution of BC branches and banking outlets is listed in Table 3.2.

RBL offers several banking services—credit facilities to individuals, groups and small

**Table 3.2: RBL Bank BC Operations in North-Eastern Region**

| State | No. of BC Branches | No. of Banking Outlets | No. of No Frills Savings Bank A/c Customers | No of JLG Loan Customers | Loan Portfolio (in Rs. million) |
|---|---|---|---|---|---|
| Assam | 32 | 14 | 69,081 | 83,768 | 1711.8 |
| Meghalaya | 2 | 1 | 198 | 198 | 5.9 |
| Tripura | 16 | 16 | 17,383 | 22,065 | 432.2 |
| TOTAL | 50 | 31 | 86,662 | 1,06,031 | 2149.9 |

*Source:* RBL Bank Ltd.

businesses; savings accounts; transaction facility through microATMs and insurance products.

RBL's North-East portfolio as a percentage of its total financial inclusion portfolio is around 4 percent, and is expected to further increase as the bank endeavours to bring the maximum number of people under formal banking services.

### BC Portfolio of MFIs: Increasing Trend

Among the many types of BCs of banks, the MFIs occupy a special place since they are the only entities that are in a position to deliver credit products on behalf of the banks through their infrastructure of branches and frontline staff with deep penetration in rural areas, while dovetailing their own lending programme with that of the partner bank. It is only since 2014 that NBFC-MFIs have been allowed to become BCs of banks. Hitherto, MFIs operated through securitisation of a part of their microfinance portfolio to banks and by managing it on their behalf for a fee. Since NBFC-MFIs are allowed to act as BCs of banks, this model has become popular. MFIs in India collectively managed a portfolio of nearly Rs 354.35 billion as of March 2019 as against Rs 210.80 billion as of March 2018.[19] This represented an increase of 68 percent. The total managed portfolio also included a BC portfolio comprising 58 MFIs engaged by various banks and an amount of Rs 198.79 billion as of March 2019. This constituted 21 percent of the total portfolio of MFIs and 56 percent of the managed portfolio. The BC portfolio had augmented by 37 percent from the previous year's figure of Rs 145.24 billion. This is despite the fact that some MFIs transformed into SFBs or in the recent past, merged with commercial banks.

**Table 3.3: BC Loan Portfolio and Category-wise Break-up**

| | Total BC Portfolio (in Rs. billion) | |
|---|---|---|
| **MFIs by Type of Legal Form** | **2017-18** | **2018-19** |
| NBFC/NBFC-MFI | 47.58 | 84.23 |
| Section 8 Company | 12.01 | 13.94 |
| Others* | 85.65 | 100.62 |
| Total | 145.24 | 198.79 |
| MFIs by Size of Portfolio (in Rs. billion) | | |
| <1 billion | 5.08 | 4.21 |
| 1-5 billion | 15.92 | 12.50 |
| >5 billion | 124.23 | 182.08 |
| Total | 145.24 | 198.79 |

*Source:* Sa-dhan, "The Bharat Microfinance Report 2018, 2019" (New Delhi: Sa-dhan, 2018, 2019).
*Notes:* Total reporting MFIs were 58 for 2017-18 and 59 for 2018-19.

*The leading MFI, Shri Kshethra Dharmasthala Rural Development Project (SKDRDP), registered as a charitable trust, would be the major contributor to this category.

The distribution of the BC portfolio as on March 2019 among different categories of MFIs is shown in Table 3.3. As in the past, a few large MFIs in the NBFC and others category dominate, while the share of Section 8 companies has come down from about 8 percent in the previous year to 7 percent. A major share of the BC portfolio is accounted for by the large MFIs of the category having a total portfolio greater than Rs 5 billion.

MFIs have also been permitted by RBI to act as BCs of banks for deposit operations. According to the Bharat Microfinance Report 2019, 5 BC MFIs reported savings deposits of Rs 8.83 billion in savings accounts of 859,219 clients with seven banks as on March 2019.

### In-house BCs: A New Development in Inclusive Banking

In recent years, credit operations by banks through BC-MFIs have been expanding substantially. YES Bank through its YES LEAP partnership strategy had taken the lead in scaling up outreach to the unbanked population, touching over 2.1 million clients through partner organisations acting as BCs. In view of instances of delinquency in repayment, following demonetisation, it has undertaken a more careful approach to avoid concentration risk in its portfolio. However, with the acquisition of MFIs along with human resources and client networks in different geographies, other private banks are poised to expand operations through this channel, embarking on a diversified lending portfolio as well as a range of liability products.

#### *IndusInd Bank Limited (IBL):[20] Creating a Network of Low Cost Retail Service Points*

IndusInd Bank envisages creating an ecosystem in a phased manner to provide financial inclusion services in a systematic, cost effective yet profitable form through branch-based and branchless channels. Digital processes have been at the centre of operations through technological solutions built on the strength of the Aadhaar architecture (eKYC, AEPS). The total portfolio outstanding under the BC Model was Rs 176.91 billion as on June 30, 2019, spread across 21 states through 12 MFIs and NBFCs as BC partners complementing the branch-led approach.

The merger of Bharat Financial Inclusion Ltd. (BFIL), the leading MFI, with the bank was a significant step in the direction of financial inclusion. BFIL, with its 1805 branch network covering 391 districts and about 1,00,000 villages will help IBL achieve faster growth and higher profitability. It provides best-in-class microfinance capabilities and vast outreach with around 1,805 well-spread MFI outlets serving 7.5 million customers. With this merger, the limit, First Loss Default Guarantee (FLDG), etc., applicable for other BC partners, would go away. That would, however, not affect the interest range which would be the lowest in the segment (22 to 26 percent p.a.) as also promised to RBI. IndusInd Bank is working on integrating liabilities products, which would now be replicated and scaled up throughout the network.

Arrangements with other BCs would continue as earlier and the bank would aim to increase its portfolio with them. Apart from NBFCs, there are two not-for-profit BC partners. One of its largest partners is a Section 25 company with a Rs 100 billion portfolio. Indeed, IndusInd is a true votary of the BC model and does not favour term loans to MFIs for on-lending as an alternative. It is felt that there is space both for MFIs and banks in catering to the lowest segment of clients.

Augmenting this outreach further, the bank is setting up Retail Distribution Service Point (RDSP) in each of these villages which are low cost/capital-light extension counters of the bank, offering convenient and flexible banking products at the customer's doorstep. These RDSPs are typically the Kirana/Mom and pop stores manned by village-level entrepreneurs, designated as banking agents. The BFIL branch network acts as a nodal point for monitoring these RDSPs and with the current set-up, there is a near-term potential of setting up 2,00,000 RDSPs in 1,00,000 villages.

RDSPs are powered through a front end secure application interfaced with the Bank's CBS, equipped to carry out a range of activities like Account Opening, Deposits, Withdrawals, Money Transfers, Bill payments, etc. The solution works on the bio-metric authentication using Aadhaar architecture. With technology being central to the bank's financial inclusion agenda, some of the key highlights are listed below:

- Real-time saving account opening active and ready for financial transactions.
- API-based transaction processing for both financial and non-financial transaction done by Finacle on real-time basis.
- AEPS-based cash deposit/withdrawal and purchase transactions facilitated.
- MicroATMs enabled with AEPS platform while supporting card-based transactions.

Not only outreach, the bank has innovated on the product offering to the customer as well. Understanding the needs of the customers, IndusInd have launched a host of asset and liability products: two-wheeler loans, individual loans to retailers, overdraft for working capital needs and micro-recurring deposits, apart from traditional group-based micro-lending.

As on June 2019, the RDSP project is implemented in 323 BC branch locations in six states and has opened around 8,80,000 savings bank accounts and 4,00,000 active recurring deposit accounts. Thus far, the bank has opened up 5,061 RDSP outlets.

### *RBL Bank and RBL FinServe Ltd—an Exclusive in-house BC*[21]

RBL Bank has always looked at the financial inclusion space as a mission, rather than a mandate. It has been driven through a robust partnership model, coupled with investment in technology, people and process.

Its strategy has been a credit-led model, focusing on building customer-centric solutions. Given that RBL is a relatively small bank, it relies upon partnerships to build a commercially viable and cost-effective distribution network for both the BCs and the bank.

The bank is expanding its branch network in semi-urban and rural geographies. It is also engaging with BCs to provide last-mile connectivity through a network set up in a hub-and-spoke framework, with the RBL bank branch being the hub and the BC outlet being the spoke in the customer's village.

The investment in RBL FinServe Limited (RFL),[22] which is now a BC and fully owned subsidiary of RBL Bank Ltd., is targeted at expanding geographically at a faster pace, serve the complete household and be accessible to more underserved inhabitants.

It works as a last-mile distributor of financial services and products, particularly loans and savings accounts, to low-income households and micro entrepreneurs.

This strategic acquisition has helped the bank to:

- Maximise the outreach with RFL branch network; expand to new geographies and better engage with customers in existing geographies.
- Use RFL branches as banking outlets and leverage the same for cross-selling bank's liability and third-party products.
- Leverage on existing financial inclusion and MSME branch structure to enter into other new key retail lending spaces of agricultural finance, affordable housing, etc.
- Remove duplication and double line of control across verticals/processes helping in better management and cost control.

RBL FinServe presently caters to two segments, namely, the microfinance and micro enterprise segment. The microfinance segment focuses on women micro entrepreneurs. It provides JLG loans to these customers and opens no-frill savings bank accounts.

However, the acquisition of Swadhaar as BC by RBL Bank is, however, not likely to have an impact on the interest rates charged to borrowers. The segment for micro-enterprises targets micro-entrepreneurs. RBL FinServe has an extensive reach with a network of 529 BC branches across 17 states and two union territories including 384 JLG branches and 145 MSME branches. The assets under management were Rs 35.59 billion of which Rs 24.76 billion were through JLGs and Rs 10.83 billion through MSMEs. At present, RFL is managing RBL's financial inclusion and MSME business as an exclusive business correspondent.

### Sub-K's Role as BC in the Micro-enterprise Lending Model

Thus, the role of the BC has been seen as one facilitating the delivery of services of banks to the last mile. However, the credit needs of the "missing middle" are also a concern of inclusive finance. Micro-enterprises in urban and semi-urban areas are largely owned and operated by individuals engaged in manufacturing, processing, trading and the service sector. According to industry sources, less than 5 percent of the sector has access to formal credit. In recent years, this need is partially met through the MUDRA Yojana.

Sub-K's Micro-Enterprise Lending (MEL) model aims to promote and deepen MUDRA loans and to facilitate responsible financial products for micro-enterprises as a business correspondent of formal financial institutions, leading to inclusive economic growth. In this arrangement, Sub-K deploys trained manpower who source loans on behalf of a bank or NBFC, conduct thorough credit appraisal, perform post-disbursement checks, monitor repayments and manage delinquencies. Sub-K has developed a digital platform that streamlines processes, reduces redundancies and increases efficiency. The entire workflow has been built in a paper-less and cash-less format.

Sub-K partnered with United Bank of India (UBI) as a Business Correspondent for sourcing and servicing micro enterprise and Agri-allied loan proposals in the beginning. A pilot was launched across 13 bank branches in Rajasthan in February 2017. The partnership has since extended to four banks. In a span of 30 months, Sub-K has further expanded this business to 114 locations spanning 60 districts in nine states. Disbursements have crossed Rs 15 billion and NPAs have been maintained at around 1 percent.

Overall, the BC space, providing an extended arm of the banking system, is both expanding and becoming rather overpopulated with different types of banks seeking to serve the same clientele as also new segments with a range of alternative BC relationships. Barring some exceptions, all stakeholders, nevertheless, insist that there is a substantial unmet demand for financial services both in rural and urban areas.

## PRADHAN MANTRI JAN DHAN YOJANA: A DOORSTEP BANKING MISSION

The PMJDY was launched on August 15, 2014 as part of a comprehensive financial inclusion mission, which was based upon six pillars:

- universal access to banking facilities;
- basic banking accounts for saving and remittance and RuPay debit card with built-in accidental insurance of Rs 1,00,000;
- financial literacy programme;
- overdraft facility of up to Rs 5,000 after six months of satisfactory performance of savings/ credit history;
- micro-insurance;
- unorganised sector pension schemes like Swavalamban.

The mission involved the launching of two subsidised insurance schemes—Pradhan Mantri

**Table 3.4: Sub-K's Micro-enterprise Lending Product**

| | United Samriddhi | United Samriddhi Plus |
|---|---|---|
| Purpose of Loan | Non-farm Micro-enterprise (manufacturing, trade & service)<br>Agriculture-allied activities | |
| Loan Size | Rs. 50,000 to Rs. 2,00,000 | Above 2,00,000 to Rs. 5,00,000 |
| Loan Tenure | 12 to 36 months | Up to 60 months |
| Repayment Frequency and Mode | Monthly direct debit from customer's savings account | |
| Interest Rate | 14 – 18 percent<br>Note: Women borrowers get 0.50 percent concession in interest rate | |
| Loan Processing Fee | 0-1 percent of sanction amount | |

Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMBSY); the Atal Pension Yojana and the provision of Rs 5,000 overdraft facility per PMJDY account.

## PMJDY and the J-A-M Trinity

Over two phases, lasting four years up to August 2018, the programme was vigorously implemented. The Jan-Dhan-Aadhaar-Mobile (JAM) trinity resulted in over a billion mobile phones connections and Aadhaar entities and over 300 million Jan Dhan accounts during this period; 83 percent of PMJDY accounts had been seeded with Aadhaar by that date. Crucially, through the Aadhaar-enabled Payments System, direct benefit transfers under government schemes have been routed directly to Jan Dhan accounts.

On September 5, 2018, the PMJDY was renewed to make it an open-ended scheme, with the overdraft facility being raised to Rs 10,000 instead of Rs 5,000. The free accident insurance scheme for those opening a Jan Dhan account after August 28, 2018 too was doubled to Rs 2,00,000. In addition, there were to be no conditions attached for overdraft of up to Rs 2,000. Further, the upper age limit for availing the facility was hiked to 65 years from 60 years.

The use of the Aadhaar identity in financial transactions has been much debated for a number of reasons ranging from government surveillance and privacy concerns to the mining of data for commercial profit as also possibly enabling the exclusion of those otherwise entitled to welfare benefits.[23] During the past year, restrictions were placed on the e-authentication and storage of the Aadhaar number by the Supreme Court through its verdict dated September 26, 2018 by which Aadhaar could not be made mandatory, among others, for the opening of a bank account. This has led to uncertainty and confusion on the part of banks and financial institutions to use biometrics as the basis for identifying individuals. In fact, instructions went out for the discontinuation of Aadhaar-based authentication.[24] As such, it was expected that those who already have Aadhaar and had seeded their bank accounts with it would have to continue to use it. The Aadhaar and Other Laws (Amendment) Bill, 2019 that was promulgated as an ordinance in March 2019 and was passed by the Parliament as a law in July 2019 has since led to the modification by RBI of Know Your Customer (KYC) rules for regulated entities (see Chapter on Digital Banking for further details). As far as Aadhaar seeding of PMJDY and regular accounts is concerned, notwithstanding the ambiguity regarding the use of Aadhaar, the government's position appears to be that client consent has been taken for the same.

Nevertheless, as the interim Finance Minister stated while presenting the interim budget on February 1, 2019, JAM and DBTs have been game changers in financial inclusion. This is not to say that there are no contrary opinions on the subject. Apart from individual privacy and major security concerns related to the widespread use of Aadhaar, some development experts are of the opinion that Aadhaar verification has proved to be a hindrance to the delivery benefits to targeted sections of the poor because of a wide range of various systems failures. The belief that DBTs require Aadhaar-like biometric IDs is unfounded and what good implementation of DBT really requires is the expansion of banks to underserved areas.[25]

As on March 31, 2019 over 84.5 percent of accounts had been seeded with Aadhaar on what has been described in the DFS report above as on a user-consent basis.[26] Customers have thus been enabled for interoperable and immediate Aadhaar-enabled transactions, including those for direct benefit transfer. Around 80 million PMJDY accounts were receiving Direct Benefit Transfers (DBTs) credits under various schemes of the Government.[27]

## Achievement of Universal Coverage

### *Banking Service Points*

PMJDY aimed at providing banking service points throughout rural India by mapping over 6,00,000 villages into 1,60,000 Sub Service Areas (SSAs) to provide doorstep-banking services within a radius of 5 km. Each SSA typically comprised 1,000–1,500 households. According to DFS data in the annual progress report for March 2019, out of 1,60,000 SSAs, 1,30,000 SSAs had been covered through interoperable, online BCs and the remaining 30,000 were covered through bank branches.[28] BCs deployed in rural areas also provide interoperable Aadhaar-Enabled Payment System (AEPS) banking services.

The state household report for the PMJDY, as of September 4, 2019 indicates that with the exception of 59 SSAs in Chhattisgarh and 4 SSAs in Maharashtra, all SSAs had been surveyed. Except for nine states, where coverage was slightly short of 100 percent, in all others the coverage of the programme was total. In fact, the data shows that only 10,162 households in the country remained to be covered under the PMJDY. Thus, the programme has been successful in reaching a saturation level in the country, with the list of products and services through the Basic Savings Deposit Accounts (BSDAs), including cash-in/ cash-out services, savings and basic insurance facilities and electronic benefit transfers. However, the programme has not made a serious impact on the provision of loans under the overdraft facility as had been envisaged.

### Outreach and Performance

By any standard, the outreach achieved by the PMJDY in the five years since its launch has been nothing short of spectacular. Table 3.5 shows the performance of the PMJDY by the financing agency as on September 4, 2019. Accordingly, the number of 'beneficiaries'[29] was 368.9 million. The PMJDY has been primarily an initiative of PSBs and RRBs with 80 percent accounts opened by PSBs, 17 percent by Regional Rural Banks and 3 percent by private banks. Also, 216.8 million accounts were opened in rural and semi-urban bank branches and 152.1 million accounts in urban areas. The share of rural 'beneficiaries' was 59 percent. The share of rural accounts has remained unchanged over the previous year. Women beneficiaries were a little over 53 percent of the total beneficiaries.

Over 79 percent of the account holders had been issued RuPay cards—up from 75 percent a year earlier. The balance in the PMJDY accounts was Rs 1026.46 billion or an average balance of Rs 3514. This compares favourably with an average balance per account of Rs 2506 on August 15, 2018, representing an increase of over 40 percent per account in slightly over a one-year period.

**Table 3.5: Pradhan Mantri Jan Dhan Yojana Beneficiaries as on 04/09/2019 (No. in million, Amount in Rs. billion)**

| Bank Name / Type | Number of Beneficiaries at Rural/Semi-urban Centre Bank Branches | Number of Beneficiaries at Urban Metro Centre Bank Branches | No of Rural-Urban Female Beneficiaries | Number of Total Beneficiaries | Deposits in Accounts | Average Balance per Active Account (in Rs) | Number of RuPay Debit Cards issued to Beneficiaries |
|---|---|---|---|---|---|---|---|
| Public Sector Banks | 157.2 | 136.3 | 154.4 | 293.5 | 809.22 | 2757 | 242 |
| Percentage Share | 73 | 90 | 79 | 80 | 79 | | 83 |
| Regional Rural Banks | 52.7 | 10.2 | 35.1 | 62.9 | 187.42 | 2980 | 38.5 |
| Percentage Share | 24 | 7 | 18 | 17 | 18 | | 13 |
| Private Sector Banks | 6.9 | 5.6 | 6.7 | 12.5 | 29.81 | 2385 | 11.6 |
| Percentage Share | 3 | 4 | 3 | 3 | 3 | | 4 |
| Grand Total | **216.8** | **152.1** | **196.2** | **368.9** | **1,026.46** | **2,782** | **292.1** |

*Source:* PMJDY Performance from https://pmjdy.gov.in/account, accessed on September 12, 2019.

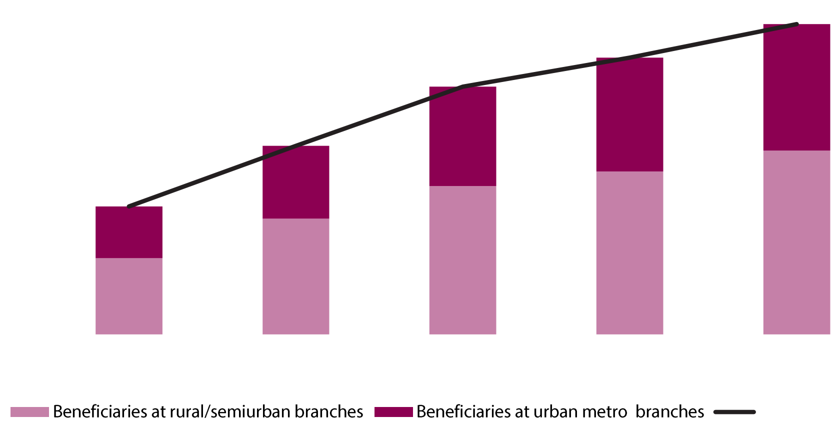


**Figure 3.1b:** Number of PMJDY Beneficiaries (No. in million over the years)

*Source:* PMJDY, DFS data from https://pmjdy.gov.in/Archive, accessed on September 12, 2019.

Fig. 3.1b shows the growth in the number of PMJDY beneficiaries since the launch of the programme on August 15, 2014. In the first year itself, 145 million accounts had been opened by the end of March 2015. In the subsequent two years, around 70 million accounts had been added each year. As the number of families covered reached saturation level, the annual increase in the number of PMJDY account holders levelled off, at a little over 352 million as on March 27, 2019.

If we consider the deposits in PMJDY accounts (see Fig. 3.2), these have been steadily rising over the years. The total deposits in PMJDY accounts, as on 25 March 2015 was Rs 146 billion, or barely Rs 1,000 per beneficiary. This had risen the following year to Rs 357 billion as on 30 March 2016 or Rs 1,667 per beneficiary, and over the succeeding three years to Rs 961 billion on 27 March 2019 or Rs 2,725 per beneficiary, and has since crossed the figure of Rs 1,000 billion and an average deposit amount of Rs 3,000.[30]

The state-wise performance of the PMJDY (Annexure 3.2) throws up some interesting results. The largest number of beneficiaries under PMJDY was in Uttar Pradesh at 58 million, followed by Bihar with nearly 42 million and West Bengal with over 35 million. The states of the Hindi belt were generally the leading states in terms of PMJDY performance, largely on account of their higher population numbers. Interestingly, the southern states of Tamil Nadu, Andhra Pradesh, Telangana and Karnataka had low average deposits in PMJDY accounts and were much smaller than the national average. (This may perhaps be a result of the fact that most PMJDY account holders held multiple accounts, which included regular savings bank accounts as their primary accounts.) Of the major states, West Bengal had the highest average balance per PMJDY account at Rs 3,545 as of March 2019.

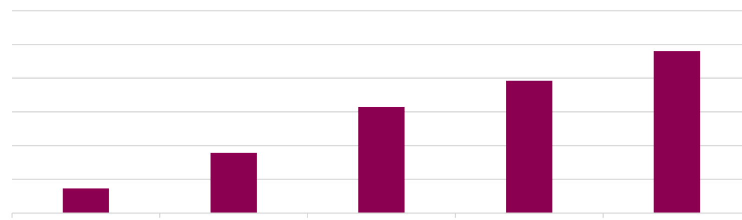

**Figure 3.2:** Deposits in PMJDY Accounts (in Rs. billion over the years)

*Source:* PMJDY, DFS data from https://pmjdy.gov.in/Archive, accessed on September 12, 2019.

> **Box 3.3: Findings of CDFI Study—Improving Engagement with PMJDY Accounts**
>
> Under the guidance of DFS, GoI, the CDFI undertook the initiative to improve engagement with PMJDY accounts. The key actor in the study was the Bank Mitra or the BC, who was the extended arm of the banking system.
>
> Though the RBI mandated banks to address the last mile connectivity issues, the study revealed that access to banks was not a major impediment; it was the psychological barriers of engagement which were present both among customers in rural as well as urban areas.
>
> The study pointed to the need to overhaul financial literacy initiatives through moving away from instructing users with the working of products and services offered, or didactic methods, to 'process literacy' on what customers need to do rather than why they need to do it. An issue identified was in respect of perceptions regarding various products linked to PMJDY accounts. Thus, people perceived the credit facility like overdraft as being free of cost since it came from the government.
>
> The CDFI study also found that 60 percent of respondents opened their PMJDY accounts with the primary intention to save. However, the growth of savings in them has been meagre. One of the findings of the CDFI study was that many respondents did not know what to do in case they misplaced the ATM pin or lost the RuPay card, etc. They feared humiliation about making such mistakes, which led to their reluctance to use these payment methods.
>
> Finally, bringing the unbanked population into formal banking would require that the bank is aligned with the customer needs rather than offering the same products that were used by the rich at a lower cost towards financial inclusion. The need was to align existing structures with the goals and aspirations of the target audience.
>
> Adapted from "Improving Engagement with PMJDY Accounts: Final Report August 2016" (New Delhi: Centre for Digital Financial Inclusion, 2017).

## PMJDY: Issues and Concerns

### *Unrealised Potential*

A Centre for Digital Financial Inclusion (CDFI) study (see Box 3.3) had suggested that the potential of PMJDY accounts to drive regular and consistent banking habits was being realised at a pace far slower than the government had planned.

### *Inoperative Accounts*

The crucial role played by the PMJDY in expanding bank account ownership of previously unbanked adults, but with high levels of account dormancy and inactivity, had been noted by independent studies. Over the years, doubts have been raised about the number of PMJDY accounts that were active and operational and the numbers that were dormant and inactive accounts. The exceptional performance achieved has been made possible because of the pressure on bankers to fulfil PMJDY targets, which in turn, have led to practices that resulted in bogus and duplicate accounts. Some reports had suggested that these could be around 10 percent of all new accounts. The data on inoperative and dormant accounts or accounts that have zero balances is not provided on the PMJDY site. Instead, the data suggests that all accounts are active.

The existence of the phenomenon of inoperative or dormant accounts has been accepted in the past. Indeed, in earlier years, the question of zero balance and dormant PMJDY accounts had been an active issue. Studies by MicroSave and Financial Inclusion Insights India Wave 4 Report in the past had reported that dormant accounts were in the range of 28 to 40 percent. This was validated by the Minister of State for Finance who stated in the Rajya Sabha that out of an estimated 312 million PMJDY accounts, 251.8 million accounts were operative in March 2018, suggesting that about 60 million accounts (or over 19 percent) were dormant or inoperative. According to recent reports the Finance Ministry has said in the Rajya Sabha that the number of zero balance accounts under PMJDY declined from 51 million (16.22 percent of total accounts in March 2018) to 50.7 million (14.37 percent of total accounts in March 2019).[31] More recently, the Department of Financial Services, quoting data sourced from banks said in response to a Bloomberg Quint Right to Information (RTI) query that Indian banks had about 362.4 million Jan Dhan account holders as of July 17, 2019. Of this, about 65 million or 17.9 percent of the accounts were inoperative.[32]

### *Underutilisation of Credit Facility*

Some of the critiques of the PMJDY suggest that the scheme has not adequately taken care of the credit requirements of the hitherto excluded people. Besides, the financial literacy drive has not been strong enough to encourage beneficiaries to take advantage of the scheme. Though the Mudra programme is providing livelihood credit, consumption credit is still not available to the poorer people. Further, para banking products such as daily recurring deposits are also not being offered, nor are innovative products such as gold-linked deposit schemes, which could be more appropriate for the rural poor. Overall, the use of banking channels and the digital facilities is a daunting task for the rural poor.[33]

### *Other Operational Issues*

Various issues of concern related to PMJDY, however, have receded into the background, as the numbers of account holders has increased, as also the balances in such accounts. These included the conversion of no-fee accounts, PMJDY accounts to fee-based accounts, or charging fees and penalties for minor violations; however, these have not attracted much attention. A major concern reported in the Inclusive Finance Report for 2018 was the evidence that surfaced regarding the use of PMJDY accounts for money laundering during the demonetisation process. Sixteen PSBs had reported significant deposits in individual PMJDY accounts well above the limit in such accounts. An RTI enquiry had suggested that there were over 2 million such accounts. This included a single PMJDY account that had nearly a billion rupees! Further, while it was understood that suspicious transactions were being investigated by the Finance Ministry by matching deposit amounts with the profile of depositors, the final position in this regard has still not been forthcoming.[34] In view of the fact that deposits have continued to rise steadily in the period since demonetisation till date, doubts are also being expressed on whether PMJDY accounts indeed had been the temporary parking place for unauthorised deposits on behalf of more privileged clients post-demonetisation.

Finally, while the PMJDY encourages every individual, especially adults, to open a bank account, there is need, as highlighted in the CDFI Report (Box 3.3) to take into account and address the wider social ramifications of the compulsive involvement, particularly of women in financial services. Implications drawn from a study in Andhra Pradesh suggest that any improvement of access to financial services by wives can risk a side effect in the form of physical abuse by husbands in a patriarchal society. The study findings provide a crucial insight into the consequences of improvement of access to financial services and women's empowerment for policy makers responsible for the achievement of the goals of financial inclusion and poverty alleviation.[35]

## Other PMJDY Products: Micro-Insurance and Pension

### *Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Pradhan Mantri Suraksha Bima Yojana (PMSBY)*

As part of the PMJDY package were two insurance schemes that were introduced towards providing a form of affordable social security. By April 1, 2019, 1055 banks, including the public and private sector, RRBs, cooperative and foreign banks have tied up with 10 life insurance companies and 1,045 banks have tied up with 10 general insurance companies for PMJJBY and PMSBY under the universal social security system for all Indians, especially the poor and under-

**Box 3.4: PMJDY Social Security Insurance Schemes**

**Pradhan Mantri Suraksha Bima Yojana (PMSBY)**

The Scheme is available to people in the age group 18 to 70 years with a bank/post office account who give their consent to join/enable auto-debit on or before May 1 for the coverage period June 1 to May 31 on an annual renewal basis. Aadhaar would be the primary KYC for the bank account. The risk coverage under the scheme is Rs 2,00,000 for accidental death and full disability and Rs 1,00,000 for partial disability. The premium of Rs 12 per annum is to be deducted from the account holder's bank/post office account.

**Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

The scheme is available to people in the age group of 18 to 50 years having a bank/post office account who give their consent to join/enable auto-debit. Aadhaar would be the primary KYC for the bank account. The life cover of Rs 2,00,000 is available for a one year period stretching from June 1 to May 31 and is renewable.

The premium is Rs 330 per annum which is to be auto-debited in one instalment from the subscriber's bank/post office account. To facilitate all those getting enrolled under PMJJBY for the first time during the middle of the policy period, payment of pro-rata premium has been allowed at a considerable low premium.

*Source:* DFS website "Social Security Schemes" https://financialservices.gov.in/sites/default/files/Social percent20Security percent20Schemes.pdf, accessed on September 19, 2019.

privileged. An extensive media-based campaign was undertaken to create awareness about the schemes including disseminating the material in Hindi, English and regional languages. Details of the schemes are given in Box 3.4.

Both the PMJJBY and PMSBY, after an initial boost during the period up to March 2016, appear to level off during the year 2016–17 before receiving a major spurt of enrolments during 2017 and 2018. The performance during 2018–19, though not as impressive as that during 2017–18, continues to be quite satisfactory.

Thus, at the end of March 2019, the cumulative enrolment in the PMJJBY was 59.17 million, from 53.29 million in March 2018.

Table 3.6 and Fig. 3.3 show the performance of PMJJBY over the years. The cumulative gross enrolments, which were 29.55 million in March 2016, had doubled to 59.17 million by March 2019. The cumulative number of claims disbursed, which was only 19,409 in March 2016, had increased nearly six fold to 135,212 by March 2019.

Table 3.7 and Fig. 3.4 presents the performance of the PMSBY over the years. Enrolments under this accident insurance scheme carrying a very nominal premium were very high in the initial years, but levelled off thereafter. Subsequently after enrolments were made in a campaign mode, there was a fresh boost, and as of March 2019, enrolments were 154.7 million or about 44 percent of all PMJDY beneficiaries on that date which is disappointing given the nominal premium chargeable in the subsidised scheme.

**Table 3.6: Performance of PMJJBY over the Years**

| PMJJBY | Gross Enrolments - Cumulative (Million) | No. of Claims Received - Cumulative (No.) | No. of Claims Disbursed - Cumulative (No.) |
|---|---|---|---|
| 2015-16 | 29.55 | 22,212 | 19,409 |
| 2016-17 | 31.02 | 62,166 | 59,118 |
| 2017-18 | 53.29 | 98,163 | 89,708 |
| 2018-19 | 59.17 | 1,45,763 | 1,35,212 |

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx accessed on September 13, 2019.

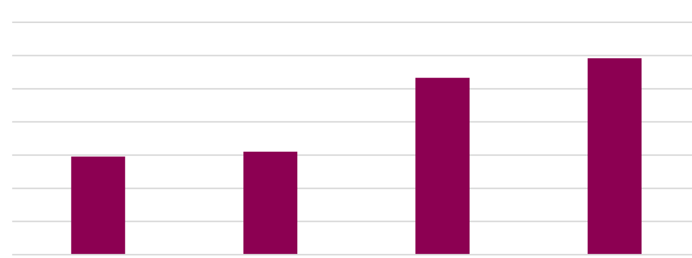

**Figure 3.3:** PMJJBY Cumulative Gross Enrolments (in million over the years)

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

Overall, if we consider the number of enrolments under the PMJJBY as a percentage of total PMJDY accounts, it is less than 17 percent as of March 2019. This too can only be considered a modest

**Table 3.7: Performance of PMSBY over the Years**

| Duration | Gross Enrolments - Cumulative (million) | No. of Claims Received - Cumulative (No.) | No. of Claims Disbursed - Cumulative (No.) |
|---|---|---|---|
| 2015-16 | 94.1 | 4,566 | 2,757 |
| 2016-17 | 99.5 | 12,534 | 9,403 |
| 2017-18 | 134.8 | 21,137 | 16,430 |
| 2018-19 | 154.7 | 40,749 | 32,176 |

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

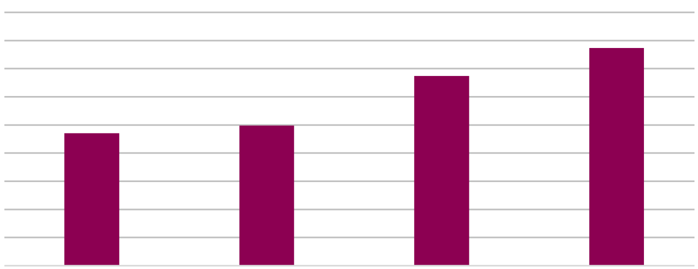

**Figure 3.4:** PMSBY Cumulative Gross Enrolments (in million over the years)

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

achievement. The number of claims disbursed under the PMSBY scheme has gone up from 2,757 as on March 2016 to 32,176 as of March 2019.

### *Atal Pension Yojana*

Finally, the Atal Pension Yojana (APY) is a guaranteed pension scheme for citizens of India, focussed on the workers of the unorganised sector who constitute more than 85 percent of the workforce (Box 3.5).

The cumulative subscriber base of APY has grown substantially from a figure of 2.48 million as of March 2016 to 15.42 million as of March 2019 (Table 3.8). The cumulative assets under management have grown from Rs 5.06 billion to Rs 68.6 billion over this period. Male subscribers were 8.94 million or 58 percent of the total as of March 2019 (Figs. 3.5 and 3.6).

Table 3.9 presents the performance with regard to the annual additions to the numbers of APY subscribers over the past three years. This reflects an uneven performance. While the additions during 2018–19 were significantly greater than in the previous two years, some states have registered a sustained increase in the annual intake while others have stagnated or even displayed a decline in the number of subscribers added during the year. Of the 10 leading states Uttar Pradesh and West Bengal are the only ones showing sustained and substantial increases in the number of subscribers with most

**Box 3.5: Atal Pension Yojana**

The scheme aims to provide monthly pension to eligible subscribers not covered under any organized pension scheme. APY is open to all bank and post office account holders in the age group of 18 to 40 years. Under APY, any subscriber can opt for a guaranteed pension of Rs 1,000 to Rs 5,000 (in multiples of Rs 1,000) receivable at the age of 60 years. The contributions to be made vary based on pension amount chosen. The key features of APY are as under:

- It is primarily focused on all citizens in the unorganised sector, who join the NPS. However, all citizens of the country in the eligible category may join the scheme.
- Minimum pension of Rs 1,000 or Rs 2,000 or Rs 3,000 or Rs 4,000 or Rs 5,000 is guaranteed by the GoI to the subscriber at the age of 60 years, with a minimum monthly contribution (for those joining at age 18) of Rs 42 or Rs 84 or Rs 126 or Rs 168 and Rs 210, respectively.
- After the subscriber's demise, the spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.
- After the demise of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber.
- If the actual returns during the accumulation phase are higher than the assumed returns for minimum guaranteed pension, such excess will be passed on to the subscriber. The mode of payment has been changed from monthly to monthly, quarterly and half yearly, keeping in consideration the seasonal income earners. Simplification of default penal charges has been undertaken to ease the burden on subscribers.
- Removal of closure of account clause after 24 months and continuation of the account till the time corpus is available in the account.

*Source:* DFS website "Social Security Schemes" https://financialservices.gov.in/sites/default/files/Social percent20Security percent20Schemes.pdf, accessed on September 19, 2019.

**Table 3.8: Performance of APY over the Years**

| Duration | Total Subscribers - Cumulative (million) | Assets under Management - Cumulative (Rs. billion) | Male Subscribers - Cumulative (million) | Female Subscribers - Cumulative (million) | Transgender Subscribers - Cumulative (No.) |
|---|---|---|---|---|---|
| 2015-16 | 2.48 | 5.06 | 1.54 | 0.94 | 255 |
| 2016-17 | 4.88 | 19 | 3.05 | 1.84 | 942 |
| 2017-18 | 9.71 | 38.18 | 5.82 | 3.89 | 2,088 |
| 2018-19 | 15.42 | 68.60 | 8.94 | 6.47 | 3,643 |

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

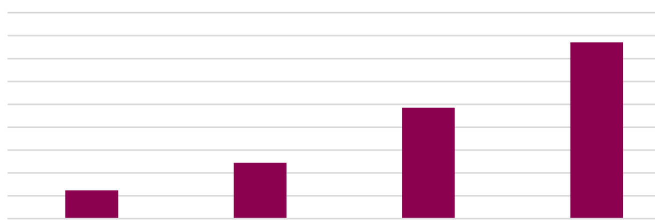

**Figure 3.5:** APY Cumulative Total Subscribers (in million over the years)

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

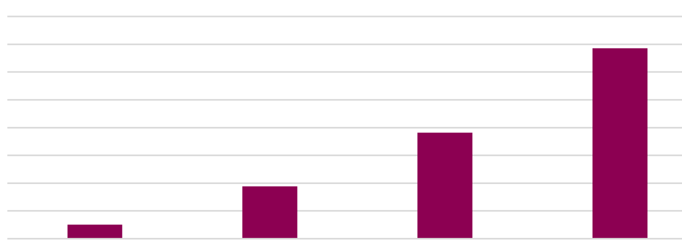

**Figure 3.6:** APY Asset under Management (Amount in Rs billion over the years)

*Source:* Department of Financial Services from http://dfs.dashboard.nic.in/DashboardF.aspx, accessed on September 13, 2019.

**Table 3.9: State-wise Number of Beneficiaries under Atal Pension Yojana in the Last Three Years - Top 10 States**

| Name of State | 2016- 2017 | 2017- 2018 | 2018-2019 |
|---|---|---|---|
| Uttar Pradesh | 6,31,282 | 7,31,032 | 8,89,590 |
| Bihar | 5,28,044 | 5,07,457 | 4,96,410 |
| West Bengal | 2,51,510 | 2,78,622 | 4,83,355 |
| Maharashtra | 4,02,484 | 3,32,960 | 4,55,542 |
| Karnataka | 3,33,545 | 3,29,300 | 4,36,536 |
| Tamil Nadu | 3,40,667 | 4,49,815 | 4,34,386 |
| Andhra Pradesh | 3,53,119 | 2,79,970 | 3,59,113 |
| Madhya Pradesh | 2,41,888 | 2,41,995 | 2,62,944 |
| Gujarat | 2,53,884 | 2,16,672 | 2,41,229 |
| Rajasthan | 2,83,118 | 2,05,400 | 2,06,683 |

*Source:* https://pib.gov.in/newsite/PrintRelease.aspx?relid=190774, accessed on September 20, 2019.

other states registering an uneven growth. Major states like Bihar and Rajasthan have shown a decline in the annual intake of APY subscribers from high levels in the initial year of the scheme.

Given the income levels and expenditure priorities for the bulk of the population, the APY performance has not been unsatisfactory. However, as pointed out by George and Bhattacharya (2019), the Atal Pension Yojana and the recently launched Pradhan Mantri Shram-Yogi Maandhan Yojana (PMSYM) of the Ministry of Labour and Employment aim to offer post-retirement income security through defined contribution plans. However, given that there is very limited exposure to equity in the investment mix of the pension funds, the low returns on investment in government securities and corporate bonds get further eroded when adjusted for inflation. What this means is that for an 18-year old who expects to receive Rs 3,000 monthly pension at 60 could end up receiving an inflation-adjusted pension of Rs 387 (at 5 percent inflation). Besides, the sole reliance on the banking and inexperienced BC channel agents for the sale and collection of subscriptions into APY poses major barriers to outreach.[36] The unattractive returns to and ineffective marketing of the pension product are factors that inhibit its more widespread acceptance.

## MEASURES BY APEX INSTITUTIONS FOR LAST MILE FINANCIAL INCLUSION[37]

As of September 30, 2018, 6,054 (75.51 percent) out of 8,018 villages identified across the country with a population of more than 5,000 were provided with banking services. Also, 4,81,303 (97.85 percent) out of 4,91,879 identified villages in the country having a population of less than 2,000 had been provided with banking services.

Apart from other wider initiatives, the RBI has been involved in ongoing measures to strengthen financial literacy and inclusion in the country. The Financial Inclusion and Development Department (FIDD) of the Reserve Bank is the nodal department for formulating and implementing policies for promoting financial inclusion in the country.

### RBI's National Strategy for Financial Inclusion: Still Emerging

The desired process to get the Financial Inclusion Plans (FIPs) integrated with Automated Data Extraction Project (ADEPT) has been initiated. The RBI has prepared the National Strategy for Financial Inclusion (NSFI) 2019–20 under the aegis

**Box 3.6: National Strategy for Financial Inclusion**

To achieve the objectives of financial inclusion in a co-ordinated and time-bound manner, the adoption of a National Financial Inclusion Strategy (NFIS) has accelerated significantly in the past decade. According to the World Bank, as of mid-2018, more than 35 countries, including Brazil, China, Indonesia, Peru and Nigeria have launched an NFIS and another 25 countries are in the process of formulating a strategy. Further, several countries have also updated their original NFIS.

The National Strategy for Financial Inclusion for India 2019–24 has been prepared by the Reserve Bank under the aegis of the Financial Inclusion Advisory Committee (FIAC) and is based on the inputs and suggestions from the Government of India, other financial sector regulators viz., Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). This document also reflects various outcomes from wide-ranging consultations held with a range of stakeholders and market players, including National Bank for Agriculture and Rural Development (NABARD), National Payments Corporation of India (NPCI), Commercial Banks, Non-Governmental Organisations (NGOs), and Self-Regulatory Organisations (SROs), etc.

The document includes an analysis of the status and constraints in financial inclusion in India, specific financial inclusion goals, action plan to reach the goals and the mechanism to measure progress. The strategy envisages to make formal financial services available, accessible and affordable to all citizens in a safe and transparent manner to support inclusive and resilient multi-stakeholder-led growth. It proposes forward-looking recommendations to help achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model; access to livelihood and skills development, financial literacy and education, customer protection and grievance redressal with effective co-ordination. The strategy aims to focus on deepening the reach, usage and sustainability of financial inclusion. The Financial Stability and Development Council Sub-Committee approved the document on March 14, 2019.

*Source:* Reserve Bank of India Annual Report 2018–19.

of the Financial Inclusion Advisory Committee (FIAC) to ensure access to financial services to all the citizens in a safe and transparent manner. The primary objective is to enable the financially excluded to have an access to financial services from the financial institutions. The strategy, which has been several years in preparation (see previous RBI Annual Reports), is understood to be awaiting clearance from the Finance Ministry and is not yet in the public domain. Background details of the NSFI provided by the RBI are given in Box 3.6.

## Financial Literacy Measures[38]

It is observed in an important recent document on financial literacy that approximately 76 percent Indians do not adequately understand key financial concepts. Further, even about 27 percent financial borrowers are not financially literate.[39] Financial literacy is crucial for the optimal use of various financial products and consequently generating adequate sustainable demand for absorbing cost-effective and convenient delivery of financial services. Financial literacy enhances financial empowerment of consumers, which enables them to make rational choices. In this context, the RBI undertook a number of new financial literacy initiatives during 2018–19.

### *RBI's Programmes for Financial Literacy*

- Impact Assessment of Pilot Project on Centres of Financial Literacy (CFL): The baseline survey forming part of the impact assessment of the pilot Centres for Financial Literacy (CFL) project has been completed during 2018–19. Some of the observations/findings of the baseline survey are as under:
  a. Many socially and economically marginalised communities have relatively lower exposure to financial literacy initiatives thereby requiring more focused approach to these communities.
  b. Out of the various financial education initiatives, one-to-one discussion and group training or awareness-generation programme was found to be effective.
  c. With regard to the effectiveness of media/channel used for dissemination of messages, television has the highest reach among the targeted rural population owing to its ability to transmit both audio and visual contents and thereby disseminating messages with higher visibility and recall for longer periods.

  The survey has also suggested that adequate efforts on practical exposure to use of digital financial services and awareness on the grievance redressal mechanism are essential in helping people onboard to use digital financial services. Further, there is a need to periodically review the existing training content and align them with the needs of the community in order to enable better adoption of desirable behaviour.

  The CFL project, which was launched in 80 blocks in nine states in 2017 has been extended to 20 tribal blocks of Rajasthan, Jharkhand and Madhya Pradesh, and will run for a period of two years.[40]
- Train the Trainers' Programme for Rural Branch Managers and Financial Literacy Counsellors: To build capacity and skills and sensitise the counsellors of Financial Literacy Centres (FLCs)[41] and rural bank branch managers for delivering basic financial literacy at the ground level, a two-tier programme on financial literacy was designed. During the first tier of the programme, the Chief Literacy Officers (CLOs) and Lead Literacy Officers (LLOs) of the banks are sensitised every year at CAB, Pune. The second tier of the programme involves training of FLC counsellors, rural branch managers of the bank and the sponsored RRBs by the LLOs of the banks. The LLOs have been advised to conduct the tier II programme in co-ordination with the regional/staff training centres of banks.
- "Train the Trainers" Programme for Capacity Building of Business Correspondents: To build the capacity and skills of Business Correspondents for effectively delivering financial services at the grass-root level, a two-tier "train the trainers" programme, "Skill Upgradation for Performance of Resources—Business Correspondents" (SUPER-B) was designed by the department, with the following objectives: (a) to train a group of motivated trainers who will take the responsibility of training their field-level functionaries who deal with the Business Correspondents; (b) to create a professional Business Correspondents' workforce to cater to the needs of the people beyond the traditional financial products; and (c) to provide a forum to share the best practices on Business Correspondents framework and possible convergence across the banks and apprise them of the potential opportunities and risks with rapid expansion of Business Correspondents network.

  In order to strengthen the Business Correspondents model, "Train the Trainers" programme for the capacity building of BCs was rolled out in March 2019 in co-ordination with College of Agricultural Banking (CAB), Pune. The banks' training faculty who participated in tier-I of this programme has been advised to initiate the tier-II leg of the programme for rural branch managers in their respective jurisdictions.

- Setting up of National Centre for Financial Education (NCFE): The NCFE has been set up under Section 8 of the Companies Act, 2013 as per the directions of the Financial Stability and Development Council-Sub Committee (FSDC-SC) with a share capital of Rs 1,000 million (shared among RBI, SEBI, IRDAI and PFRDA in the ratio of 30 percent, 30 percent, 30 percent and 10 percent, respectively). The NCFE continued its focus on promoting financial education across India for all sections of the population under the aegis of the National Strategy for Financial Education for creating financial awareness and empowerment through financial education campaigns across the country in the form of seminars, workshops, conclaves, trainings, programmes, campaigns, etc.
- Financial Literacy Week 2019: The Financial Literacy Week is an initiative of the Reserve Bank to promote awareness on key topics every year through a focussed campaign. This year, Financial Literacy Week was observed during June 3–7, 2019 on the theme of "Farmers" and how they benefit by being a part of the formal banking system. To build awareness and disseminate financial literacy messages to the farming community, content in the form of posters/leaflets and audio visuals on Responsible Borrowing & Agricultural Finance were prepared. Banks were advised to display the posters and content in their rural bank branches, FLCs, ATMs and websites. Further, the Reserve Bank also undertook a centralised mass media campaign during the month of June 2019 on Doordarshan and All India Radio to disseminate essential financial awareness messages to farmers.
- Financial Literacy Activities Conducted by FLCs: At end-March 2019, 1,483 FLCs were operational in the country. During 2018–19, 1,45,427 financial literacy-related activities were conducted by the FLCs as compared to 1,29,280 activities during the preceding year.

### *NABARD's Role in Promotion of Financial Literacy*

- Creating Financial Awareness: On the demand side, NABARD had supported financial literacy initiatives such as the setting up of financial literacy centres (FLCs), supporting financial literacy awareness camps and printing of financial literacy material. Grant support has been extended to RRBs and RCBs for setting up FLCs. The RRBs have so far set up 384 FLCs while RCBs have set up 1,086 FLCs.

  Awareness about financial products and services was disseminated using various media through needs-based, targeted Financial Literacy Programmes (FLPs). So far, around 2,50,000 such programmes have been conducted through banks, FLCs, Centres for Financial Literacy (CFLs), and NGOs with assistance from the Financial Inclusion Fund (FIF). Besides NABARD's digital Financial Literacy Awareness Programmes (dFLAPs), it has extended support to banks for conducting targeted financial literacy programmes in rural areas through their FLCs and rural branches, especially in the 115 aspirational districts identified by the GoI.

  It is felt that in order to increase awareness about financial products on a large scale, a concerted approach is required. For instance, counselling centres could be set up by banks to guide their customers, particularly in rural areas, BCs/BFs and schoolteachers could engage in awareness generation activities. Experience has shown that information e-kiosks and mobile demonstration vans have been instrumental in disseminating knowledge on financial products and services in rural areas.
- Capacity Building Support: NABARD extends support towards capacity building of various stakeholders, namely, rural people, bank staff, BCs, Bank Sakhis, BFs, voluntary organisations, as well as organisations set up for the purpose of financial education such as FLCs and CFLs through national-level training establishments such as Bankers Institute of Rural Development (BIRD), Vaikunth Mehta National Institute of Cooperative Management (VAMNICOM), College of Agricultural Banking, National Institute of Bank Management (NIBM), etc., for creating a proactive attitude towards financial inclusion. Further, the Centre for Research on Financial Inclusion and Microfinance (CRFIM) set up by NABARD provides inputs for policy and design improvements in extending quality financial services to the poor, with a focus on microfinance. Further, to strengthen policy advocacy on financial inclusion, national seminars, publication of books, exhibitions, etc., are supported. Examinations by accredited institutions, leading to certification of BCs to

provide viable and efficient digital transactions, are supported. Rural Self Employment Training Institutes (RSETIs) are supported with training infrastructure to enable them to provide efficient livelihood training and handholding of rural youth for setting up their own enterprises.

## NABARD's Initiatives towards Universal Financial Inclusion

### *Initiatives in Banking Technology*

NABARD has adopted a two-pronged approach to financial inclusion,

- Facilitate the supply of financial products and services;
- Create a demand for those products through financial education/literacy and awareness.

NABARD's endeavour is to connect banks with the remote parts of rural areas. This is undertaken through the institutional development of RRBs and RCBs. NABARD has also nurtured the SHG Bank Linkage Programme (SBLP), which has connected about 110 million poor rural households across India with the formal financial system.

Financial inclusion in India is supported by the FIF to improve the financial outreach in rural areas while also educating the masses about financial products. Bringing all licenced RCBs and RRBs onto Core Banking Solution (CBS) platforms and supporting CBS, plus enabling services over the last 10 years, is a testimony to the efforts which have helped improve the provision of digital financial products/services to the rural masses while promoting financial literacy.

The GoI is promoting digital payments by offering incentives for the adoption of new technologies, platforms and apps that are market proven. NABARD as a facilitator is playing a major role in bridging the supply–demand gap through its Financial Inclusion Fund (FIF). All RRBs and licensed RCBs are now on the CBS platform as on date. NABARD has supported the grounding of post-CBS Information and Communications Technology (ICT) Solutions in RRBs and RCBs.[42]

- CBS Platform and Direct Benefit Transfers (DBTs): The CBS platform provides digital banking services to remote rural areas. NABARD supported weak RRBs and RCBs to implement CBS in 201 RCBs (14 State Co-operative Banks [StCBs] and 187 DCCBs). It also helped the RCBs to credit DBT money seamlessly into the accounts of their customers. The link to the RBI's payment gateways of Real Time Gross Settlement (RTGS) or National Electronics Funds Transfer System (NEFT), and rural touch-points of microATMs helped beneficiaries to receive their DBT benefits.
- Enabling Technologies and Initiatives: Since India has adopted a multi-agency and multi-modal approach to rural financial inclusion, NABARD supported the integration of CBS with CBS plus services, such as ATM, microATM and Atal Pension Yojana (APY).
- The Bank Sakhi model, which co-opts the SHG members as BCAs of the bank, was pioneered by NABARD in order to provide time-flexible, acceptable, trustworthy and dependable BC services. Further, dual authentication at BC points is supported so as to facilitate SHG transactions at the micro ATM level, thus saving SHG members from visiting faraway branches. Digital transactions are promoted through NABARD in the form of Bharat Interface for Money (BHIM) incentive schemes for individuals and merchants.
- Payment Acceptance Infrastructure: To cover all the farmers with RuPay Kisan Credit Cards (RKCCs) on mission mode for full coverage of KCC accounts, RRBs and RCBs were supported for Europay, MasterCard, Visa (EMV) chip-based RKCCs. MicroATMs have been supported in schools, colleges, milk societies, and other societies to enhance the ability of the farmers to use their RKCCs. Merchant channel transactions are also supported through the deployment of PoS/mPoS terminals in 1 lakh villages in tier 3 to tier 6 centres and 20 lakh BHIM Aadhaar Pay devices.
- Onboarding for Regulatory Requirements: Support was extended to rural banks for meeting regulatory requirements such as C-KYC. Further, SCBs and RRBs have been supported for the opening of Aadhaar Enrolment and Update Centres.
- Connectivity for Banking Transactions: In remote areas, support for solar powered VSATs, etc., has been provided for fixed customer service points in SSAs as also to facilitate opening of new bank branches in Left Wing Extremism affected districts. Mobile signal boosters were supported to enable smooth operation of the transactions at BC points in these areas.
- Digitising Self Help Groups: NABARD's EShakti is designed to capture the demographic and financial profiles of the SHGs as well as their members, so as to bring them under the fold of financial inclusion, and thereby enable access to a wider range of financial services along with increasing the bankers' comfort in credit appraisal and linkage. The project now covers

100 districts in 22 states, and one union territory across the length and breadth of the country. As on March 31, 2019, a total of 4,34,000 SHGs were digitised involving 4.79 million members across the country. An estimated 5,00,000 SHGs covering around 6 million members are expected to be digitised in 100 districts across 22 states and one UT, where EShakti is under implementation during 2019–20 (further details on EShakti are provided in Chapter 6).

India has come a long way towards its goal to provide basic banking services to all. The government's push to increase account coverage through biometric identification has narrowed the account ownership gap between the rich and poor, as well as between men and women. However, there are pockets of exclusion that need initiatives for holistic financial inclusion. This can be further achieved by focussing on digital banking through BC channels and by creation of financial awareness among unbanked villages/households. Finally, improvement of technology, knowledge database and Internet of Things (IOT) form the basis for financial inclusion, and the steps taken by NABARD go a long way in bringing each and every household into the formal financial system.

### *Sanctions and Disbursements under the Financial Inclusion Fund*

Based on the recommendations of the Committee on Financial Inclusion, GoI constituted two funds—the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF) in NABARD with a corpus of Rs 5 billion each to be contributed by RBI, GoI and NABARD in the ratio of 40:40:20, respectively. The FIF and FITF were merged in July 2015 into a single fund called Financial Inclusion Fund (FIF). As on March 31, 2019, the total balance in the fund was Rs 20.88 billion.

As on March 31, 2019, cumulative sanctions under FIF stood at Rs 39.03 billion with disbursements of Rs 20.17 billion. During the year, a major part of the grant assistance was disbursed to commercial banks (Rs 1.31 billion) followed by Co-operative Banks (Rs 870.1 million) and RRBs (Rs 522.3 million). Sanctions and disbursements by year and activity are presented in Tables 3.10 and 3.11, respectively.

### *Promoting Financial Inclusion of Underserved Areas*

NABARD has actively supported any initiative that promotes financial inclusion, banking technology adoption, and financial literacy in remote and underserved areas. Across the entire country it has facilitated the adoption of card technology, payment acceptance infrastructure (ATM, microATM or PoS), and adoption of mobile banking technology including BHIM. Some of its initiatives are presented below:

**Table 3.10: Financial Inclusion Fund-Sanction and Disbursement (in Rs. million)**

| Year | Sanction | Disbursement |
|---|---|---|
| 2016-17 | 11,314.6 | 6,283.3 |
| 2017-18 | 7,128.0 | 2,947.7 |
| 2018-19# | 5,030.9 | 4,487.5 |

#Provisional

**Table 3.11: Disbursement for Major Activities under FIF during 2018–19 (in Rs. million)**

| S. No. | Activity | Amount |
|---|---|---|
| 1. | Financial Literacy Awareness Programme | 225.0 |
| 2. | Mobile Demo Vans | 177.3 |
| 3. | V-SATs | 96.4 |
| 4. | PoS/mPoS | 50.0 |
| 5. | MicroATM | 214.2 |
| 6. | BHIM Aadhaar Pay Devices | 288.6 |
| 7. | Aadhaar Enrolment Centres | 853.8 |

- Demonstration of banking technology through mobile vans: In order to bring digital financial literacy to the remote areas, NABARD supported purchase of mobile vans for demonstration of banking technology; 271 vans have been supported thus far.
- NABARD is extending support to Commercial Banks and RRBs in setting up of the banking kiosks in unbanked villages in the north-eastern region that have a population of less than 500, scattered across difficult terrain or located near army posts or in prohibited areas where BC services are not available.
- In order to increase the digital payment acceptance infrastructure in rural areas, the scheme for the deployment of PoS terminals in tier V and tier VI centres was extended to tiers III and IV during the year. As on March 31, 2019, commercial banks, cooperative banks and RRBs have received grants for the deployment of over 2,00,000 PoS devices.
- NABARD is providing support for banks to port their SHG transactions to their BC channel through the "dual authentication" facility on their microATMs. The financial support is

for the development and installation of the software patch both at the CBS of banks and the microATMs at the BC points. This facility will allow SHGs to operate their accounts at their doorstep.

- NABARD is extending support to RRBs and RCBs to on-board to the Bharat Interface for Money (BHIM): Unified Payments Interface (UPI) platform. This will help them to service their largely rural clientele through mobile-

**Box 3.7: NABARD's Pilot Project on Comprehensive Financial Inclusion**

Comprehensive Financial Inclusion as a pilot project was designed to assess whether comprehensive interventions can ensure accessibility of the complete array of financial products and services by all individuals in a target location.

**Methodology:** A pre-pilot survey in a sub-service area (SSA) was followed by the preparation of an action plan. This was followed by customised and target-specific action for creating awareness and demand for financial services. The project was implemented through RRBs to provide digital banking services on the supply side. A post-pilot survey was conducted to assess impact. The surveys covered 6,332 households, 23,113 individuals and 367 merchants.

**Stakeholders:** The RRB branch servicing the area, local NGO, Gram Sarpanch, panchayat, community, government departments and NABARD. A Village Level Monitoring Committee (VLMC) ensured a demand-driven approach to inclusive banking.

**Period of Pilot Project:** July 2017 to March 2019

**Funding:** Financial Inclusion Fund

**Location:** Five remote, backward SSAs namely Kakalabari (Baksa district) in Assam, Malaka (Fatehpur district) in Uttar Pradesh, Anjehalli (Dharmapuri district) in Tamil Nadu, Raiyana (Banswara district) in Rajasthan and Mankatiya (Pithoragarh district) in Uttarakhand.

**Impact**

- The banking correspondent became an effective banking touch point—75 percent population visited a BC in the post-pilot survey as compared to 20 percent pre-pilot.
- Coverage of population with saving bank accounts increased to 92 percent and issuance of debit cards increased to 62 percent.
- Enrolment under life and accident insurance schemes increased nearly five times covering 78 percent of the target population and enrolment under health insurance doubled from 32 percent to 67 percent of the population.
- Enrolment under Atal Pension Yojana grew three times covering 42 percent of the eligible population.
- Use of the banking channel for outward remittance grew from 30 percent to 82 percent.
- All banks reported an increase in the loan portfolio.

**Learning**

- Comprehensive coverage and provision of financial services within an area-based approach proved successful.
- Assisted financial literacy is necessary to remove fear of digital banking.
- Demand-driven financial inclusion initiatives go a long way in promoting sustainability.
- Involvement of the community and the local bodies like the gram panchayat help to crystallise demand.
- Livelihood initiatives acted as catalysts for financial inclusion.
- Multifaceted and repeated interactions between bankers and the community build mutual trust and improve the credit and recovery culture.
- The banking digital environment is poised to draw upon the lessons from this pilot project to reach out to the last person towards inclusive growth.

*Source:* NABARD, Annual Report 2018-19, NABARD, Mumbai, https://www.nabard.org/auth/writereaddata/tender/3107191001NAR percent202018-19 percent20(E), percent20Web-RGB percent20(Checked percent20- percent20Final), percent202019.07.29, percent200830hrs.pdf, accessed on September 5, 2019 and other NABARD resources.

based banking to conduct real time banking such as transfer of money and digital payments to various product and services providers. To enhance the payment acceptance infrastructure at merchant establishments and to enable smooth digital transactions support has been provided for deployment of 2 million BHIM Aadhaar Pay devices including merchant on-boarding.

- Finally, NABARD initiated a pilot project towards comprehensive financial inclusion in five backward SSAs of the country. This has provided lessons for future implementation of digital banking services in underserved areas. The results of the successful pilot are given in Box 3.7.

## CONCLUDING OBSERVATIONS

Considering the status and prospects of the three important pillars of last mile banking, it is clear that all areas reflect a state of unfinished business. The BC model, which is the mainstay of last mile delivery of financial services, has been showing signs of viability through increased volumes, diversified products and interoperability. BC partnerships for credit delivery through MFIs have been growing successfully. With the banks effectively having in-house BCs through acquisition of MFIs, a profitable channel for integrated services has opened up. The emergence of new players such as SFBs and PBs and new products has the potential to further expand the outreach of useful financial services and activate rural accounts. Time-bound training and certification of BCs, though facing some challenges, will go a long way to contribute to greater understanding of banking products and in improving the quality and off-take of financial services.

While the PMJDY has achieved near-universal coverage and related schemes like PSBY, PMJJY and APY have also reported impressive achievements, there remains scope for greater activity in the basic savings accounts and the use of the associated credit facility. The social security schemes too at present cover only a small proportion of the PMJDY account holders. The limited outreach of the insurance and pension products could be as a result of barriers created by low financial literacy and experience of financial services. For this the banking infrastructure has to be strengthened especially in view of the challenges of the adoption of digital technology. In this respect, the entire range of stakeholders has a role to play. However, the efforts of all have to be brought together by the apex financial institutions, especially RBI. While a large number of initiatives have been taken by the RBI and NABARD to provide the support infrastructure, there is need for a big new push that brings together the inclusive finance efforts in a coherent manner. Towards this end, the government urgently needs to implement the National Strategy for Financial Inclusion that has long been under preparation.

### ANNEXURE 3.1: Profile and Operational Details of Interviewed BC Agents from the Indore Region

| S. No. | BC 1 | BC 2 | BC 3 | BC 4 |
|---|---|---|---|---|
| BC Operator | Mr. DJ, Computer Services Store, BC Kiosk Operator, | Mr. ST, Star Point BC | Mrs. RS, *BC Sakhi* | Mr. KK, Customer Service Point |
| Location | Anil Nagar Indore | Sukhliya Indore | Bhorasla | Sanwer |
| Bank | Bank of Baroda | Bank of India | MPGB | State Bank of India |
| Start date | Oct 2018 as BC (Shop established in 2014) | Since Jul 2015 | 4 years | 2009 |
| Number of accounts | Over 1,000 accounts | Over 5,000 accounts | Over 1,000 accounts, 500+ active | More than 30,000 accounts, 20,000 active accounts out of which 10,000 are pensioners' accounts |
| Services provided | (i) Zero balance Account opening; (ii) AEPS; (iii) Debit Card based payment; (iv) APY; (v) PMJJBY, PMSBY | i) Zero balance Account opening; (ii) AEPS; (iii) Debit Card based payment; (iv) APY; (v) PMJJBY, PMSBY | i) Zero balance Account opening; (ii) AEPS; (iii) Debit Card based payment; (iv) APY; (v) PMJJBY, PMSBY; (vi) Indirect through bank – FD, RD | i) Zero balance Account opening; (ii) AEPS; (iii) Debit Card based payment; (iv) APY; (v) PMJJBY, PMSBY |
| IIBF BC certification | Cleared, NICT provided training for the same | Cleared, NICT provided training for the same | Not Cleared, NICT provided training for the same | Cleared, NICT provided training for the same |
| Monthly transaction amount | Rs. 4,00,000 | Rs. 10 million | Rs. 2,50,000 | Rs. 10 million |
| Monthly Earning / Viability | Rs. 1000 through BC+ additional income through other activities | Rs. 50,000 | 1,500 | Rs. 20,000 to Rs. 25,000 per month, from which staff salary is paid. Operation is borderline viable, feasible with other activities only |
| Fees / Share in transaction earnings | 80% given to operator 20% to NICT | 80% given to operator 20% to NICT | 80% given to operator 20% to NICT | 65% of commission to BC, 35 % to NICT as OD account is managed by NICT, Different arrangement in SBI |
| Overdraft / Cash Credit Limit | Rs. 10,000 | Rs. 10,000 | Rs. 10,000 | Managed by NICT |
| Other services | MP Online, Photocopy, HDFC CSC for auto loan | No other services offered. Did not wish to dilute the business. | Partner with Shriram Life Insurance as agent | MP Online, Electricity bill. |
| Comment | Only proof of transaction is normal printout, trust of customer would increase if printout is given on bank stationery | Many small commercial establishments in the area so deposits are high; more than 60% of accounts are due to government schemes. | Selected by her SHG Priyasakhi Mahila Sangh (PMS) as BC agent. She has shifted her office to the main road recently to increase business. The insurance company pays office rent and commission. Monthly policy target is met with assistance from husband. All SHG members transact through her. | Being in a rural area, even when the number of accounts is high, average amount of transaction is very low which results in limited total turnover. Commission arrangement with NICT and SBI is not very lucrative and standalone BC business is only borderline viable. |

**ANNEXURE 3.2: State-wise PMJDY Accounts and RuPay Cards as on September 4, 2019**

| S. No | State Name | Beneficiaries at Rural/Semi-urban Centre Bank Branches | Beneficiaries at Urban/Metro Centre Bank Branches | Total Beneficiaries | Balance in Beneficiary Accounts (in Rs million) | No. of RuPay Cards issued to Beneficiaries |
|---|---|---|---|---|---|---|
| 1 | Andaman & Nicobar Islands | 33,177 | 16,800 | 49,977 | 234.1 | 41,288 |
| 2 | Andhra Pradesh | 50,35,413 | 51,09,233 | 1,01,44,646 | 19,102.2 | 82,54,669 |
| 3 | Arunachal Pradesh | 1,91,260 | 1,21,957 | 3,13,217 | 1,110.9 | 2,72,791 |
| 4 | Assam | 1,18,89,413 | 37,38,106 | 1,56,27,519 | 36,804.7 | 1,21,37,503 |
| 5 | Bihar | 2,63,99,274 | 1,53,54,675 | 4,17,53,949 | 10,58,96.3 | 3,41,30,504 |
| 6 | Chandigarh | 44,808 | 2,09,690 | 2,54,498 | 1,098.6 | 1,87,552 |
| 7 | Chhattisgarh | 93,37,450 | 51,43,695 | 1,44,81,145 | 31,554.9 | 10,332,762 |
| 8 | Dadra & Nagar Haveli | 97,774 | 24,562 | 1,22,336 | 517.5 | 81,984 |
| 9 | Daman & Diu | 24,494 | 29,671 | 54,165 | 195.5 | 41,860 |
| 10 | Delhi | 5,38,080 | 39,53,120 | 44,91,200 | 18,500.6 | 38,26,626 |
| 11 | Goa | 1,19,655 | 42,922 | 1,62,577 | 939.8 | 1,22,491 |
| 12 | Gujarat | 74,53,055 | 69,68,625 | 1,44,21,680 | 44,424.0 | 1,19,05,049 |
| 13 | Haryana | 36,32,829 | 36,83,269 | 73,16,098 | 32,915.6 | 61,54,514 |
| 14 | Himachal Pradesh | 10,89,793 | 1,45,804 | 12,35,597 | 6,452.5 | 9,86,565 |
| 15 | Jammu & Kashmir | 18,26,049 | 3,24,717 | 21,50,766 | 9,407.0 | 17,21,411 |
| 16 | Jharkhand | 92,96,254 | 35,40,072 | 12,836,326 | 34,430.0 | 10,230,696 |
| 17 | Karnataka | 82,06,454 | 65,00,869 | 1,47,07,323 | 36,834.0 | 1,02,54,222 |
| 18 | Kerala | 20,37,040 | 21,27,577 | 41,64,617 | 13,474.2 | 29,78,283 |
| 19 | Lakshadweep | 4,444 | 938 | 5,382 | 87.6 | 5,188 |
| 20 | Madhya Pradesh | 1,48,25,812 | 1,70,41,094 | 3,18,66,906 | 50,857.5 | 2,48,77,393 |
| 21 | Maharashtra | 1,27,31,570 | 1,30,85,057 | 2,58,16,627 | 61,407.5 | 1,84,72,303 |
| 22 | Manipur | 4,00,478 | 5,22,925 | 9,23,403 | 1,983.6 | 7,06,181 |
| 23 | Meghalaya | 3,81,321 | 70,145 | 4,51,466 | 1,934.2 | 3,15,238 |
| 24 | Mizoram | 1,17,929 | 1,87,547 | 3,05,476 | 916.0 | 84,147 |
| 25 | Nagaland | 1,19,691 | 1,66,968 | 2,86,659 | 583.9 | 2,36,068 |
| 26 | Odisha | 1,08.71,177 | 39,64,693 | 1,48,35,870 | 45,539.1 | 1,22,96,828 |
| 27 | Puducherry | 69,022 | 85,386 | 1,54,408 | 401.7 | 1,15,341 |
| 28 | Punjab | 39,39,867 | 29,18,554 | 68,58,421 | 25,555.8 | 55,80,686 |
| 29 | Rajasthan | 1,54,70,851 | 1,05,99,636 | 2,60,70,487 | 77,185.7 | 2,04,66,688 |
| 30 | Sikkim | 65,633 | 28,116 | 93,749 | 394.4 | 71,095 |
| 31 | Tamil Nadu | 48,46,099 | 55,52,807 | 1,03,98,906 | 19,542.0 | 85,52,949 |
| 32 | Telangana | 48,88,909 | 48,06,847 | 96,95,756 | 16,285.1 | 79,36,150 |
| 33 | Tripura | 6,27,248 | 2,56,916 | 8,84,164 | 6,849.7 | 6,85,856 |
| 34 | Uttar Pradesh | 35,387,704 | 22,876,822 | 58,264,526 | 187,023.1 | 47,049,914 |
| 35 | Uttarakhand | 1,564,811 | 952,183 | 2,516,994 | 11,578.3 | 1,999,795 |
| 36 | West Bengal | 23,240,505 | 11,933,341 | 35,173,846 | 124,439.4 | 28,970,658 |
| 37 | Total | 216,805,343 | 152,085,339 | 368,890,682 | 1,026,457.0 | 292,083,248 |

*Source:* https://pmjdy.gov.in/statewise-statistics, accessed on September 18, 2019.

## NOTES AND REFERENCES

1 Detailed findings of the study are provided in Inclusive Finance India Report 2018.

2 BCFI is a federation of 45 corporate BCs, which manage 786,000 BC agents as of April 2019. It has applied to the RBI in August 2019 to receive approval as a self-regulating organisation (SRO).

3 Ashwin Manikandan, https://economictimes.indiatimes.com/industry/banking/finance/banking/business-correspondents-income-model-based-on-commissions-unviable/articleshow/68826662.cms?from=mdr dated April 11, 2019, accessed on September 27, 2019.

4 See Saurabh Kumar, "Paytm Payments Bank Focuses on Transaction Volumes," https://www.financialexpress.com/industry/banking-finance/paytm-payments-bank-focuses-on-transaction-volumes/1615137/, accessed on September 27, 2019.

5 Such shops will also be able to collect digital payments through Aadhaar-enabled payments for rations, and will also offer value-added services such as bill payments and mobile recharges. See "YES Bank Ties Up with Maharashtra To Onboard Fair Price Shops as BCs," https://www.thehindubusinessline.com/money-and-banking/yes-bank-ties-up-with-maharashtra-to-onboard-fair-price-shops-as-bcs/article26063009.ece dated January 22, 2019, accessed on September 27, 2019.

6 https://ippbonline.com/documents/31498/0/Press+release_AePS+launch+and+1st+Annniversary+Celebrations_Sep+9_Final+media+version.pdf/3ec7eaa5-a0f6-4c85-5123-2ea752fe0795, accessed on September 28, 2019.

7 Particulars of functioning BCs are now available at https://www.iba.org.in/bcregistry/. Full data, however, is understood to be not available for non PMJDY BCs.

8 Some banks have suggested that the BC registry is troublesome requirement in view of the high attrition rates and the lengthy process of certification. However, certification is not seen as a challenge for the staff of in-house BCs of banks as they are trained graduates with a fair understanding of banking.

9 For a more detailed presentation see http://bcfi.org.in/wp-content/uploads/2019/04/BCFI-DFS-Brainstorming-Session-on-FI-Submission-of-Problems-Solutions-150419.pdf, accessed on September 23, 2019.

10 As noted by Mr Sasidhar Tumuluri, Chairperson, BCFI, nobody has done any empirical study from the perspective of costing models of various channels. For example, remittance network has a very metropolitan base that would have different cost from a rural PMJDY network outlet versus bank decongestion model where a bank's branch moves its business out to BC outlets nearby for the purpose of decongestion of its premises. It would not be wise to paint different business models with the same brush from the perspective of costing/margins (interview with the author, September 2019).

11 See Pratik Bhakta, July 2019, "Private Sector Banks Go Easy on Correspondents Network," https://economictimes.indiatimes.com/industry/banking/finance/banking/private-sector-banks-go-easy-on-correspondents-network/articleshow/70286206.cms, accessed on September 27, 2019.

12 Based on discussions with chairperson and staff of NICT, NICT online resources and interviews with kiosk operators.

13 Under kiosk banking, a village-level entrepreneur operates an internet-supported personal computer (PC) at a kiosk for providing basic banking services through biometric identification process. Kiosk banking has been a successful initiative in making small value payments in the rural hinterland like MNREGS Payments, social security and scholarship payments, deposit and withdrawal, etc. NICT as a BC is a link between the bank and the kiosk operator (KO). Its role includes creating, updating, assigning transaction limits and providing support to various kiosk operators.

14 One of the earliest kiosk operators in Sanwer is understood to have expanded so much that their customer base is larger than that of the main bank branch.

15 By way of example, a deposit or withdrawal transaction of Rs 300 would earn a kiosk operator only about one rupee by way of commission at current rates.

16 The large-scale introduction of BC Sakhis from among the ranks of SHG members is proposed in many states under the NRLM.

17 Based on Priti Kumar and Amit Arora, "Taking Digital Banking Services To Remote Villages in North Eastern India" dated April 22, 2019, https://blogs.worldbank.org/endpovertyinsouthasia/taking-digital-banking-services-remote-villages-north-eastern-india, accessed on September 28, 2019.

18 Based upon data and information provided by RBL Bank.

19 "The Bharat Microfinance Report 2019," (Sa-Dhan, New Delhi, September 2019).

20 Based upon discussions with and material provided by management of IndusInd Bank.

21 Based upon discussions and material provided by management of RBL Bank Ltd.

22 RBL Bank acquired a 100% stake in Swadhaar FinServe Pvt. Ltd. (not an NBFC-MFI) in June 2018. It is now an RBL subsidiary named as RBL FinServe Ltd.

23 For a persuasive discussion on these issues see Reetika Khera (ed.), *Dissent on Aadhaar: Big Data Meets Big Brother* (Hyderabad: Orient BlackSwan Private Limited, December 2018).

24 "Banks Confused on Biometric Use Post Aadhaar Verdict-ex-RBI Governor," January 22, 2019, https://economictimes.indiatimes.com/news/economy/policy/banks-confused-on-biometric-use-post-aadhaar-verdict-ex-rbi-governor/articleshow/67642556.cms, accessed on September 20, 2019.

25 For example, Reetika Khera in an interview with Chaitanya Mallapur, observes that "Cash transfers are projected as

'hassle-free' but they are anything but that for the poor. Many find it hard to withdraw cash from distant and crowded banks, or have to deal with middlemen such as BCs who may demand a bribe, or encounter technology-related issues. With Aadhaar linkages, their problems have multiplied." https://www.indiaspend.com/india-needs-banks-in-underserved-areas-not-aadhaar-to-deliver-direct-benefit-transfers/ dated March 9, 2019, accessed on September 20, 2019.

26 The many issues related to banks arranging informed consent of users is well-documented in Sakina Dhorajiwala and Niklas Wagner, "Consent to Nothing: Aadhaar-based Payment Systems in welfare" dated August 23, 2019. https://www.ideasforindia.in/topics/governance/consent-to-nothing-aadhaar-based-payment-systems-in-welfare.html, accessed on September 19, 2019.

27 As reported in DFS progress report above.

28 See annual progress report for financial inclusion under PMJDY as of March 2019 of the DFS, Government of India. https://financialservices.gov.in/sites/default/files/Financial%20Inclusion_annual%20report_material31.3.2019.pdf, accessed on September 19, 2019. In the body of the report the figure for rural BC agents under PMJDY was 126,348 as of 31.12.2018. The figure of 1,26,000 SSAs served by BCs has long been used and is the figure on the PMJDY webpage; https://pmjdy.gov.in, accessed on September 19, 2019.

29 A value-loaded term to describe the PMJDY clients or bank account holders that finds it way into government data and that reflects the continuing state of the *maa-baapism* of yesteryears.

30 https://www.livemint.com/industry/banking/deposits-in-jan-dhan-accounts-cross-rs-1-trillion-mark-1562752764534.html, *Livemint* July 10, 2019, accessed on September 18, 2019.

31 As reported in article by Dhorajiwala and Wagner, "Consent to Nothing: Aadhaar-based Payment Systems in Welfare," dated August 23, 2019, https://www.ideasforindia.in/topics/governance/consent-to-nothing-aadhaar-based-payment-systems-in-welfare.html, accessed on September 19, 2019.

32 Anirudh Saligrama, "Five Years of Jan Dhan Yojana: About 20% of Accounts Lying Dormant," August 15, 2019, https://www.bloombergquint.com/economy-finance/five-years-of-jan-dhan-yojana-about-20-of-accounts-lying-dormant, accessed on September 20, 2019.

33 Sameer Kochhar, Skoch Group as quoted in Anup Roy, "Five Years of Jan Dhan Yojana: True Financial Inclusion Yet to be Reality," *Financial Express*, August 16, 2019, https://www.business-standard.com/article/economy-policy/5-years-of-jan-dhan-yojana-true-financial-inclusion-yet-to-be-a-reality-119081602280_1.html, accessed on September 20, 2019.

34 Meanwhile, the Income tax department has extended till December 31, 2019 the deadline for making assessments in respect of suspicious deposits made post-demonetisation by 87,000 entities (out of 300,000 in all) that had not filed tax returns. See "Demonetisation Cases: CBDT Extends Taxman's Deadline To December 31," https://economictimes.indiatimes.com/news/economy/policy/demonetisation-cases-cbdt-extends-taxmans-deadline-to-december-31/articleshow/71316159.cms dated September 26, 2019, accessed on September 27, 2019.

35 Nozomi Sato, Yasuharu Shimamura and Susana Lastarria -Cornhiel, "Women's Self-Help Group Participation and Domestic Violence: Impact Evaluation with Consideration of Dowry in Andhra Pradesh, India", September 2017, https://www.google.co.in/search?q=world+bank+shg+study&client=safari&channel=iphone_bm&sxsrf=ACYBGNQML_4mEUOnVppVHb7leva2C2o5mg:1569051082715&ei=ytGFXcKpK8_Vz7sPuZGc0AM&start=20&sa=N&ved=0ahUKEwjCtq3jsuHkAhXP6nMBHbkIBzo4ChDy0wMIew&biw=1278&bih=660, accessed on September 20, 2019.

36 Deepti George and Dwijaraj Bhattacharya (2019), "Better Financial Inclusion: Create an Enabling Environment for the Underserved To Save, Borrow and Invest", https://www.moneycontrol.com/news/economy/policy/better-financial-inclusion-create-an-enabling-environment-for-the-underserved-to-save-borrow-and-invest-4119611.html, accessed on September 20, 2019.

37 Edited and adapted from RBI Annual Report 2018–19.

38 Adapted from RBI Annual Report 2018–19 and NABARD Annual Report 2018–19 and other resources of RBI and NABARD.

39 "Financial Literacy: Crucial for Meaningful Financial Inclusion," Centre for Digital Financial Inclusion, 2018, http://www.cdfi.in/uploads/Articles/Financial-Literacy.pdf, accessed on September 27, 2019.

40 The RBI launched a pilot project for setting up Centres of Financial Literacy (CFLs) across 80 blocks in nine states using the hub-and-spoke approach in 2017. The CFLs were envisaged to function as hubs for creating trained human resources, selected from Anganwadi teachers, ASHA workers, and SHG leaders. These trained human resources in turn, would reach out to populations in far-flung areas, as spokes.

41 The lead banks were advised by the RBI in 2009 to set up Financial Literacy and Credit Counselling Centres (FLCCs) in 266 financially excluded/disturbed districts. These FLCCs were given financial support from the NABARD's Financial Inclusion Fund. In 2012, the RBI revamped the FLCCs and launched them as Financial Literacy Centres (FLCs), wherein lead banks were advised to set up an FLC in each of the Lead District Manager (LDM) offices.

42 The RBI's High Level Committee on Deepening of Digital Payments (Nandan Nilekani Committee) has recommended that RRBs be brought under the ambit of UPI at the earliest; further, that the inclusion of RRBs and Cooperative banks in Mobile Banking be catalysed through NABARD's FIF and that customer onboarding on mobile banking platform be made simpler and process-driven. https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/CDDP03062019634B0EEF3F7144C3B65360B280E420AC.PDF, accessed on September 15, 2019.

# MUDRA and Differentiated Banking: Work in Progress

4

## OVERVIEW

Since the era of social banking in late 1960s, Indian development policy's quest for directing credit flow to the needed sectors of the economy led to undertaking policy changes like interest rate subsidy, targeted programmes aka Integrated Rural Development Programme (IRDP) and creating new institutions like National Bank for Agriculture and Rural Development (NABARD) and Regional Rural Banks (RRB). Post 1990s, in the era of financial sector reforms, the emphasis changed from only credit to broad-based financial services, but new programmes and institutions continue to be ideated. This chapter is focussed on financial inclusion-focused institutions, i.e., Micro Units Development and Refinancing Agency (MUDRA), Small Finance Banks (SFBs) and Payments Banks (PBs), which came into being post 2014. MUDRA was set up to act as the apex for funding and development of micro enterprises, SFBs to fill up the lost middle financing, which typically denotes the segment between microfinance and commercial banks, and PBs to accelerate the pace of small-scale savings and ease of low value remittances. It is the centrality of financial inclusion to these entities that merits a separate chapter.

While some background is provided before discussing each type of entity, a detailed background is presented in the 2018 edition of the report.[1] During the last year under review, MUDRA was in news with regard to its impact on job creation and the topic recurred as the issue of "jobless growth" was widely discussed. Other than that, MUDRA continued with its work on extending refinance support and building the ecosystem for micro enterprises lending. SFB space also did not witness any major event and in the past year, all 10 SFBs continued their journey of establishing themselves as specialised banks. During last one year, ESAF SFB, Fincare SFB, North East SFB and Janalakshmi SFB were included in the second schedule of the RBI Act, 1934. Thus, by end August, 2019, all 10 SFBs have become scheduled banks, which shows RBI's confidence in their operations and now enables them to borrow from RBI.

The story in case of PBs has been a bit rocky. In July 2019, Aditya Birla PB after 17 months of commencement of operations, announced that it is closing down and the reason attributed was "unviable business model." Notably during the 17-month period, it incurred losses to the tune of Rs 24 crore.[2] As in the past, few entities who were given license for starting PBs have surrendered their license, the PBs category has continued to be contentious. As of August end, 2019, there are four institutions who have commenced operations and are active—Airtel PB, Paytm, India Post Payment Bank , FINO, while two other—Jio and NSDL PBs—are still in user testing phase.

## MUDRA: THE JOURNEY FROM "FUNDING THE UNFUNDED" TO DATA SOURCE AND SOME REFINANCE

MUDRA, registered as an NBFC with RBI in 2015, works under the umbrella of SIDBI. Since formation, it is seen that the work done has not kept pace with the scope of activities envisaged. The finance minister, in his budget speech for 2014–15, called it as "funding the unfunded" and limited its focus to refinancing the micro-finance institutions with focus on SC/ST enterprises.[3] The subsequent press release issued by the Press Information Bureau (PIB) on April 1, 2015, expanded the scope to

- Laying down policy guidelines for micro/small enterprise financing business
- Registration of MFI entities
- Regulation of MFI entities
- Accreditation/rating of MFI entities
- Laying down responsible financing practices to

ward off indebtedness and ensure proper client protection principles and methods of recovery

- Development of standardised set of covenants governing last mile lending to micro/small enterprises
- Promoting right technology solutions for the last mile
- Formulating and running a credit guarantee scheme for providing guarantees to the loans which are being extended to micro enterprises
- Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri Mudra Yojana (PMMY).[4]

The additional aspects mentioned in the press release seemed a bit far from the acronym MUDRA, as it added regulation of MFIs to it. Initially, it was thought that it might do direct lending but the speech of the finance minister as well as its functioning has put this aspect to rest. A review of the functioning of MUDRA in the 2018 edition of this report presented that it is primarily a refinancing agency for PMMY.

The organisational charter, depicted on MUDRA website as of now has also got narrower (Fig. 4.1). Even compared to last year's similar diagram, the aspects of Skill Development and Entrepreneurship Development have disappeared from the Developmental and Promotional support vertical; and it has been added that credit guarantee will done through the National Credit Guarantee Trustee Company Limited (NCGTC). In the write-up at a different place on MUDRA's website, the role keeps narrowing down to "This Agency would be responsible for developing and refinancing all micro-enterprises by supporting the finance institutions which are in the business of lending to micro/small business entities engaged in manufacturing, trading and service activities. MUDRA would partner with banks, MFIs and other lending institutions at state level/regional level to provide micro finance support to the micro enterprise sector in the country."[5] Based on analysis of its performance and interaction with stakeholders, this seems more in line with the functioning; the technology enabler and developmental role have not received priority as of now. The co-branded MUDRA Card has also lost steam with time as PMJDY-associated Rupay Cards have become widespread. Further, as the subsequent analysis will show, the share of MUDRA refinance is paltry compared to ground-level credit flow. However, the range and granularity of data reported by MUDRA is a welcome feature.

Thus, the scope of activities of MUDRA has narrowed down primarily, to offering refinance support for PMMY. PMMY, launched in parallel with MUDRA, has three categories of loans for micro enterprises. Loans below Rs 50,000 are called Shishu (infant), loans upwards of Rs 50,000 and below Rs 5 lakh are called Kishor (adolescent) and loans from Rs 5 lakh to Rs 10 lakh are called Tarun (Young). Any financial entity, be it bank, Small Finance Bank, Regional Rural Bank, Cooperative, NBFC or NBFC-MFI disbursing these loans is covered under PMMY. The notable feature of PMMY being publicised, which sets it apart, is that

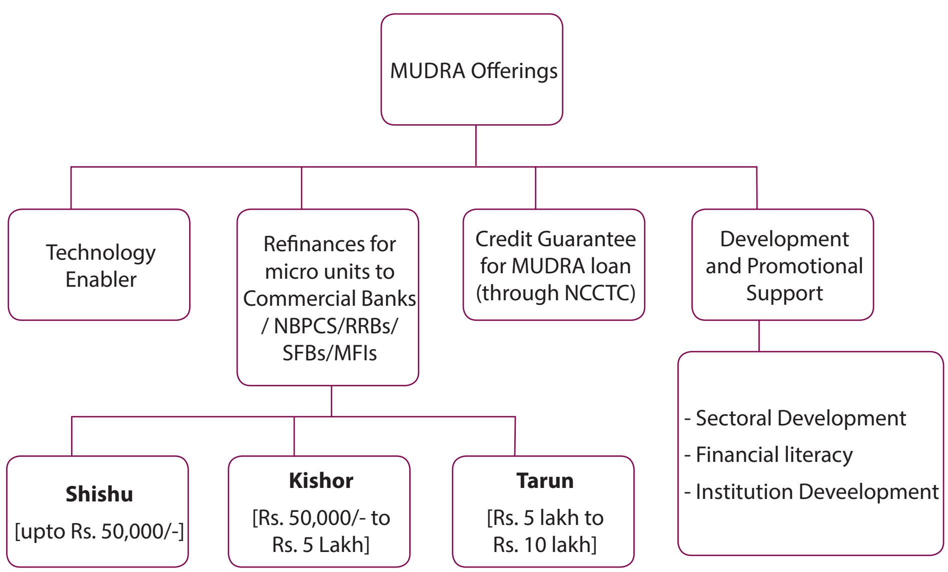


**Figure 4.1:** MUDRA Offerings

*Source:* https://www.mudra.org.in/Offerings accessed on August 24, 2019.

loans under PMMY are collateral free. Though this relaxation was introduced by RBI in its guidelines for MSME lending in 2014, it is often taken as a feature of MUDRA/PMMY loans. The recent UK Sinha committee report (Expert Committee on Micro, Small and Medium Enterprises) has now recommended raising the limit for collateral free loans to MSMEs to Rs 20 lakh.[6] The funding base of MUDRA is derived from its paid up capital, and contributions from banks, based on their shortfall in priority sector lending.

## Review of PMMY during 2018–19, nearly 25 percent Annual Jump[7]

The performance of PMMY is of critical importance, as the loans covered under it are for the "lost middle" plus microfinance loans, which are typically below Rs 50,000. During the financial year, 2018–19, all agencies put together are reported to have disbursed Rs 3,11,811 crore or Rs 3,118 billion, under PMMY, covering around 59.8 million loan accounts. Thus under both loan accounts and disbursements, there has been a 25 percent annual increase, which is impressive in the backdrop of high growth in previous years too. MUDRA reports three figures in respect of financing under PMMY: amount sanctioned, amount disbursed and amount outstanding. However, for the sake of analysis in this chapter, loans disbursed have been taken, as sanctions may not materialise in disbursement, and outstanding amount does not give a true picture of financial assistance, by reducing loan repayments during the year. The detailed performance—state-wise, loan category-wise and agency-wise—is given in Annexure 1, and the analysis here touches on the key highlights.

### *Continued Dominance of Shishu Loans*

Analysis of PMMY disbursements during 2018–19 and its comparison with previous years shows that Shishu loans continue to dominate and the share of

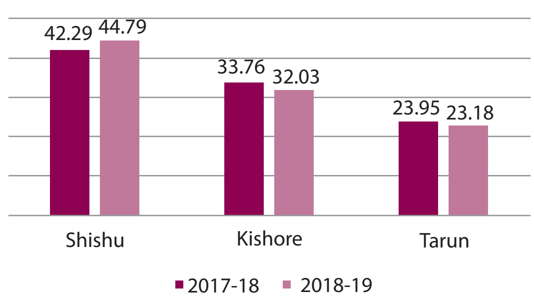


**Figure 4.2:** Share of Various Categories in PMMY Disbursements

*Source:* Data by MUDRA

various categories has remained similar over the years. Shishu loans (below Rs 50,000) are almost 50 percent of the total disbursements. In media reports, it is often reported that Shishu loans account for ~80 percent of PMMY; this is so if a number of accounts are seen. Shishu loans are more in numbers but lesser in value. For the year 2018–19, Shishu loans accounted for 87 percent of the loan accounts under PMMY.

While the high share of Shishu loan accounts is natural, what is disconcerting is the fact that average disbursements under Shishu loans are Rs 27,712, which is far below the limit of 50,000. The average disbursement figure corresponds with the average loan size of MFIs (see chapter on Microfinance) and nearly 60 percent share of MFIs and SFBs in Shishu loans explains this). In other categories of Kishore and Tarun also, the average disbursement per account remains far below the ceiling. The average loan size under Kishore was Rs 151,177 and under Tarun at Rs 631,624 far below the ceiling of Rs 5 lakh and 10 lakh, respectively.

### *Institutional Performance—Private Banks the Lead Performer but Public Sector Banks Dominate Higher Loan Sizes*

Though like any government scheme, it is expected that public sector banks (PSBs) (excluding SBI) despite their higher market presence, especially rural, will take the lead, PMMY figures reveal that in total disbursements private sector banks lead the pack with 20 percent share; in number of accounts, the MFIs are way ahead because of small size Shishu loans (Figs 4.3 and 4.4). Foreign banks and cooperative banks have been excluded because of their negligible share.

However, a deeper dive across the three categories of loans under PMMY reveals that private sector banks being number one overall is due to their high share under Shishu loans. If the share of loan disbursements under Tarun is seen, SBI (23.27 percent) and PSBs (36.24 percent) cater to 60 percent of the pie. Not only that, their average loan size is also higher at Rs. 7.6 lakh. The performance of RRBs is disappointing as among banks along with SFBs, they are ideally suited for this small-scale lending. However, RRBs account for only 5 percent of the total disbursements and 85 percent of their disbursements are in Kishore category—loans below Rs 5 lakh.

### *Good Coverage of Women, SC, ST and OBC; Concentration in Five States*

The performance of PMMY during 2018–19 from this angle, which was its thrust area, shows that it has done well in coverage of women clients, and also

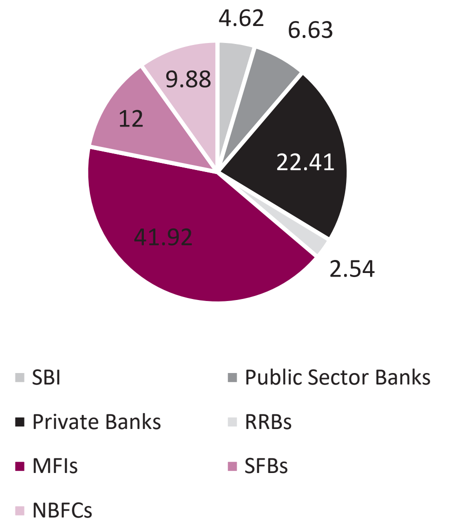


**Figure 4.3:** Share of Various Agencies in PMMY Accounts

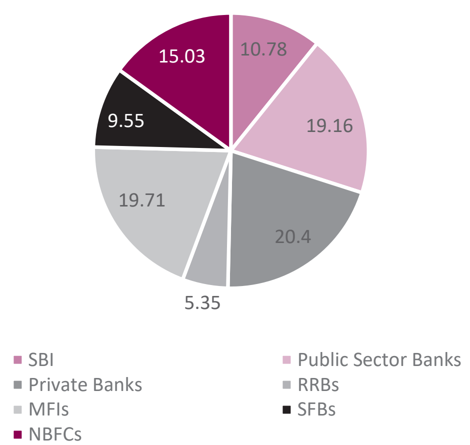


**Figure 4.4:** Share of Various Agencies in PMMY Disbursements

covered Scheduled Caste (SC), Scheduled Tribes (ST) and Other Backward Class (OBC) clients (Table 4.1).

Inclusive Finance India Report of 2018 brought to the fore problem related to regional skew in financial services and the same is also brought out in this report's chapter on microfinance. The analysis of the disbursements under MUDRA point to a similar skew, with the top five states (Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh and West Bengal) accounting for 45 percent of the total disbursements during 2018–19, same as the level in 2018 (Fig. 4.5). While it is acknowledged that this may be due to concentration of economic activity and financial institutions presence, but as PMMY is about fostering entrepreneurship, the issue needs to be examined and given due policy attention.

**Table 4.1:** **PMMY Loans to Women, SC, ST and OBC**

| | Percentage of loan accounts | Percentage of loan disbursed |
|---|---|---|
| Women | 62.54 | 41.42 |
| Scheduled Caste | 15.95 | 9.30 |
| Scheduled Tribe | 5.64 | 3.40 |
| Other Backward Class | 25.89 | 18.17 |

*Source:* MUDRA

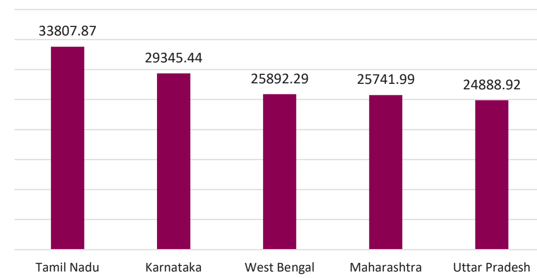


**Figure 4.5:** Top 5 States in PMMY Disbursements (Rs crore)

*Source:* MUDRA

Summing up, it is safe to say that except increase in numbers, nothing much has changed in PMMY's performance, be it share of various categories/ agencies, population share or state's share.

## MUDRA Refinance—Tokenism

While MUDRA has morphed into a refinancing agency, the corpus at its disposal does not allow it to play a meaningful role. Since inception, its refinance contribution as percentage of ground-level credit flow under PMMY has been around mere 2 percent. In 2018, it was 3.04 percent but during 2018–19, it has fallen to 2.29 percent. MUDRA's corpus is made of share capital contribution by SIDBI and priority sector shortfall contribution by banks. The refinance is extended by MUDRA to various agencies and those availing MUDRA refinance also have to abide by conditions on the lending rate to borrowers (Table 4.2).

Going by this, the refinance rates are quite concessional for all agencies as compared to their cost of funds. For example, MUDRA refinance to MFIs at ~7 percent is quite low as compared to their cost of funds ranging from 12.5 percent to 16 percent. Despite this, MFIs' share of refinance to their total disbursements was 0.51 percent during 2018–19, though MFIs account for major share of PMMY.

As such, it is high time that either the refinance corpus is expanded to play a meaningful role or else the same is used to fulfil other critical roles

**Table 4.2: Refinance and Lending rate of MUDRA as on August 2019**

| Institution | MUDRA Refinance rate (added margin to bank's shortfall deposit rate ) | Ceiling on interest rate to be charged by lending institutions to the ultimate borrowers |
|---|---|---|
| Banks/Small Finance Banks | + 0.75 percent | Not more than MCLR plus 100 bps of refinanced banks. |
| Regional Rural Banks/ Cooperative Banks | + 0.75 percent | Shall not be more than 3.5 percent above MUDRA's lending rate or 10 percent, whichever is higher. |
| NBFCs | + 3.0 percent | Shall not be more than 6 percent over and above MUDRA's lending rate. |
| NBFC-MFIs | + 3.0 percent | Shall be governed by the norms of priority sector lending by banks to MFIs, which provides for 10 to 12 percent interest margin to MFI. |

*Source:* MUDRA

such as credit guarantee for loans or providing guarantees to smaller institutions for their borrowings. Small MFIs, at present, find it hard to borrow and given their role in PMMY, MUDRA can think of providing guarantees for their borrowings.

The common refrain from MUDRA side is that MUDRA is mainly responsible for ecosystem development, i.e., creating a favourable environment for lending to micro and small enterprises. The following section analyses the trends in MSME lending, before and after MUDRA.

## MSME Credit Flow—Is there an Impact of MUDRA?

The data on banking sector credit flow to MSME available from the RBI provides useful insights. The RBI data is available for three categories of MSME lending—Micro and Small, Medium and Large enterprises. As per the definition of micro and small enterprises, it is evident that by virtue of size PMMY loans will fall in this category.[8] The data shows that there has been no noticeable increase in outstanding credit from banks to micro and small enterprises or the MSME sector as a whole (Fig. 4.6). Further, despite the overwhelming number of enterprises being micro and small (more than 90 percent), their share in MSME credit is 13 percent as in March 2018.

The other area of concern is that the share of MSME credit as percentage of total non-food credit[9] by banks is declining (Fig. 4.7).

Over a period of time, NBFCs have become a major player in the MSME lending space and the UK Sinha committee report of 2019 indicates that they accounted for 10 percent share in MSME lending by March, 2019. Consolidated picture of MSME lending including banks and NBFCs is presented in

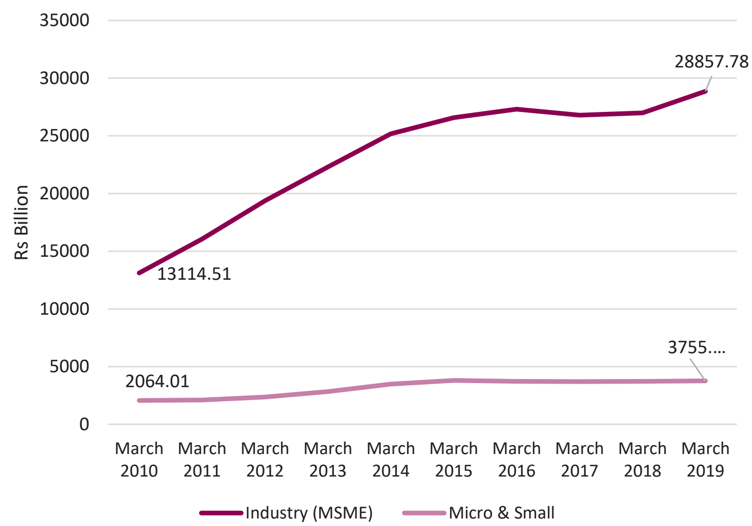


**Figure 4.6:** MSME Credit Outstanding from Banks

*Source:* Handbook of Statistics on Indian Economy, Table 46

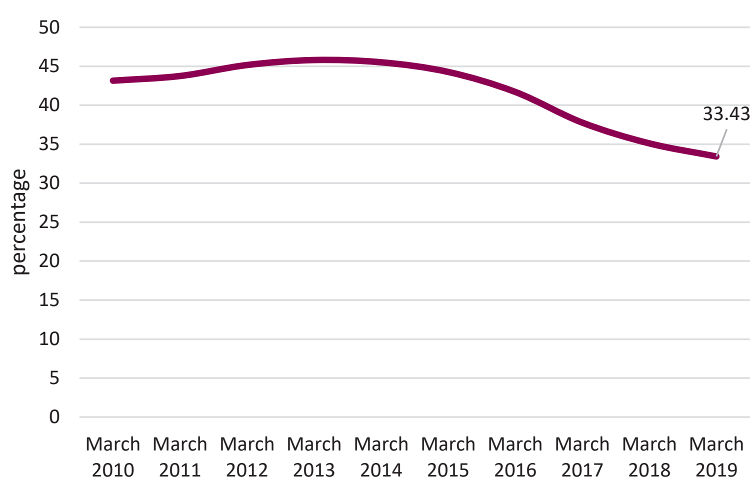


**Figure 4.7:** MSME Credit as Percentage of Non-Food Bank Credit

*Source:* Handbook of Statistics on Indian Eco, RBI

MSME Pulse brought out by SIDBI and Trans Union CIBIL; however, it does not give the picture based on MSME classification but on loan sizes. The June 2019 edition of the report shows the highest growth under micro category.

Though this appears to be contrary to the banking sector trend, the clubbing of loans under Rs 1 crore as micro seems to be the reason. It will be useful if the data points are similar across reports for deeper analysis; at present, the two different sets of figures give different stories.

## The Issue of NPAs and Jobs Created under MUDRA

Other than number of loans, MUDRA or PMMY has been in news for two things—NPAs and jobs created through MUDRA. This section analyses the available evidence on both these issues.

Newspaper reports[10] since last one year have been dominated by the theme that NPAs under MUDRA loans are on the rise and being a "policy push" programme, this may be detrimental to the health of banks. In all these reports pertaining to 2018–19, it is highlighted that NPAs under MUDRA

**Table 4.3: On – Balance Sheet Commercial Credit Exposure (in Rs lakh crore)**

| | Micro <₹1 Crore | SME ₹1-25 Crore | Mid ₹25-100 Crore | Large >₹100 Crore | Overall |
|---|---|---|---|---|---|
| Mar 17 | 3.1 | 7.8 | 4.9 | 34.1 | 50.0 |
| Jun 17 | 3.3 | 8.1 | 5.0 | 34.4 | 50.8 |
| Sep 17 | 3.5 | 8.5 | 5.2 | 34.7 | 51.8 |
| Dec 17 | 3.7 | 8.9 | 5.4 | 36.4 | 54.5 |
| Mar 18 | 4.0 | 9.6 | 5.5 | 37.8 | 57.0 |
| Jun 18 | 4.2 | 10.0 | 5.5 | 38.3 | 58.1 |
| Sep 18 | 4.3 | 10.1 | 5.5 | 39.8 | 59.7 |
| Dec 18 | 4.5 | 10.3 | 5.7 | 41.8 | 62.3 |
| Mar 19 | 4.8 | 11.1 | 5.8 | 42.3 | 64.1 |
| Y-o-Y Credit growth (Mar 18-Mar 19) | 19.8% | 15.6% | 5.5% | 11.8% | 12.4% |

*Source:* TransUnion CIBIL

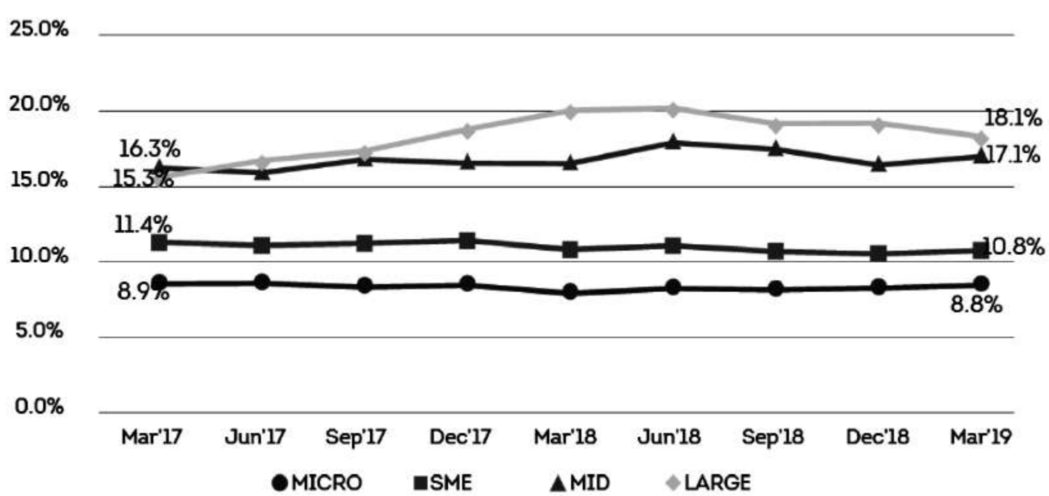


**Figure 4.8:** Segment-wise NPAs

*Source:* MSME Pulse, June 2019.

loans jumped by more than 100 percent touching Rs16,481 crore. As on March 2019, 30.57 lakh accounts were NPAs. As the information on NPAs is not in public domain, the source of the cited reports is the RTI (Right to Information Act) questions. Before going into evidence, a full reading of these reports shows that the headings are misplaced. As one report says after the headline on doubling of NPAs, "Although the value of NPAs is not very high in comparison to the total value of all loans issued under the Mudra scheme, it is nonetheless steadily increasing".[11]

On empirical evidence, the figure of NPAs reported for March 2019 as reply to the RTI question can be compared with the loan outstanding, as reported by MUDRA. Compared with overall banking sector NPAs, the NPAs under MUDRA loans seem to be under check. Further, as the average loan size under MUDRA loans is low implying reduced repayment term, it shows that vintage has also not much effect on portfolio quality. MSME commercial credit NPAs, as per MSME Pulse issue of June 2019, also shows that across banks and NBFCs, micro and small category is the best performing (Fig. 4.8).

Thus, the overall NPA situation under MUDRA is under reasonable limits. But on the institutional side, there are some concerns. RRBs with their low share in MUDRA loans, have high NPAs of Rs 2,065 crore; similarly, Janalakshmi SFB has NPAs of Rs 2193 crore.[12] Put together, RRBs and one SFB account for nearly 28 percent of the total NPAs.

The issue of job creation through MUDRA has been one of the achievements showcased by the government. This became the centre stage with the controversy surrounding Periodic Labour Force Survey (PLFS) of NSSP in early 2019. The slowdown in job growth indicated in the draft report of the survey was contested and reports said that the government has asked the labour ministry to an analysis of 100,000 MUDRA loans and there impact on job creation.[13] An old report in 2017 by Skoch said that nearly 5.5 crore jobs have been created under MUDRA. The common refrain in the jobs debate has been the logic of equating the number of loans with jobs, which is a faulty logic. All loans are not necessarily taken to start a new business and it is unfair to assume that all unemployed or poor have entrepreneurial mindset. As such, the debate needs to distinguish between "jobs created" and "jobs sustained." For jobs to be sustained through supply of credit, basically implying people continue to invest in their business, is also an important contribution.

Unfortunately, till now, there was no empirical evidence on jobs created through MUDRA. Recently, in early September 2019, newspaper reports citing a labour ministry survey have provided some evidence (Box 4.1). As the report is not available at the time of writing this chapter, a full analysis has to wait. However, the headline figures indicate positive achievements—creation of 1.12 crore new jobs is significant. It is creditable that 20 percent clients used it to start a new business. Newspaper reports on average loan amount needed to create a job seem out of place as they divide the number of jobs created with total loans disbursed. In reality, capital investment required for creating one job varies as per sector and geography. This is also significant from the angle that nearly 45 percent loans are below Rs 50,000 and MFIs take a lion's share of them. Such loans have even lower rate of job creation but are mostly used for expanding existing livelihoods. Thus, new job creation rate would be much higher in case of Kishore and Tarun loans.

**Box 4.1: Findings from Labour Ministry Survey of MUDRA Loans**

- 1.12 crore additional jobs were created during the first 33 months (April 2015–December 2017) of the Scheme
- 51.06 lakh were self-employed and 60.94 lakh were employees or hired workers
- 20.6 percent clients used the loan for starting a new business
- Remaining used it for investing in existing business

*Source*: https://www.financialexpress.com/economy/mudra-loan-impact-on-job-creation-reality-check-for-narendra-modi-government/1695819/

## SMALL FINANCE BANKS; LONG WALK TO FULFILLING MANDATE

Small Finance Banks (SFBs) in their concept are not new, nor are they new to business as all but one existed as NBFC before graduating to the SFB structure. The concept of specialised banks lending low value loans has been tried before in the form of RRBs and Local Area Banks (LABs), the only difference being that RRBs and LABs were required to have geographical limitations. The RRB Act, 1976 defined their business as "developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto."[14]

Over a period of time, the business limitations were gradually eased and the area of operation expanded, both measures were taken keeping in view the viability aspect. As a result, the number of RRBs has shrunk to 53 as on March 31, 2019 from a peak of 196, and newspaper reports suggest that there is a move for further consolidation. Further, their performance has not been optimal (see Chapter 2). The idea of SFB can be traced to the Report of the Committee on Financial Sector Reforms headed by Dr Raghuram Rajan in 2009. The Committee recommended: "Allow more entry to well-governed deposit taking small finance banks offsetting their higher risk from being geographically focused by requiring higher capital adequacy norms, a strict prohibition on related party transactions and lower allowable concentration norms."[15] However, the committee's idea did not do away with geographical limitation. The idea was revisited in 2014 by the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households[16] set up by RBI. It did not mention directly about a localised bank or bank dealing with small value loans but was a new framework of Differentiated Banking[17] introduced by the committee. SFBs, as they have evolved, fit into Horizontally Differentiated Banking System (HDBS).

The issuing of licensing guidelines for SFBs in 2014 and subsequent licensing of 10 entities—out of which eight were NBFC-MFIs seemed to be aimed at achieving two objectives. First, providing a path for NBFC-MFIs and NBFCs to graduate to a more tightly regulated regime and access deposits; and second, fill the void in the credit market not served either by microfinance or commercial banks (Box 4.2 ).

**Box 4.2: Key Features of SFBs as per RBI guidelines**

Minimum Paid-up capital of Rs 100 crore.

Prudential norms including SLR and CRR as applicable to Commercial Banks.

Extend 75 percent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.

At least 50 percent of its loan portfolio should constitute loans and advances of up to Rs 25 lakh.

Branch expansion in initial five years to require RBI approval.

Objectives: primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

*Source:* https://rbi.org.in/Scripts/bs_viewcontent.aspx?Id=2901

Now, as all of the 10 SFBs are scheduled banks and three of them (Ujjivan, Equitas and AU SFBs) are listed on the stock exchange, it seems that the institutions have managed to establish themselves. Last year, the RBI, based on the recommendations of the High Powered Committee on Urban Cooperative Banks (Chairman: Shri R. Gandhi), issued guidelines in November, 2018 allowing voluntary transition of UCBs as SFBs. However, till September 2019, there is no progress on the same and RBI's annual report for 2018–19 also does not provide any information on the subject. It rather lists forming of an umbrella organisation for UCBs as a priority area for 2019–20 and says:

> Cooperative bonding and a mutual support system in the form of an Umbrella Organisation (UO) would contribute to the strength and vibrancy of the sector, as borne out by the international experiences. The UO would be expected to extend liquidity and capital support to the member banks. The UO would also be expected to set up Information Technology (IT) infrastructure for shared use of members to enable them to widen their range of services at a relatively lower cost. The UO can also offer fund management and other consultancy services and contribute to the capacity building in the member UCBs.[18]

Thus, it seems the idea of UCBs as SFBs has not gathered steam.

The focus of SFBs' in this chapter covers the analysis of their performance on inclusion objectives. First, have the SFBs been able to mobilise small deposits from their clients considering that the transformation of NBFC-MFIs as SFBs was based on the premise that they will be able to offer both credit and savings? Second, has their cost of lending gone down, as access to retail deposits as against wholesale borrowings from banks should lead to cheaper cost of funds? Finally, has transformation enabled them to diversify their product offerings and move beyond microfinance? The real success of SFBs lies in these three aspects.

A review of SFBs' performance at the industry level provides limited information and that too dated, in the form of Basic Statistical Returns (BSR) of the RBI. However, as it provides an industry-level picture, the same is analysed first. For a deep dive into answers for the three questions, like last year, three SFBs are analysed in detail based on author's interaction with them and the publicly available data for 2018–19 through their annual reports and investor presentations. Data availability is a constraint as unlisted SFBs do not provide full data set on their website and the annual reports have become more like reporting financial performance over financial inclusion.

The operational model of 10 SFBs continues to exhibit similar trends. Eight of them continue to be microfinance focused, which is an extension of their earlier role as MFIs. Only Equitas SFB has a more diversified asset profile based on its amalgamation of vehicle finance, home finance and microfinance verticals on becoming SFB. AU SFB continues to focus on vehicle loans, while Capital SFB is more broad-based as it was a local area bank.

The deep dive is based on three banks covered last year and the changes during last one year. While discussing the performance of these SFBs, available reports for the sector are also presented to give the larger picture.

## Picture from 2018 Basic Statistical Returns (BSRs)—Small Loans Show Inclusion Focus

The BSR figures in respect of credit of scheduled SFBs as on March 31, 2018 are analysed on three counts—credit limit size, geographical spread and purpose-wise classification. It is to be noted that only seven SFBs were scheduled banks by March 2018 and had 73 percent market share.

The figures show that SFBs have maintained focus on small value financial inclusion loans, with loans below Rs 2 lakh—the category of small borrowal accounts making up 95 percent of the loan accounts and 40 percent of outstanding credit (Fig. 4.9). As against the regulatory freedom to have loans above Rs 25 lakh at 50 percent portfolio, SFBs only had 20.59 percent portfolio in such loans. The other positive feature of it relates to nearly 30 percent portfolio coming from loans of 2–10 lakh category, the segment belonging to graduated microfinance clients. In comparison with SFBs, in case of both public and private sector banks, loans above 25 lakh make up for 70 percent portfolio.

In purpose-wise classification of loans extended by scheduled SFBs, the share of priority sector loans came down to 76.7 percent,[19] just borderline with minimum regulatory requirement of 75 percent. It seems that reaching almost permissible levels of

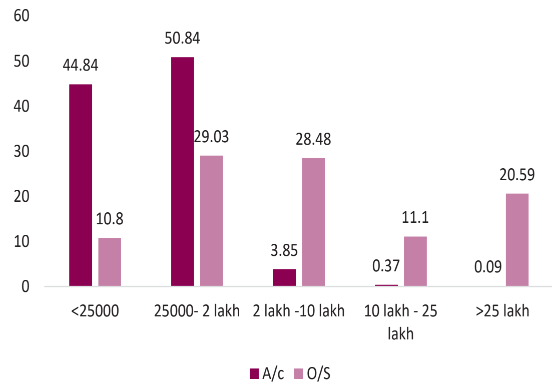


**Figure 4.9:** Percentage of SFBs loan accounts and credit outstanding by size—March 2018

*Source:* BSR Vol 47, RBI

non-priority sector loans may be a strategy by SFBs to enter high margin–low risk business as compared to their traditional exposure.

Purpose-wise loans extended by SFBs shows that agriculture, trade and services make up for nearly 60 percent of the outstanding loans. It is a bit surprising that loans for agriculture have the highest share as MFIs typically do not lend for agriculture. The group—professional and other services, trade and industry—can be clubbed as MSME lending. Trade is shown separately as per reporting requirements, but based on field practices, trade is also an enterprise. For example, a saree-selling shop is classified as trade as the owner buys from wholesale and sells in retail without any value addition. Seen together, the group makes up for 45 percent of SFB lending and it seems in congruence with the field situation. The other notable point is that nearly 7 percent loans for finance are wholesale loans to NBFCs and NBFC-MFIs, and are also called Financial Intermediary Loans by SFBs (Fig. 4. 10).

The geographical distribution of loans at first glance appears to be in contrast to their origins and objectives. Metropolitan cities and urban areas dominate with 60 percent share, while rural areas have only 11 percent share (Table 4.4). The high share of metropolitan and urban is attributable to the urban focus of bigger SFBs like Ujjivan and Janalakshmi, which was even so in their MFI days. New age MFIs started their focus on urban poor and it seems the trend continues post SFB. Further, AU SFB being focused on vehicle loans is also mainly urban. Thus, while the geographical focus may give the impression that SFBs are drifting from inclusion objective, it is not so.

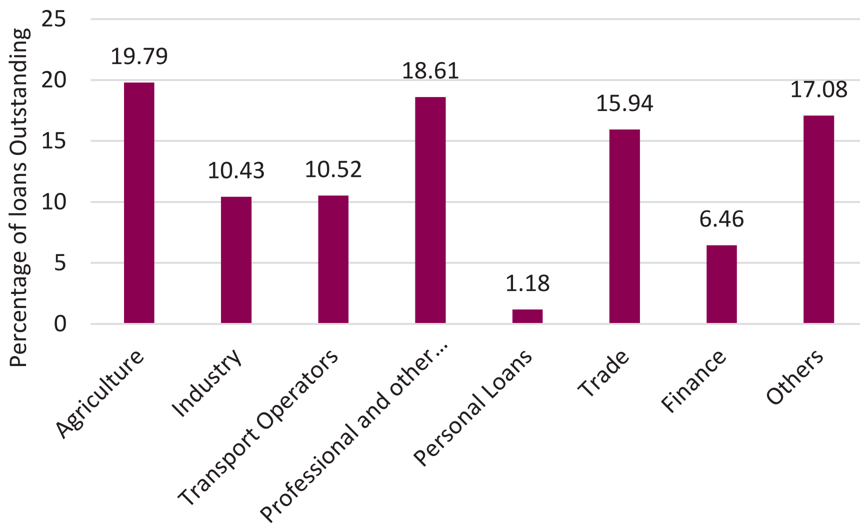


**Figure 4.10:** SFBs Credit outstanding across Occupations in % as on March 2018

*Source:* https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publilcations#!9

**Table 4.4: Geography of SFB Lending in percentage**

| | |
|---|---|
| Rural | 11.90 |
| Semi Urban | 26.98 |
| Urban | 27.90 |
| Metropolitan | 33.23 |

*Source:* RBI, BSR for March 2018

**Table 4.5: Share of Deposit Types in Total Deposits**

| Type of Banks | Current | Term |
|---|---|---|
| SFBs | 5.34 | 69.58 |
| Public sector Banks | 6.67 | 58.94 |
| Pvt Sector Banks | 14.30 | 55.62 |
| RRBs | 2.41 | 46.19 |

*Source:* BSR March 2018, RBI

## Composition of Deposits; Higher Share of Term Deposits and Institutional Deposits

The hard struggle for retail deposits in a competitive market is the biggest challenge being faced by the SFBs, however their performance on parameters like percentage of current accounts/deposits to total deposits is encouraging. SFBs as of March 2018 have managed to mobilise current deposits, which are basically business accounts with zero interest rate—on par with PSBs and much better than RRBs (Table 4.5). Private sector banks stand apart with much higher current deposits. Higher share of term deposits at ~70 percent of SFBs deposit base is a weak point as term deposits carry higher interest rates. However, interaction with SFB officials revealed that their low income clients prefer term deposits as it locks their savings for a certain period; which is in line with preference of the poor for illiquid savings. Industry experts, however, have a different take on this and opine that major portion of term deposits with SFBs does not come from retail but from institutional deposits at higher rates. This is also reflected in higher cost of funds. However, the overall deposit mobilisation as of March 2018 was low at 37 percent of total liabilities,[20] which is understandable considering SFB is a new market concept.

The composition of deposits shows excessive reliance on financial sector institutional deposits as compared to other banks and the feature making it attractive is higher interest rates (Fig. 4.11). Market participants suggest that many of these deposits are locked for a longer tenure, hence, southward movement of interest rates in the economy will not affect them.

## Deep Dive into Performance of Three SFBs (Ujjivan, Suryoday and Equitas[21])

### *Deposits—Rates Moderating; Wide Variety of Deposit Accounts*

Being a new entrant to banking space, a review of deposit products of all the three SFBs shows that offering higher interest rates to increase

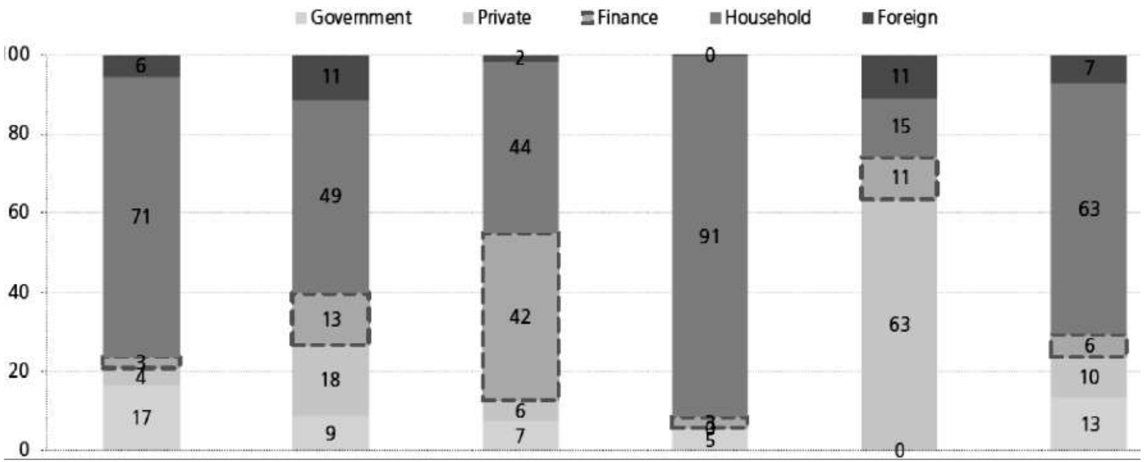


**Figure 4.11:** Bank-group wise deposits composition, March 2018

*Source:* Banks Sector, Kotak Institutional Equities, May 2019, p. 22.

competitiveness continues. However, the gap between rates offered by commercial banks and SFBs has narrowed down in the last one year. Fixed deposit rates of various tenures are now almost at par with private sector commercial banks. The range of fixed deposit rates depending on tenure is from 4 percent to 8.75 percent and there is no uniform pattern. For example, for 7–14 days' deposit bracket, Suryoday SFB offers 4 percent p.a. interest rate while Ujjvan's rate for the same tenure is 6.75 percent. As such, the rates are being decided by SFBs based on their liability maturity requirement. In case of savings bank deposit, the rates are based on deposit slab. Ujjivan's savings deposit rate starts from 4 percent and goes to 7 percent for accounts maintaining balance of more than Rs 5 crore. In case of Suryoday, the rates vary from 6.25 percent to 8 percent, depending on average balance requirements.

The SFBs also exhibit a lot of variety in savings accounts with differentiated features unlike a standard savings account product offered by most public sector banks. For example, Equitas SFB has nine types of savings account, each with different features and interest rates plus average balance requirements (Box 4.3). Ujjivan SFB offers eight types of savings deposit account. The variety of options for the customer—both poorer segments and elite segments—is a welcome change but the question is whether it is too complex for a small depositor? SFBs' response to this is that their typical microfinance customers need only basic accounts and these are either one or two.

Along with design of various types of savings products and offering a slightly higher rate, during the past year, the conversion of microfinance or asset branches to full-scale branches continued at pace. During the year, Ujjivan SFB converted 218 of its asset centres—which were only originating loans from MFI days into banking outlets. As of March, 2019, Ujjivan now has 474 branches which do both asset and liability offerings and only 50 branches are left as pure asset centres. Similarly, in case of Suryoday Bank, during 2018–19, while the conversion of microfinance asset centres to branches was slow, it added 138 new banking outlets taking the number of full-fledged branches to 171 (26 in last March) and complemented by 211 asset centres. During FY 2019–20, the Bank will convert all its door-step service centres (micro finance focussed lending outlets) into banking outlets to offer basic banking services to the underserved and financially excluded population.

**Box 4.3: Types of Savings Account—Equitas Wings Savings Account**

- Yellow Army Savings Account
- Value Plus Account
- Regular Savings Account
- Standard Savings Account
- Basic and Small Savings Account
- Self Savings Account
- Namma Savings Account
- EDGE

*Source:* www.Equitasbank.com

### *Significant Growth in Deposits; Bulk Deposits Continue to be the Mainstay*

The impact of new branches and differentiated deposit and savings products is visible in deposit mobilisation performance. Suryoday SFB recorded an annual growth of 112 percent in deposits during

2018–19 and Ujjivan recorded 95 percent increase. Almost doubling deposits in a year is a positive sign and shows the increasing confidence of public in SFBs. The growth in case of Equitas was at 70 percent; it already has a higher deposit base compared to the other two. As a result of the sharp increase in deposits, the ratio of deposits to total assets in case of all three banks saw a sharp increase in 2018–19 (Fig. 4.12). For both Ujjivan and Equitas, deposits now form ~50 percent of the total assets.

Current Account and Savings Account (CASA) percentage of total deposits, which is a measure of the ability to mobilise low cost deposits however continues to be low except in case of Equitas. The CASA as percentage of total deposits for Suryoday, Ujjivan and Equitas as on March 31, 2019 was 11 percent, 10.6 percent and 28 percent, respectively.

Along with total deposits, retail deposits also witnessed an increase. In case of Ujjivan, retail deposits now account for 37 percent of deposits and in case of Suryoday, it is 43 percent. However, retail deposits do not strictly indicate financial inclusion as RBI guidelines stipulate that any single deposit account with less than Rs 1 crore is to be considered as retail. This has been recently raised to Rs 2 crore.[22] A further drill down reveals the challenge of mobilising small-scale deposits from typical microfinance clients and similar segments. Equitas SFBs deposit mix as on March 2019 shows that while 94.5 percent of clients under CASA deposits had balances less than Rs 1 lakh (typical financial inclusion account), their contribution to total CASA deposits in value was low at 11.5 percent. Similarly, under-term deposits, bulk deposits, deposits of more than Rs 10 crore take up lion's share of term deposits at 60 percent. While deposits have been growing, reliance on refinance from term lending institutions continues to be high—for Equitas, share of refinance in total borrowings including deposits was 27 percent as of March 2019 and for Ujjivan it was 32 percent. Further, as mentioned, small-scale deposits and CASA remain a challenge despite good progress.

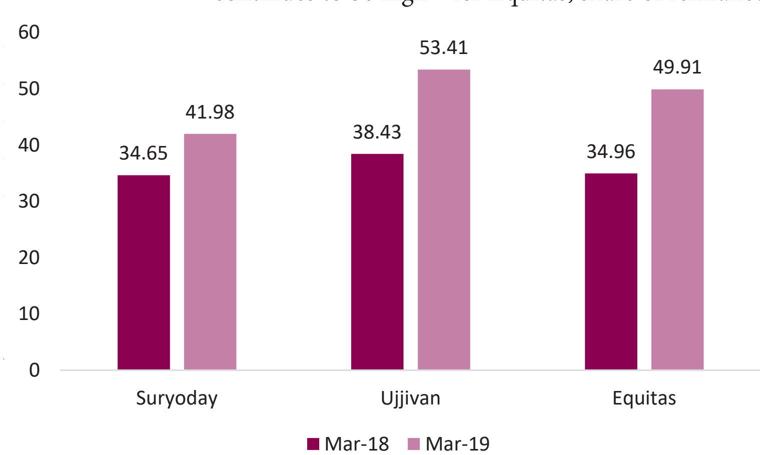


**Figure 4.12:** Deposits as Percentage of Total Assets

Source: Annual Report of SFBs

### *Innovative Methods of Deposit Mobilisation*

To bolster retail deposits, several innovative steps were taken by these banks and more are proposed in the coming year. Suryoday SFBs focus on building a stable and granular depositor base as evidenced by more than 30 percent retail-term deposits coming from senior citizens. Its strategy for retail deposit mobilisation adopts innovative ways like door-to-door visits, localised marketing such as conducting activities in societies, clubs, and supermarkets. It has also started an unique proposition to provide an entrepreneurial opportunity to experienced bankers who can partner with the bank and act as business correspondents (BCs) for deposit mobilisation. Interested individuals are required to set up a company for entering into an agreement with the bank. The bank offers fixed payout to these BCs in the initial period and makes it variable in the subsequent period in line with the achievement of the target. In the first full year of its operations until March 2019, a BC which started operating in March 2018 generated deposit of Rs 46.2 crore with more than 50 percent CASA. During the current year 2019–20, it has started accepting recurring deposits from its microfinance customers.

Ujjivan SFB, like new generation banks, is focused on digital channels for its banking operations. It has a concept of Digital Buddies, which work at the grassroots level to assist customers and branch staff to adopt digital channels through experiential sharing and live demonstration. For speeding the digital process, it has now (a) digital deposits and savings accounts, (b) unique digital solution for micro-banking customers and (c) On-the-call transactional banking through 24*7 phone banking unit. It prides itself of the fact that during 2018–19, 77 percent of customer transactions were executed through self-service. Senior citizens are Ujjivan's priority target as nearly 45 percent of its retail deposits come from senior citizens (Box 4.4). Similarly, for the low-income segment, it has started entry-level products with Rs 1000 minimum amount for Fixed Deposit and Rs 100 for Recurring Deposit.

Equitas SFB's strategy also hinges on digital and BCs. It offers the full array of digital banking services like internet banking, mobile banking, digital wallet, FASTag, UPI, Bharat Bill Payment services [BBPS], National Automated Clearing House [NACH], etc. It also launched Selfe accounts through which customers can open online savings account within

**Box 4.4: Ujjivan's special features for Senior Citizens**

- Door step banking
- Priority service at branches without restriction on minimum balance
- Life time free debit card
- Unlimited free ATM transactions
- Free 25 cheque leaves per month

*Source:* Ujjivan Annual Report 2018-19

minutes. It believes digital banking services and product differentiation would be the key USPs for driving its liability business.

## Loans; Similar Diversification of Products

Nine out of 10 SFBs (excluding Capital SFB) had high mono sector product concentration before becoming SFB. After becoming SFB, it was anticipated that they will diversify their product line for risk mitigation as well as for the sake of moving up from microfinance focus. To their credit, on the lines of deposit products, SFBs have also aggressively diversified their loan products.

A review of the three SFBs on this aspect shows that they are aggressively trying to target segments other than microfinance retail client. Suryoday SFB has now individual business loans, MSME loans, housing loans, loan against property, financial institution loans and vehicle loans in addition to microfinance (see Annexure 2 for product details). Ujjivan also has similar diversity of loan products (Fig. 4.13).

In last one year, Ujjivan added more loan products to its loan offerings with special focus on agriculture. It has an agriculture group loan product and added a new product called Kisan Suvidha Loan, aimed at customers engaged in an array of farming and allied activities like dairy with loan size ranging from Rs 60,000 to Rs 2,00,000 for existing customers (Rs 1,50,000 for new to bank customers). In its annual report for 2018–19, it is mentioned that Kisan Credit Card product is under development. In addition to loan products, Ujjivan is also experimenting with the concept of Kisan Pragati Clubs. Kisan Pragati Club is a mixed group of 15–20 farmers who volunteer to disseminate the principles of development through credit, inculcate better repayment ethics and promote people's participation. The concept is not new as Vikas Volunteer Vahini (VVV) clubs started by NABARD in 1980s and current Farmers' clubs have identical concept. But what is new is that as a private bank in its nascent years is focussing on this area; it has already established 14 Kisan clubs and plans to open at least one such club in each unbanked branch by 2020.

Equitas's product portfolio also shows a mix of small business loans, Micro and Small Enterprises loan, vehicle loans and corporate loans. A cursory review of other SFBs except AU SFB and Capital shows almost similar product lines, which is on expected lines as SFBs usually target micro and small enterprises. However, it is surprising that almost all SFBs have a loan product for NBFCs and Vehicle loans. Over the last three years of their existence, the product line seems to have stabilised and is similar across SFBs.

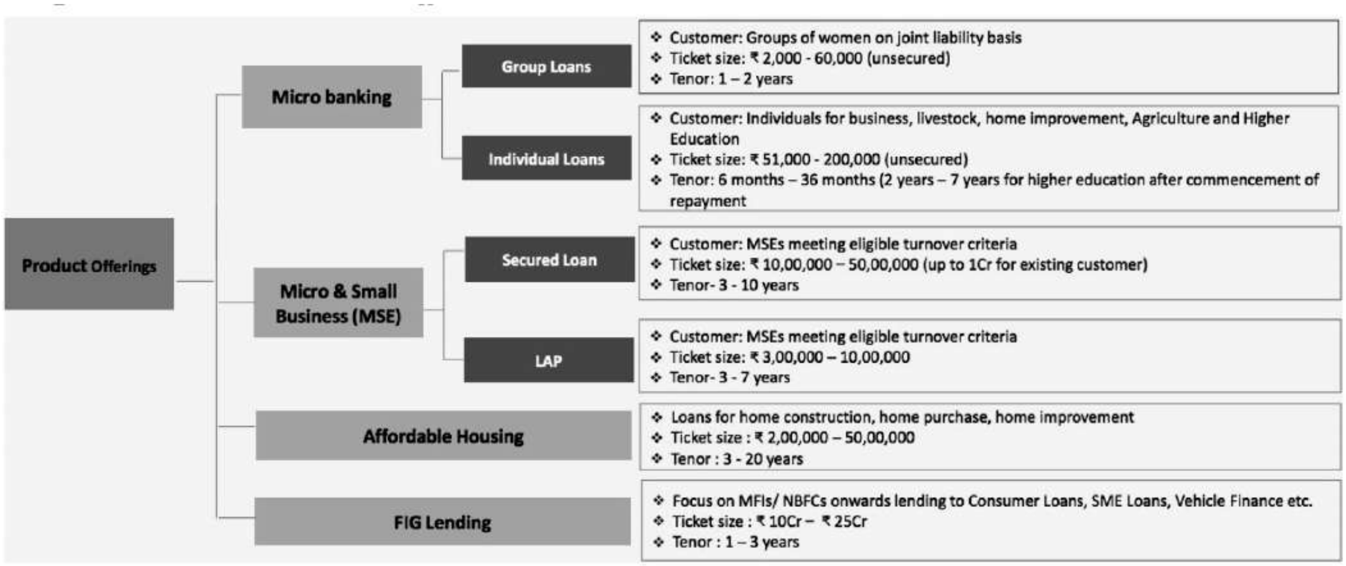


**Figure 4.13:** Loan Products of Ujjivan

*Source:* Investor Presentation Q4 FY 2018-19

## Diversification Impact on Portfolio; Long Walk

Despite product diversification, the portfolio mix of three SFBs has shown very small movement from their last year's portfolio mix. In case of Suryoday SFB, microfinance group and individual loans accounted for 88.5 percent of loan portfolio in March 2018. By March 2019, while the loan book grew by 71 percent, the share of microfinance loans has come down to 81.2 percent. Other than microfinance loans, the highest share is of vehicle loans at 7.5 percent as of March 2019. The fact that despite nearly 71 percent growth in loan portfolio, microfinance loans continue to have 81 percent share which shows the focus on microfinance exists.

Ujjivan SFBs' loan book composition changes over a period of last three years also shows a similar story. Despite a wide variety of loan products and growth of loan book by 46 percent during 2018–19, microfinance group loans account for 75 percent of the portfolio (Fig. 4.14). If micro individual loan category is clubbed with this, as these are also microfinance loans given to individuals albeit without group guarantee, the share of microfinance loans comes to 83 percent. Last year (March 2018) microfinance loans made up 92 percent of the loan book. Both MSE loans and housing loans grew significantly during 2018–19 registering an annual growth rate of 163 percent and 156 percent respectively, but their base was smaller. The trend over last three years clearly shows that in the short to medium term, microfinance loans will continue to be the mainstream of the loan book.

Equitas SFB's case is a bit different from Suryoday and Ujjivan as it had a diversified loan book even before becoming an SFB through its different companies—Equitas Microfinance, Equitas Finance and Equitas Housing Finance. It was also the first SFB to commence business in September 2016 and has thus completed almost three years by March 2019. At the commencement of business in 2016, Equitas SFB had almost one-third spilt between microfinance, vehicle finance and secured business loans now called as Loan Against Property (LAP). The portfolio mix over the last two years has not changed much (Fig. 4.15). Last year, microfinance, vehicle finance and LAP accounted for 81.5 percent of portfolio, which has now increased to 82.8 percent. However, within these three products, LAP now accounts for 32 percent of portfolio and this business line grew by 74 percent during 2018–19 as against overall portfolio growth of 44 percent. LAP or Small business loans saw a strong growth between Rs 10–25 lakh ticket category which also helped Equitas in priority sector achievement. Interestingly, the average ticket size for the small business loans is around Rs 4 lakh and interestingly, the first-time borrowers from this segment is nearly 98 percent. This is an interesting trend as this segment fits with the objectives of SFBs.

AU SFB was primarily a vehicle finance NBFC, which it calls as "Wheeler loans" and last year vehicle loans had 44 percent portfolio share, followed by MSME loans at 31 percent. By end March 2019, the position looks similar. Notably, as compared to other SFBs, its lending to NBFCs

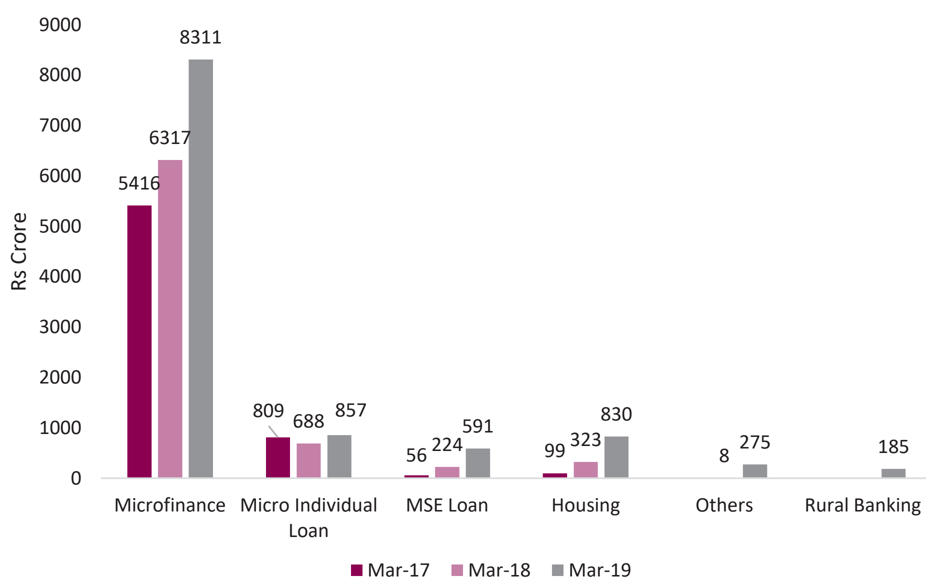


**Figure 4.14:** Ujjivan's Loan Portfolio over the Years

*Source:* Ujjivan's Annual Report for 2018-19 and 2017-18

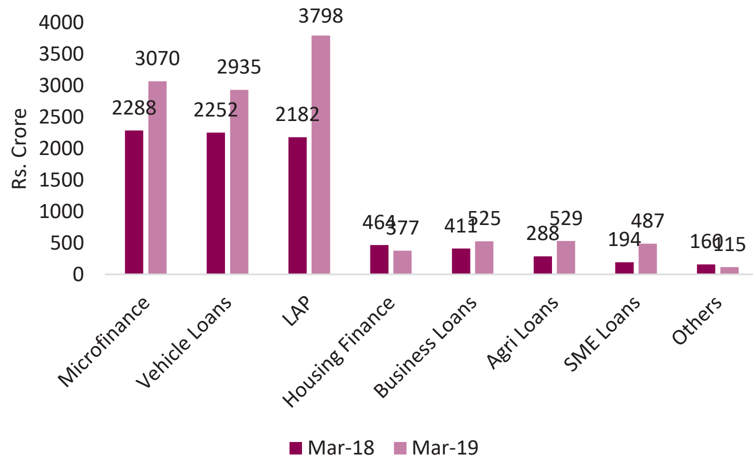


**Figure 4.15:** Equitas SFB Loan Portfolio mix

*Source:* Equitas Investor Presentation Q4, 2019

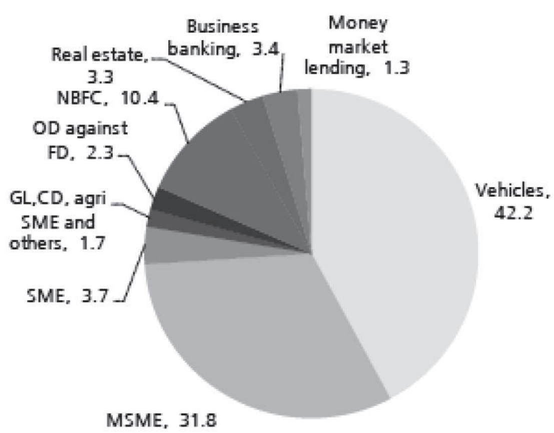


**Figure 4.16:** AU SFB Product mix as on March, 2019

*Source:* Banks Sector, Kotak Institutional Equities, May 2019

is much higher at 10.4 percent—though almost all SFBs have this product (Fig. 4.16).

The product mix in portfolio for all other SFBs also exhibits similar trend of strong concentration in legacy business. As eight out of 10 SFBs were NBFC-MFIs in their old avatar, SFBs continue to be a strong player in the microfinance space. All SFBs put together have a microfinance portfolio of Rs 32,406 crore as on June 2019.[23] Together they service 15.5 million microfinance loan accounts with average loan size of Rs 32, 875.

The review of SFBs performance by Kotak Institutional Equities in its review of Indian Banking throws up an interesting point related to product diversification. It observes:

> As per RBI regulations, SFBs are required to convert asset centres into bank branches within three years of commencement of operations. This, coupled with the associated cost of product diversification, poses significant challenges to profitability in the medium term. Most of these banks are trying to diversify into cost intensive small-ticket retail lending segments. This poses significant challenges to deliver robust returns going ahead.[24]

This aspect of high costs associated with branch conversion and the cost-intensive nature of small size loans where information asymmetry is higher seems to be making SFBs cautious in rapid diversification. It seems logical as post SFB conversion, they also had to incur high costs on IT infrastructure. The Kotak paper citing the example of AU SFB indicates that owing to the above factor, while AU has a healthy RoA of 2–3 percent in its legacy business, it is incurring losses in most of the new business lines. Two aspects come out from this. First, microfinance vertical with its higher profit margin continues to be the driver of loan book growth of SFBs and second, asset diversification in retail lending space has to be slow for SFBs. Slow pace is necessitated by high competition from NBFCs and banks. Further, SFB rates have to be near other players considering the cost intensive nature of this segment. Going by the progress in deposit mix, it is clear that SFBs are a bit far from matching the performance of other banks and their cost of funds will remain higher.

## Cost of Lending; Constraints in Reducing Rates of Interest

On transformation as SFBs, along with product diversification, it was also expected that SFBs will be able to offer lower lending rates based on their access to deposits. NBFCs borrow wholesale from banks, which is at higher cost for their on lending and thereby have higher rates. The path has been difficult as the cost of funds is still nowhere near the commercial banks due to low CASA; expenses have mounted based on branch transformation and IT expenses and retail asset segment competitiveness does not allow for increasing rates of interest.

The cost escalation in transformation can be gauged from the rise in operating expenses of three listed entities AU, Equitas and Ujjivan (Fig. 4.17). However, future projections show tapering of the cost increase as much of IT expenses and branch conversions have been completed. The small size of balance sheets compared to banks compounds the problem. Branch infrastructure has a fixed cost and does not differ much across banks and with smaller size it becomes difficult to spread these costs resulting in high marginal costs. This is reflected in high Marginal Cost of Lending Rate (MCLR) of SFBs as compared to other banks. MCLR of two larger SFBs Equitas and Ujjivan and one mid size SFB Utkarsh is compared with the MCLR of one mid size private commercial bank and one large private bank (Fig. 4.18). The difference is apparent as all commercial banks have their MCLR below 10 percent, while all SFBs are in the range of 13–16 percent. Further, as most loans are unsecured, the interest rates have loaded risk premium.

This leads to a complex situation for most SFBs. Microfinance gives higher interest rates and margins but as part of diversification, its share has to come down. Increasing loan sizes under microfinance has its own risk. Other retail loans give less margin and the current cost structure makes SFBs operate on a razor-thin margin in this segment. Diversification is especially tough for eight of the microfinance-focussed SFBs; Capital and AU have an established track record in other than microfinance assets.

High cost leading to higher MCLR translated into higher interest rates. It is higher in comparison to commercial banks in retail segment and even higher than many NBFC-MFIs in microfinance. Due to factors discussed, the efforts of SFBs to bring down interest rates on loans has been slow (Fig. 4.19). In case of Equitas, because of more diversified portfolio, the overall yield on advances during last quarter of 2018–19 was 18.5 percent, a drop of 1.2 percent in a year.

### External Benchmark to Further Affect SFBs?

Thus, while the intent and ability to lower lending rates is visible, its glide trajectory is constrained by initial costs and being far from having the ideal deposit mix. The recent decision by the RBI to move away from MCLR based interest rates to an external benchmark based lending rate[25] is likely to further bring the cost difference between other banks and SFBs to the fore. At present, only floating rate clients under personal or retail loans (housing, auto, etc.) and micro and small enterprises loans have to be covered under external benchmark linked interest rate from October 01, 2019. The external benchmarks mentioned include RBI policy repo rate and GoI 3-Months' Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL). The instructions at present do not make it mandatory for other loan categories but states that banks are free to follow it for other loans also. This implies the policy intent to move all loan categories under the new regime. Under the present MCLR regime, banks cut their lending rates if the market conditions allow them to first cut deposit rates. With external benchmark, banks

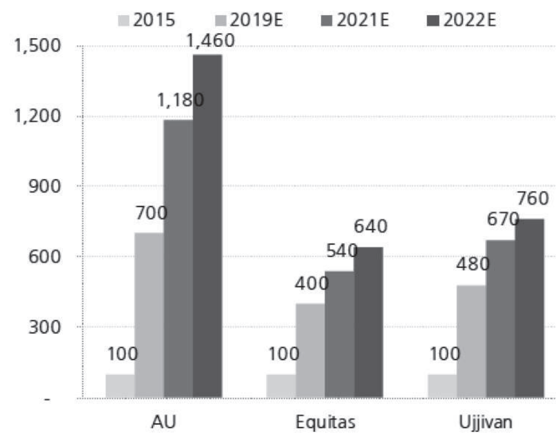


**Figure 4.17:** Indexed Growth in Operating Expenses

Source: Company, Kotak institutional Equities

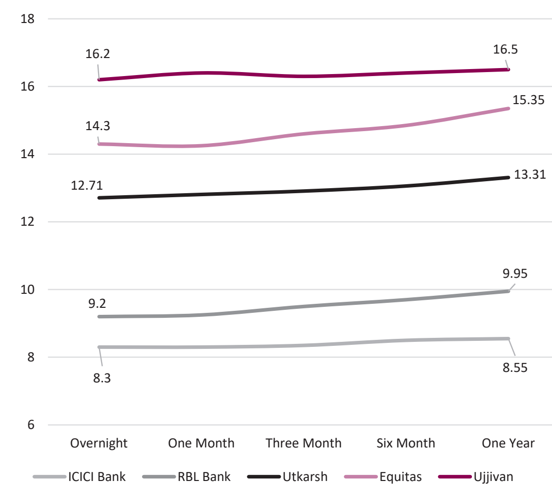


**Figure 4.18:** MCLR of SFBs vs Private Bank

Source: Website of Banks accessed on September 10, 2019

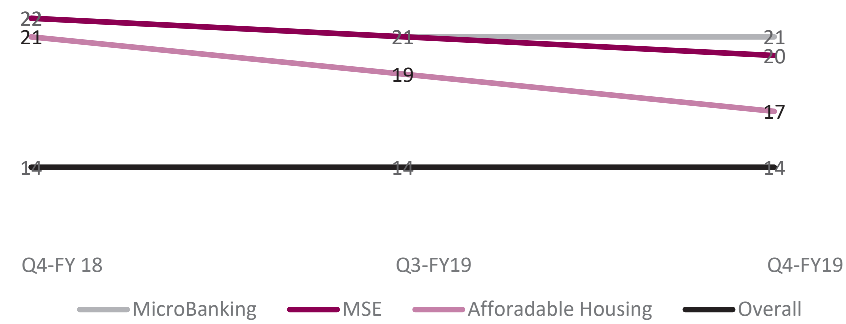


**Figure 4.19:** Ujjivan's Yield Across Segments

*Source:* Investor Presentation, Quarter 4, 2019

will be forced to cut rates even when their liquidity position does not allow for reduction of deposit rates. SFBs will be especially on a weak ground here as their deposit strategy is based on relatively higher interest rates.

The above discussion shows that the future for SFBs is still a work in progress on all fronts. Retail deposits remain a challenge pushing up cost of funds, product diversification will take time to show results and operating costs will continue to be high till branch conversion/expansion stabilises. In this scenario, RBI's intent to further open up SFB space by having on-tap licensing seems a bit premature.[26] It will need another three to five years for a concrete evidence on the merits of SFB model.

## PAYMENTS BANKS—TRYING HARD TO KEEP AFLOAT

### Background

Payments Banks (PB) origins can be traced back to the Report of the Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, in 2014. While the SFB guidelines introduced by RBI did introduce key changes to the concept in the Committee's report, in case of PBs, RBI guidelines mirrored the committee's approach. PBs were mooted as providers of payments and small-scale deposit services but not credit, which is a unique model. The licensing guidelines, which remain unchanged outlined the scope of business—(a) acceptance of demand deposits up to Rs 1 lakh per customer (b) issue of ATM & debit cards (c) payments and remittance services (d) become BC of another bank and (e) distribution of no risk sharing simple financial products like mutual funds and insurance.[27] In 2016, 11 entities where given in-principle license to set up Payments Banks, as of August end, 2019. Unlike SFBs, except FINO and India Post, none of the other entities given in-principle license had any lineage in financial services. The opinion on the idea of PBs was mixed. While one set of technology pundits lauded the concept as a disruptive force in inclusive banking and saw great potential in remittance-based model, the other group saw it as a model without a viable business proposition. It was also argued that it will allow a graduated model for Pre Paid Issuers (PPIs) and enable users to have the flexibility of wallets with banking features. Dominance of mobile network operators in licensed entities was based on the expectation that PBs will ride on their existing distribution network and will not have to invest in creating a new distribution network.

### Developments during Last Year; Contradictions Galore

#### *Viable with Existing Model or Not?*

In the year under review, nothing changed with regard to the sentiment around Payment Banks (PBs) with various newspaper reports and research reports continuing to place a big question mark over the viability of the model. Though the operational PBs continued to be bullish, SBI in its bulletin EcoWrap[28] focussed on PBs as a case of 'so near yet so far.' It cited severe restrictions on both asset and liabilities side as a big constraining factor and added that PBs are mainly acting as aggregator for both consumers and financial institutions by retailing third party products like insurance and allowing consumers to indirectly invest in G-Secs. The SBI note came after an operational payments bank, Aditya Birla Idea PB decided to close operations in July 2019. While earlier, three other companies who were granted in-principle license, had closed shop (TechMahindra, Cholamandalam Investment and Finance Company and a consortium of Dilip Shanghvi, IDFC Bank Ltd and Telenor Financial Services), the difference was that these companies pulled out before starting operations, while Aditya Birla Idea PB did so after starting operations. The reason cited by Aditya Birla Idea PB for doing so "unanticipated developments" that made its economic model "unviable" also point to the issues in viability. It was reported that at the time of announcing closure, Aditya Birla Idea PB had customer deposits of Rs 20 crore and had incurred a loss of Rs 24 crore by March 2018.[29]

The statements from PBs also seemed contradictory. Airtel PB CEO indicated that PB is a viable model, which operates on a scale model, have large-scale small transactions and is also a capital-efficient model.[30] FINO PB also came out with a statement that the model is viable and it aims to have operational break-even in the year 2019–20.[31] At the same time, both these banks' CEO in an interaction with an economic daily, requested RBI for allowing them to lend and it is reported that PBs have already approached RBI with a request for allowing lending.[32] The contradictory reports leave one wondering whether the statements are factual or posturing to instil confidence in the model and at the same time keep asking for relaxations to the RBI.

### *News from RBI Suggests Transformation or Changes in Model*

The news from RBI during the year can be seen from three angles.

First, the statement put out by RBI after Monetary Policy in June 2019 that it would not issue licenses to PBs 'on-tap' until those companies that were granted licences in the past three to four years had stabilised, had come out at a time when RBI has already shown its intent to issue draft guidelines for on-tap licensing of SFBs. RBI's willingness to consider on-tap licensing for SFBs, which is still a work in progress, and not to do so for PBs is construed by the market as a vote of no-confidence in the concept of PBs in it's present form.

Second, RBI following up on its earlier statement issued draft guidelines for 'on-tap' licensing of SFBs in the private sector on September 13, 2019.[33] Among other things, the draft guidelines paves the way for transformation of PBs as SFBs by saying "if an existing payments bank desires to convert into a Small Finance Bank, they can submit their application, if they meet the eligibility criteria mentioned in paragraph 3 of these guidelines." The third paragraph of the guidelines relates to eligibility criteria, corporate structure and usual fit and proper criteria. It is seen as a signal that RBI is now open to accepting that the model has not worked out as expected and it is time to either tweak the model or allow the existing PBs to morph as SFBs for viability.

Finally, the financial figures available officially through RBI for the year 2017–18 show that all PBs incurred losses. While the data is dated, it being credible and also in public domain is presented first before discussing the 2018–19 position based on news reports. Table 4.6, shows the comparative position of all operational PBs during the last two

**Table 4.6: Income and Expenditure of Payments Banks (in Rs million)**

| S. No. | Item | 2016-17 | 2017-18 |
|---|---|---|---|
| A | Income (i+ii) | | |
| | i. Internal Income | 314 | 1,756 |
| | ii. Other Income | 1,086 | 10,036 |
| B | Expenditure | | |
| | i. Internal Expenses | 7 | 245 |
| | ii. Operating Expenses | 3,800 | 16,768 |
| | iii. Provisions and Contingencies | 15 | -56 |
| | of which, Risk Provisions | 4 | -66 |
| | Tax Provisions | 11 | 10 |
| C | Net Interest Income (A+B) | 307 | 1,511 |
| D | Profit | | |
| | i. Operating Profit (EBPT) | -2,407 | -5,221 |
| | ii. Net Profit/Loss | -2,422 | -5,166 |

*Note:* Data for 2016-17 and 2017-18 pertain to two and five PBs, respectively. Hence, the date for these two years are not comparable

*Source:* Off-site returns (domestic operations), RBI.

years. Losses continue to grow with increase in operations and almost 96 percent of the expenses is accounted for by operational expenses. Low value of interest expenses in 2017–18; Rs 24.5 crore shows that the balances in accounts of PBs are low.

It is clear that future profitability has to come from increase in "other income," which comprises service charges on payments as well as fee/commissions on third party products. It is a positive signal that the gap between "other income" and "operating expenses" is narrowing; this will be the profitability driver in future. A review of their balance sheet shows that SFBs have not been aggressive in deposit mobilisation; as of March 2018, deposits constituted mere 8 percent of the total liabilities and in value terms aggregated to Rs 438 crore. As these are consolidated figures for all PBs, it does not allow for institutional comparisons.

The profitability position has not changed much during 2018–19 as per news reports. Airtel PB is reported to have incurred a loss of Rs 338 crore in 2018–19 as against a loss of Rs 272 crore in 2017–18. FINO PB also incurred loss during 2018–19 (though the exact amount of loss is not in public domain) and it expects to be profitable by March 2020. Paytm PB, however, reported a profit of Rs 19 crore during 2018–19 in the second year of its operations.[34] While private players continue to incur losses, interestingly, India Post Payments Bank (IPPB) has reported marginal profits in both 2016–17 and 2017–18. Considering the fact that IPPB rides on infrastructure of India Post thereby reducing its operational cost, for which no details are available, it is understandable. Its offices are same as that of India Post and so are the postmen who deliver the doorstep banking services of IPPB; it is not clear as to how much of these costs are subsidised. The PB space being dominated by private players and IPPB, data availability is scarce and the willingness to share details of the operational model is also low. As such, the piece on PBs is based mainly on website information, newspaper reports and author's interaction with PBs and other industry participants.

## Payments; Jump in Volumes But Is It Inclusion Focussed?

The strategy of PBs has been to use the existing infrastructure for facilitating payments. Fino PB has 125,000 merchants that serve as physical touch-points for its nearly 1.2 million customers. These points include kirana stores, mobile repair shops, medical shops, etc. They offer services like new account opening, deposits, withdrawal, money transfer, utility bill payments and cash management services. Half of these points are micro-ATM enabled. Micro ATMs enable persons other than Fino clients also to transact using the debit card. Similarly, Airtel PB claims to have ~0.6 million touch-points in the form of top-up sellers and kirana shops which provide various services like account opening, cash-in cash out (CICO) and remittances. IPPB operates through 650 branches (post offices) with additional 155,000 access points in the form of doorstep banking agents or Grameen Dak Sevaks.

These are impressive numbers of outreach but the moot question is whether all the stated numbers are active. It does not seem so with Airtel PB reporting that out of 0.6 million banking points, nearly 150,000 are active per month or see transactions. The number of clients and value of transactions being shown are also impressive. Airtel PB cites the figure of 44 million as its clients, while Fino PB has a more realistic customer base of 1.2 million. Despite this huge difference in client base, while Airtel PB has a monthly payments flow of Rs 126 billion, FINO has a monthly payments flow of Rs 70 billion.[35] This not only shows the problems associated with various numbers reported but also does not provide answers to its impact on financial inclusion. It is not clear as to how many of these transactions are "remittances" where there is cash at least on one end against use for digital spend. Further it also does not show the location of transactions and nature—self through mobile phone or in an assisted mode. Typically, financial inclusion will be greater in case of higher assisted transactions and remittances which are used by migrant labourers. It is quite possible that much of these transactions are urban and used for digital spending as PBs offer incentives and discounts tying up with e-commerce merchants. Data for 2018–19, with regard to the top ten banks in mobile phone transactions, shows Paytm PB leading the race with Airtel PB also figuring in the list (Fig. 4.20). Mobile banking entails that the client has a smart phone and the ability to do digital transactions—a feature associated with the tech savvy and not people excluded from the formal system. Thus, behind the impressive volumes being claimed, the impact on financial inclusion is not clear.

While payments have been the focus, deposits have lost out. Initially, to attract higher deposits, attractive savings interest rate was offered by all PBs but over time the rates have come down as prevalent in the banking industry (4 percent p.a.). As PBs have to hold 75 percent of their deposit balances in government securities, the falling yield on G-Secs has made deposit mobilisation a difficult proposition.

In payments, the PBs are facing another challenge on the revenue side. In digital push, RBI has waived its charges on various payment channels and asked banks to pass on the benefit to customers. Similarly, UPI transactions, for both person to person or person to merchant, do not attract any charges at present. Following the RBI announcement, leading banks like SBI and ICICI bank have waived charges on online transactions using NEFT and RTGS. In this competitive scenario, remittances or payments can provide revenues to PBs only if they are done in an assisted mode and a fee is charged for the service. For example, Paytm PB has no charges for online transactions on NEFT/RTGS/IMPS/UPI but charges Rs 10 or 1 percent per transaction (whichever is higher) for Domestic Money Transfer done through its banking points.[36] Airtel PB, however, charges Rs 1 to Rs 250 depending on the remittance amount even done through its app.

**Payment banks' share in mobile banking**

| | Volume (mn) actual | Value (₹ bn) | Share in total volume (in %) |
|---|---|---|---|
| Paytm Payments Bank | 166,840,377 | 201,148,546 | 19.23 |
| State Bank of India | 145,159,525 | 1275,330,289 | 16.73 |
| Axis Bank | 83,925,325 | 445,085,957 | 9.68 |
| HDFC Bank | 60,057,314 | 525,843,746 | 6.92 |
| ICICI Bank | 59,826,121 | 450,217,373 | 6.9 |
| Airtel Payments Bank | 46,370,845 | 61,514,845 | 5.35 |
| Bank of India | 38,124,316 | 103,934,991 | 4.4 |
| Union Bank of India | 36,142,562 | 91,328,955 | 4.17 |
| Kotak Mahindra Bank | 28,731,458 | 244,821,904 | 3.31 |
| Canara Bank | 21,544,106 | 68,919,390 | 2.48 |

**Figure 4.20:** PBs Share in Mobile Banking

*Source:* https://www.financialexpress.com/industry/digital-transaction-payment-banks-clock-big-volumes/1576349/

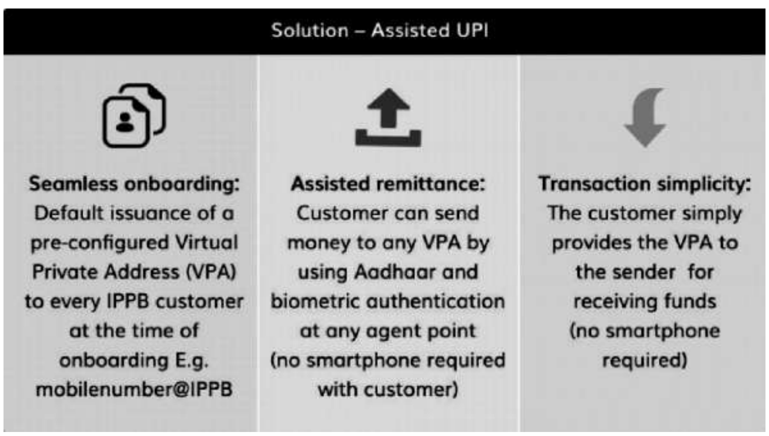


**Figure 4.21:** Assisted UPI at IPPB- Process Flow

*Source:* IPPB Annual Report 2017-18

| | |
|---|---|
| DEPOSITS | • Savings Account • Current Account |
| MONEY TRANSFER | • Simple & Secure • Instant • 24X7 |
| DIRECT BENEFIT TRANSFERS | • MGNREGA • Scholarships • Social welfare benefits and other • Government subsidies |
| THIRD PARTY PRODUCTS | • Loans • Insurance • Investments • Post Office Savings Schemes |
| BILL & UTILITY PAYMENTS | • Mobile and DTH recharge • Electricity, water & gas bills • Donations & insurance premiums |
| ENTERPRISE AND MERCHANT PAYMENTS | • Postal products • Digital Payment of e-commerce delivery (CoD) • Small merchants/ kirana stores/ unorganised retail • Offline payments • Cash Management Services |

**Figure 4.22:** Illustrative list of IPPB product line

*Source:* IPPB Annual Report 2017-18

However, the ability of PBs to offer bite-sized transactions is appreciable as evidenced by their almost zero balance requirements on savings accounts and offering transfer services for amounts as low as Rs 10. Several other innovations aimed at financial inclusion have been attempted by PBs. India Post Payments Bank in order to accelerate adoption of UPI for clients not having a smartphone has piloted the concept of assisted UPI, wherein a client is assigned Virtual Private Address (VPA) during onboarding and the VPA is simple to remember. Later through Aadhar biometric he/she can use UPI transactions in assisted mode (Fig. 4.21).

## Third Party Products and Cash Management Services by PBs

As payments margins are not sufficient for a viable business as also the fact that the ecosystem for payments has changed over past two to three years, PBs are working with different services to shore up their bottom line. The grounding of BCs, ubiquitous bank accounts and spread of UPI transactions linked to bank accounts as well as increased competition from Pre Paid Issuers (PPIs), especially after RBI allowed them to be interoperable and use payment gateways like UPI are posing a stiff challenge to the PBs in the payments space.

As such, all PBs now focus on diverse set of services in conjunction with third party players. Common set of services across PBs show bill payments, e-commerce, direct benefit transfer, insurance and loans (Fig. 4.22). All of these offerings are third party products, wherein the PB leverages its reach with the product line of third party provided for a fee. While bill payments and DBT are useful services, the retailing of financial products has its own limitations, especially with the poorer segment of clients.

This modularisation of financial services has a challenge relating to mis selling and complaint resolution. As the financial products are being retailed by so-called banking points operated by kirana store owners or other retailers, their understanding of the financial need of the client and ability to suggest a suitable product is suspect. There are chances that in pursuit of fee income there may be mis-selling and clients might be burdened with financial products not needed. It will be better if with regard to insurance, PBs stick to enrolling their clients in government schemes—Pradhan Mantri Jan Suraksha Yojana and Pradhan Mantri Jeevan Bima Yojana rather than retailing the schemes of private players. As the government schemes have low premium and insurance coverage suited to BOP segment, this will prevent mis-selling. Few PBs like Airtel PB and IPPB are already doing so along with other insurance schemes. It is also necessary that the front line person is fully trained and a standardised course like the one for BCs needs to be devised. The aspect of grievance redressal is critical; holder of an insurance policy sold by PB outlet has to approach either the insurance company or the regulator (IRDA) for complaint resolution. Author's interaction with few customers in Odisha showed that they had low awareness about the insurance features and invariably considered the PB outlet as the first port of call in case of grievance.

Along with these third party products, PBs have also ventured into Cash Management Service (CMS) for institutions and enterprises. Both Fino PB and Airtel PB are fairly active in this and based on stakeholder consultations, this appears to be a needed service. For example, microfinance companies often find it difficult to deposit their collections at bank branches and use CMS of PBs to deposit cash collections at the nearest banking point of PBs. Similarly, enterprises like Zomato and Swiggy (food aggregators) in urban areas find this service convenient. This has huge potential and is likely to grow in the coming years. CMS also solves the liquidity issues of banking points of PBs. Deposit of cash at these points provides them with temporary liquidity to meet Cash-in, Cash-out (CICO) operations. PBs are looking at digitising cash collections in other value chains like dairy and FMCG. However, at present, because of private ownership and competition, PBs are not open to sharing numbers and margins under these services.

The review of PBs based on available information shows that while deposits have taken a backseat and payments clientele is more towards increasing client base, the focus is on other fee-based services. The impact of PBs on financial inclusion is also inconclusive in the absence of granular data despite high value of payments being reported. RBI's recent signal to allow PBs to convert to SFBs is a pointer to the fact that on balance sheet lending can give viability to the business model of PBs. PBs are eager to do small-size lending and surprisingly even before the release of draft guidelines by RBI, the postal department has come out with a statement that it has been decided to convert the India Post Payments Bank into a Small Finance Bank, enabling it to offer small loans to customers.[37] Other PBs are also keen to enter lending space. From the RBI's perspective, it seems that the regulator is more comfortable allowing them to transform as SFB and then lend rather than allowing lending as part of PB entity. Being an SFB might not suit players other than IPPB as it already shares office/branch space with the India Post, while others operate based on small merchant establishments acting as banking outlet. Further, IPPB in the form of India Post already has an established track record of mobilising postal deposits, while others will have to start afresh and the experience of SFBs suggests that it is challenging to say the least. It might be worthwhile to allow PBs to do small-size lending with adequate safeguards like limiting exposure of public deposits to lending operations as a pilot.

## CONCLUDING NOTES

The scene of new age institutions or differentiated banking continues to be evolving especially for SFBs and PBs. While MUDRA is a well-established entity after nearly five years of operation, its utility as a refinancing agency remains doubtful. In its refinance function, it is constrained by low corpus at its disposal and over time refinance has become the primary or sole activity. On its formation, it seemed more of a new development bank, on the lines of NABARD or SIDBI, for the micro and small enterprises sector. But its functioning over five years has focussed almost solely on refinance and monitoring of data under PMMY. At a time, when share of bank credit to MSMEs is falling and MSMEs are seen as the appropriate medium to generate jobs and inclusive growth, it is time MUDRA moves away from refinance function to ecosystem building role. It needs to work on aspects like technology solutions, credit guarantee, risk sharing arrangements, sensitisation and training of financial institutions; availability of funds is not a constraint in MSME space, the willingness to do is.

SFBs have gradually been establishing themselves and the same is seen in all 10 SFBs which are scheduled banks now. However, the struggle for retail deposits continues and is likely to continue for the next two–three years. Higher dependence on costly wholesale deposits and initial operational expenses while converting as a bank have not enabled them to be competitive in lending rates. It is paradoxical that due to these twin factors, SFBs lending rate on microfinance loans is either similar or higher as compared to MFIs. It is now well realised that the traditional loan clients of SFBs cannot contribute much to their deposit base and retail deposits have to come from new sets of savers. Considering their recent lineage and market conservatism, it will be an arduous journey. However, the effort so far shows promise. SFBs' performance on diversification of loan products has also been slow with microfinance continuing to be the overwhelmingly dominant asset. Their foray into MSME lending is slow but steady and it is clear that for short-term growth, the focus of SFBs will continue to be in legacy business as new lines are taking time to develop. Of all the new sets of institutions, SFBs show the maximum potential but achievement of their objectives is still a medium-term outcome.

Payments Banks space is the most confusing and riddled with contradictory statements. As losses mount, banks still keep maintaining that it is a viable business model and at the same time continue to seek relaxations in the regulatory regime. Deposit mobilisation is no more a priority area and remittance operations are facing strong challenge from PPIs and BCs; for PBs to maintain an edge it will require them to establish their presence in rural areas with a phygital approach and ensure adequate liquidity for cash in-cash out operations. Though the payments numbers reported by them are large, unavailability of granular data makes it impossible to assess their financial inclusion impact. Focus on retailing third party products and other services like cash management can boost income but PBs have yet to provide an answer to their achievement of objectives. Notification of draft guidelines by the RBI which envisages possible transformation of PBs as SFBs seems to be a tacit admission of the regulatory discomfort on their viability. IPPB has already announced its decision to be an SFB, while others have been asking for permitting lending in their current form.

## ANNEXURE 4.1: Bank-wise progress under Pradhan Mantri Mudra Yojana during 2018-19

[Amount Rs. in Crore]

| Sr No | Bank Type Name | Bank Name | Shishu (Loans up to Rs. 50,000) | | | Kishore (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 1.1 | | State Bank of India | 21,14,366 | 6,150.08 | 6,113.25 | 4,05,922 | 10,807.62 | 10,676.13 | 2,16,791 | 16,868.23 | 16,823.12 | 27,37,079 | 33,825.92 | 33,612.5 |
| | | Total | 21,14,366 | 6,150.08 | 6,113.25 | 4,05,922 | 10,807.62 | 10,676.13 | 2,16,791 | 16,868.23 | 16,823.12 | 27,37,079 | 33,825.92 | 33,612.5 |
| 2 | Public Sector Commercial Banks | | | | | | | | | | | | | |
| 2.1 | | Allahabad Bank | 22,159 | 92.19 | 91.79 | 82,219 | 1,656.13 | 1645 | 16,637 | 1,226.27 | 1,221.24 | 1,21,015 | 2,974.59 | 2,958.03 |
| 2.2 | | Andhra Bank | 88,525 | 90.56 | 74.73 | 76,940 | 1,755.93 | 1,558.19 | 14,130 | 1,161.12 | 1,107.76 | 1,79,595 | 3,007.62 | 2,740.67 |
| 2.3 | | Bank of Baroda | 2,78,269 | 769.4 | 761.95 | 1,29,016 | 2,784.03 | 2,698.49 | 28,666 | 2,470.23 | 2,428.78 | 4,35,951 | 6023.66 | 5,889.23 |
| 2.4 | | Bank of India | 1,81,610 | 585.25 | 557.96 | 1,49,641 | 3,157.44 | 2,895.28 | 34,021 | 2,688.04 | 2,439.19 | 3,65,272 | 6,430.74 | 5,892.44 |
| 2.5 | | Bank of Maharashtra | 9,024 | 36.28 | 30.51 | 37,086 | 967.66 | 856.37 | 13,040 | 1,126.29 | 1,015.05 | 59,150 | 2,130.23 | 1,901.93 |
| 2.6 | | Canara Bank | 3,54,483 | 729.3 | 723.9 | 1,83,552 | 4,438.86 | 4,217.19 | 61,160 | 5,128.84 | 4,828.06 | 5,99,195 | 10297 | 9,769.16 |
| 2.7 | | Central Bank of India | 3,14,064 | 193.05 | 112.67 | 56,769 | 1,306.91 | 1077.4 | 12,814 | 1,058.05 | 878.89 | 3,83,647 | 2,558.02 | 2,068.96 |
| 2.8 | | Corporation Bank | 34,378 | 150.26 | 126.2 | 31,651 | 675.45 | 653.29 | 13,297 | 1032.2 | 1,022.89 | 79,326 | 1,857.9 | 1,802.38 |
| 2.9 | | Dena Bank | 1,094 | 3.54 | 3.35 | 1,135 | 24.59 | 22.55 | 284 | 22.55 | 21.59 | 2,513 | 50.69 | 47.49 |
| 2.10 | | Indian Bank | 25,439 | 81.44 | 80.84 | 65,792 | 1,161.46 | 1,068.45 | 7,584 | 604.1 | 584.84 | 98,815 | 1847 | 1,734.14 |
| 2.11 | | Indian Overseas Bank | 80,662 | 247.74 | 246.04 | 88,411 | 1,458.18 | 1,418.29 | 7,402 | 582.26 | 563.37 | 1,76,475 | 2,288.18 | 2,227.7 |
| 2.12 | | Oriental Bank of Commerce | 50,595 | 162.31 | 159.84 | 51,658 | 1,236.94 | 1,191.18 | 19,074 | 1,652.35 | 1,639.17 | 1,21,327 | 3051.6 | 2,990.19 |
| 2.13 | | Punjab National Bank | 1,50,395 | 537.12 | 338.56 | 1,49,529 | 2,947.01 | 2,313.15 | 33,399 | 2,831.24 | 2,312.56 | 3,33,323 | 6,315.37 | 4,964.27 |
| 2.14 | | Syndicate Bank | 32,988 | 119.65 | 98.66 | 82,311 | 1,945.84 | 1,586.84 | 13,318 | 1,080.19 | 818.43 | 128,617 | 3,145.68 | 2,503.93 |
| 2.15 | | Union Bank of India | 53,256 | 135.38 | 113.76 | 1,21,434 | 2,628.16 | 2,342.04 | 21,306 | 1,637.96 | 1,423.55 | 1,9,5996 | 4,401.51 | 3,879.35 |
| 2.16 | | United Bank of India | 57,485 | 173.46 | 167.8 | 41,711 | 807.16 | 758 | 5,094 | 410.23 | 399.18 | 1,04,290 | 1,390.85 | 1,324.98 |
| 2.17 | | Punjab & Sind Bank | 20,860 | 49.11 | 45.23 | 20,809 | 485.32 | 441.43 | 7,362 | 615.47 | 573.12 | 49,031 | 1,149.9 | 1,059.78 |
| 2.18 | | UCO Bank | 2,33,788 | 253.29 | 172.48 | 56,028 | 1141 | 958.33 | 9,491 | 809.51 | 693.02 | 2,99,307 | 2,203.8 | 1,823.83 |
| 2.19 | | Vijaya Bank | 39,720 | 169.62 | 164.99 | 42,974 | 946.78 | 882.88 | 12,612 | 985.36 | 945.13 | 95,306 | 2,101.76 | 1,993.01 |
| 2.20 | | IDBI Bank Limited | 54,901 | 183.67 | 183.67 | 28,684 | 713.99 | 713.99 | 15,454 | 1,285.3 | 1285.3 | 99,039 | 2,182.95 | 21,82.95 |
| | | Total | 20,83,695 | 4,762.62 | 4,254.94 | 14,97,350 | 32,238.85 | 29,298.35 | 3,46,145 | 28,407.56 | 26,201.12 | 39,27,190 | 65,409.04 | 59,754.41 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Private Sector Commercial Banks | | | | | | | | | | | | |
| 3.1 | Federal Bank | 81 | 0.37 | 0.35 | 194 | 6.22 | 5.25 | 89 | 7.49 | 5.84 | 364 | 14.09 | 11.44 |
| 3.2 | Jammu & Kashmir Bank | 21,794 | 37.31 | 37 | 67,823 | 1,693.36 | 1,665.05 | 11,916 | 883.44 | 867.36 | 1,01,533 | 2,614.11 | 2,569.41 |
| 3.3 | Karnataka Bank | 656 | 1.58 | 0 | 4,576 | 119.61 | 0.01 | 2,236 | 161.77 | 0.11 | 7,468 | 282.95 | 0.12 |
| 3.4 | Karur Vysya Bank | 205 | 0.46 | 0.45 | 2,116 | 44.98 | 44.75 | 628 | 41.45 | 40.97 | 2,949 | 86.89 | 86.18 |
| 3.5 | City Union Bank | 127 | 0.54 | 0.52 | 184 | 3.47 | 3.46 | 15 | 1.28 | 1.28 | 326 | 5.29 | 5.26 |
| 3.6 | Lakshmi Vilas Bank | 1 | 0.01 | 0.01 | 29 | 0.64 | 0.64 | 13 | 0.92 | 0.92 | 43 | 1.57 | 1.57 |
| 3.7 | The Nainital Bank Limited | 332 | 0.61 | 0.61 | 370 | 10.02 | 10.02 | 118 | 9 | 8.98 | 820 | 19.64 | 19.62 |
| 3.8 | Ratnakar Bank | 33,038 | 61.92 | 61.92 | 19,985 | 514.16 | 514.16 | 3,376 | 255.26 | 255.26 | 56,399 | 831.35 | 831.35 |
| 3.9 | South Indian Bank | 99 | 0.45 | 0.45 | 666 | 21.13 | 20.89 | 568 | 46.33 | 46.23 | 1,333 | 67.91 | 67.58 |
| 3.10 | Tamilnad Mercantile Bank | 944 | 3.94 | 3.91 | 4,414 | 130.07 | 129.23 | 2,893 | 239.35 | 237.82 | 8,251 | 373.35 | 370.95 |
| 3.11 | ICICI Bank | 2,43,431 | 755.11 | 707.45 | 86,809 | 2,404.57 | 2,404.57 | 46,701 | 3,419.73 | 3,419.73 | 3,76,941 | 6,579.41 | 6,531.74 |
| 3.12 | Axis Bank | 10,09,886 | 2,622.02 | 2,622.02 | 7,771 | 293.74 | 293.74 | 15,183 | 1,132.82 | 1,132.82 | 10,32,840 | 4,048.59 | 4,048.59 |
| 3.13 | IndusInd Bank | 29,39,617 | 7,676.85 | 7,676.85 | 2,09,421 | 3,087.13 | 3,087.13 | 24,039 | 1,329.53 | 1,329.53 | 31,73,077 | 12093.5 | 12,093.5 |
| 3.14 | Yes Bank | 7,02,647 | 2,016.93 | 2,016.93 | 290 | 10.47 | 10.47 | 246 | 19.85 | 19.85 | 7,03,183 | 2,047.25 | 2,047.25 |
| 3.15 | HDFC Bank | 13,39,757 | 3,477.08 | 3,477.08 | 90,867 | 2,054.5 | 2,054.5 | 25,985 | 1,637.34 | 1,637.34 | 14,56,609 | 7,168.92 | 7,168.92 |
| 3.16 | DCB Bank | 88 | 0.05 | 0.05 | 4,993 | 179.22 | 179.22 | 2,996 | 190.4 | 190.4 | 8,077 | 369.67 | 369.67 |
| 3.17 | Kotak Mahindra Bank | 1,75,301 | 515.46 | 515.46 | 4,846 | 174.4 | 174.4 | 5,195 | 369.83 | 369.83 | 1,85,342 | 1,059.69 | 1,059.69 |
| 3.18 | Bandhan Bank | 30,81,068 | 12,364.52 | 12,364.52 | 13,20,250 | 8,548.96 | 8,548.96 | 0 | 0 | 0 | 44,01,318 | 20,913.48 | 20,913.48 |
| 3.19 | IDFC Bank Limited | 16,85,066 | 4,795.68 | 4,795.64 | 75,999 | 630.59 | 629.44 | 51 | 2.72 | 2.69 | 17,61,116 | 5,428.99 | 5,427.77 |
| | Total | 1,12,34,138 | 34,330.9 | 34,281.22 | 19,01,603 | 19,927.24 | 19,775.89 | 1,42,248 | 9,748.51 | 9,566.96 | 1,32,77,989 | 64,006.64 | 63,624.07 |
| 4 | Foreign Banks | | | | | | | | | | | | |
| 4.1 | Citibank | 0 | 0 | 0 | 272 | 8.36 | 8.36 | 297 | 22.25 | 22.25 | 569 | 30.61 | 30.61 |
| | Total | 0 | 0 | 0 | 272 | 8.36 | 8.36 | 297 | 22.25 | 22.25 | 569 | 30.61 | 30.61 |
| 5 | State Co-operative Banks | | | | | | | | | | | | |
| 5.1 | Andaman & Nicobar State Co-operative Bank Ltd. | 197 | 1 | 1 | 60 | 0.6 | 0.6 | 0 | 0 | 0 | 257 | 1.6 | 1.6 |
| | Total | 197 | 1 | 1 | 60 | 0.6 | 0.6 | 0 | 0 | 0 | 257 | 1.6 | 1.6 |
| 6 | Regional Rural Banks | | | | | | | | | | | | |
| 6.1 | Andhra Pradesh Grameena Vikas Bank | 23,262 | 117.68 | 117.68 | 5,227 | 90.97 | 90.97 | 586 | 40.75 | 40.75 | 29,075 | 249.4 | 249.4 |
| 6.2 | Andhra Pragathi Grameena Bank | 44,832 | 196.15 | 196.15 | 35,495 | 526.72 | 507.35 | 255 | 18.21 | 14.67 | 80,582 | 741.08 | 718.17 |
| 6.3 | Chaitanya Godavari Grameena Bank | 6,143 | 28.29 | 26.21 | 13,316 | 197.14 | 119.1 | 1.103 | 88.84 | 75.04 | 20,562 | 314.27 | 220.36 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.4 | Telangana Grameena Bank | 6,154 | 25.54 | 25.54 | 2,823 | 36.15 | 36.15 | 50 | 4.21 | 4.21 | 9,027 | 65.9 | 65.9 |
| 6.5 | Saptagiri Grameena Bank | 5,611 | 19.5 | 19.5 | 11,687 | 351.48 | 351.48 | 1,951 | 145.85 | 145.85 | 19,249 | 516.84 | 516.84 |
| 6.6 | Assam Gramin Vikash Bank | 1,222 | 4.59 | 4.53 | 2,978 | 55.37 | 45.37 | 131 | 10.04 | 9.38 | 4,331 | 70 | 59.27 |
| 6.7 | Langpi Dehangi Rural Bank | 3,685 | 12.92 | 12.92 | 206 | 3.87 | 3.87 | 28 | 1.84 | 1.84 | 3,919 | 18.63 | 18.63 |
| 6.8 | Arunachal Pradesh Rural Bank | 7 | 0.04 | 0.04 | 2 | 0.07 | 0.07 | 0 | 0 | 0 | 9 | 0.1 | 0.1 |
| 6.9 | Uttar Bihar Gramin Bank | 4,129 | 20.56 | 17.31 | 34,808 | 1,324.62 | 720.73 | 64 | 4.57 | 4.52 | 39,001 | 1,349.75 | 742.56 |
| 6.10 | Madhya Bihar Gramin Bank | 7,927 | 34.81 | 34.42 | 25,994 | 624.63 | 617.29 | 445 | 42.17 | 42.07 | 34,366 | 701.61 | 693.78 |
| 6.11 | Bihar Gramin Bank | 395 | 1.86 | 1.86 | 4,766 | 179.03 | 179.03 | 108 | 9.78 | 9.78 | 5,269 | 190.67 | 190.67 |
| 6.12 | Chattisgarh Rajya Gramin Bank | 17,811 | 60.5 | 20.35 | 24,613 | 326.82 | 159.79 | 188 | 14.63 | 10.42 | 42,612 | 401.95 | 190.56 |
| 6.13 | Dena Gujarat Gramin Bank | 973 | 3.53 | 3.31 | 1,933 | 42.7 | 34.68 | 133 | 9.52 | 8.42 | 3,039 | 55.74 | 46.41 |
| 6.14 | Baroda Gujarat Gramin Bank | 2,294 | 8.5 | 8.48 | 3,258 | 55.15 | 55.08 | 251 | 15.34 | 14.2 | 5,803 | 78.99 | 77.76 |
| 6.15 | Saurashtra Gramin Bank | 402 | 1.53 | 1.53 | 1,279 | 21.79 | 21.56 | 144 | 11.68 | 11.58 | 1,825 | 35 | 34.67 |
| 6.16 | Sarva Haryana Gramin Bank | 2,842 | 10.65 | 10.22 | 12,085 | 182.51 | 169.14 | 361 | 28.51 | 24.25 | 15,288 | 221.67 | 203.6 |
| 6.17 | Himachal Pradesh Gramin Bank | 828 | 3.86 | 3.86 | 3,169 | 72.31 | 72.31 | 402 | 35.5 | 35.5 | 4,399 | 111.66 | 111.66 |
| 6.18 | Jharkhand Gramin Bank | 2,257 | 9.96 | 9.9 | 5,517 | 121.58 | 120.89 | 63 | 4.59 | 4.43 | 7,837 | 136.13 | 135.22 |
| 6.19 | Vananchal Gramin Bank | 430 | 2.15 | 2.15 | 154 | 2.57 | 2.57 | 60 | 3.64 | 3.64 | 644 | 8.36 | 8.36 |
| 6.20 | Jammu And Kashmir Grameen Bank | 762 | 3.56 | 3.54 | 5,072 | 117.4 | 114.31 | 472 | 35.04 | 32.6 | 6,306 | 156 | 150.45 |
| 6.21 | Ellaquai Dehati Bank | 432 | 2.12 | 2.12 | 1,041 | 19.74 | 19.74 | 87 | 6.91 | 6.91 | 1,560 | 28.77 | 28.77 |
| 6.22 | Kaveri Grameena Bank | 7,166 | 30.95 | 28.61 | 12,392 | 203.1 | 193.02 | 226 | 19.33 | 17.01 | 19,784 | 253.38 | 238.64 |
| 6.23 | Karnataka Vikas Grameena Bank | 19,745 | 72.33 | 72.33 | 43,859 | 760.97 | 760.97 | 998 | 107.47 | 107.47 | 64,602 | 940.78 | 940.78 |
| 6.24 | Pragathi Krishna Gramin Bank | 1,72,354 | 682.16 | 679.9 | 1,02,377 | 1346.02 | 1,332.56 | 5,435 | 404.37 | 404.37 | 2,80,166 | 2,432.54 | 2,416.82 |
| 6.25 | Kerala Gramin Bank | 1,57,239 | 37,4.32 | 37,4.28 | 1,06,236 | 1,459.09 | 1,457.01 | 3,478 | 292.22 | 288.33 | 2,66,953 | 2,125.64 | 2,119.63 |
| 6.26 | Maharashtra Gramin Bank | 2,054 | 9.06 | 9.06 | 9,611 | 20,9.56 | 209.56 | 1,112 | 88.7 | 88.7 | 12,777 | 307.32 | 307.32 |
| 6.27 | Vidharbha Konkan Gramin Bank | 4,491 | 20.21 | 19.9 | 8,452 | 146.21 | 144.06 | 178 | 13.79 | 11.39 | 13,121 | 180.21 | 175.35 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.28 | Narmada Jhabua Gramin Bank | 9,414 | 42.09 | 40.82 | 11,735 | 235.3 | 227.57 | 1,129 | 82.39 | 81.99 | 22,278 | 359.78 | 350.38 |
| 6.29 | Central Madhya Pradesh Gramin Bank | 3,862 | 17.83 | 17.19 | 2,334 | 44.17 | 42.18 | 227 | 17 | 15.3 | 6,423 | 79 | 74.67 |
| 6.30 | Madhyanchal Gramin Bank | 9,837 | 36.3 | 32.69 | 3,446 | 62.2 | 55.81 | 97 | 7.9 | 7.08 | 13,380 | 106.39 | 95.58 |
| 6.31 | Manipur Rural Bank | 1,504 | 6.88 | 6.64 | 1,241 | 18.7 | 18.54 | 72 | 5.26 | 5.17 | 2,817 | 30.83 | 30.35 |
| 6.32 | Meghalaya Rural Bank | 1,382 | 6.49 | 6.49 | 72 | 1.26 | 1.26 | 1 | 0.1 | 0.1 | 1,455 | 7.85 | 7.85 |
| 6.33 | Mizoram Rural Bank | 1002 | 4.63 | 4.48 | 6,098 | 116.78 | 107.02 | 84 | 6.94 | 5.91 | 7,184 | 128.35 | 117.42 |
| 6.34 | Nagaland Rural Bank | 262 | 0.66 | 0.66 | 60 | 1.72 | 1.72 | 21 | 1.81 | 1.81 | 343 | 4.18 | 4.18 |
| 6.35 | Odisha Gramya Bank | 12,399 | 56 | 56 | 11,156 | 192.98 | 192.64 | 215 | 13.31 | 13.31 | 23,770 | 262.29 | 261.95 |
| 6.36 | Utkal Grameen Bank | 1,187 | 4.58 | 1.29 | 818 | 20.74 | 5.36 | 98 | 7.47 | 1.73 | 2,103 | 32.79 | 8.39 |
| 6.37 | Punjab Gramin Bank | 6,789 | 29.43 | 27.49 | 16,009 | 209.92 | 198.75 | 145 | 10.92 | 9.26 | 22,943 | 250.27 | 235.5 |
| 6.38 | Malwa Gramin Bank | 654 | 2.87 | 2.87 | 388 | 6.53 | 6.53 | 11 | 0.91 | 0.91 | 1,053 | 10.31 | 10.31 |
| 6.39 | Sutlej Gramin Bank | 178 | 0.68 | 0.68 | 102 | 1.21 | 1.21 | 0 | 0 | 0 | 280 | 1.89 | 1.89 |
| 6.40 | Puduvai Bharathiar Grama Bank | 1,594 | 7.19 | 7.19 | 989 | 31.9 | 31.9 | 1 | 0.07 | 0.07 | 2,584 | 39.16 | 39.16 |
| 6.41 | Baroda Rajasthan Ksethriya Gramin Bank | 4,875 | 20.01 | 19.72 | 15,781 | 243.95 | 234.99 | 159 | 9.6 | 9.6 | 20,815 | 273.56 | 264.31 |
| 6.42 | Marudhara Rajasthan Gramin Bank | 6,891 | 29.45 | 24.85 | 3,702 | 76.95 | 35.71 | 72 | 5.31 | 1.35 | 10,665 | 111.71 | 61.91 |
| 6.43 | Pandyan Grama Bank | 46,799 | 110.12 | 110.12 | 19,964 | 221.25 | 221.25 | 84 | 6.05 | 6.05 | 66,847 | 337.41 | 337.41 |
| 6.44 | Pallavan Grama Bank | 4,839 | 19.51 | 19.51 | 20,039 | 311.49 | 311.49 | 5,039 | 369.07 | 369.07 | 29,917 | 700.06 | 700.06 |
| 6.45 | Tripura Gramin Bank | 18,618 | 69.08 | 68.83 | 6,074 | 99.62 | 93.29 | 213 | 16.36 | 14.3 | 24,905 | 185.06 | 176.42 |
| 6.46 | Allahabad UP Gramin Bank | 3,672 | 16.31 | 12.86 | 3,140 | 51.95 | 44.33 | 222 | 18.47 | 15.36 | 7,034 | 86.73 | 72.56 |
| 6.47 | Baroda UP Gramin Bank | 27,482 | 103.6 | 100.47 | 8,965 | 216.59 | 191.24 | 996 | 73.37 | 68.33 | 37,443 | 393.56 | 360.04 |
| 6.48 | Gramin Bank Of Aryavrat | 11,937 | 66.1 | 63.79 | 23,073 | 498.99 | 458.07 | 422 | 32.32 | 29.42 | 35,432 | 597.4 | 551.28 |
| 6.49 | Kashi Gomti Samyut Gramin Bank | 18,125 | 33.7 | 33.37 | 8,907 | 181.09 | 181.09 | 528 | 42.96 | 42.96 | 27,560 | 257.74 | 257.42 |
| 6.50 | Prathama Bank | 19,048 | 27.57 | 27.57 | 9,831 | 239.49 | 239.49 | 1,231 | 103.87 | 103.87 | 30,110 | 370.93 | 370.93 |
| 6.51 | Purvanchal Bank | 37,843 | 187.38 | 187.38 | 448 | 21.82 | 21.82 | 183 | 15.89 | 15.89 | 38,474 | 225.1 | 225.1 |
| 6.52 | Sarva UP Gramin Bank | 8,308 | 29.48 | 28.65 | 14,080 | 208.98 | 154.67 | 311 | 22.21 | 16.48 | 22,699 | 260.66 | 199.8 |
| 6.53 | Uttarakhand Gramin Bank | 1,674 | 6.85 | 6.85 | 3,730 | 71.53 | 71.27 | 403 | 30.68 | 30.54 | 5,807 | 109.06 | 108.66 |
| 6.54 | Bangiya Gramin Vikash Bank | 2,599 | 7.4 | 6.88 | 11,968 | 242.89 | 219.32 | 141 | 10.78 | 9.87 | 14708 | 261.07 | 236.06 |
| 6.55 | Paschim Banga Gramin Bank | 6,463 | 28.49 | 28.49 | 24,839 | 667.82 | 667.82 | 1,206 | 111.87 | 106.39 | 32,508 | 808.18 | 802.69 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6.56 | Uttarbanga Kshetriya Gramin Bank | 366 | 1.8 | 1.8 | 4,085 | 61.33 | 61.33 | 0 | 0 | 0 | 4451 | 63.13 | 63.13 |
| | Total | 7,65,050 | 2,729.79 | 2,651.32 | 7,11,424 | 12,836.72 | 11,636.32 | 31,620 | 2480.38 | 2399.44 | 15,08,094 | 18,046.89 | 16,687.08 |
| 7 | Micro Finance Institutions | | | | | | | | | | | | |
| 7.1 | NON NBFC-Micro Finance Institutions | 18,79,391 | 2,357.41 | 2,357.41 | 0 | 0 | 0 | 0 | 0 | 0 | 18,79,391 | 2,357.41 | 2,357.41 |
| | Total | 1,87,9391 | 2,357.41 | 2,357.41 | 0 | 0 | 0 | 0 | 0 | 0 | 18,79,391 | 2,357.41 | 2,357.41 |
| 8 | NBFC-Micro Finance Institutions | | | | | | | | | | | | |
| 8.1 | Agora Microfinance India Ltd | 16,019 | 44.89 | 44.89 | 0 | 0 | 0 | 0 | 0 | 0 | 16,019 | 44.89 | 44.89 |
| 8.2 | VEDIKA CREDIT CAPITAL LTD | 2,09,004 | 450.88 | 450.88 | 0 | 0 | 0 | 0 | 0 | 0 | 2,09,004 | 450.88 | 450.88 |
| 8.3 | Pahal Financial Services Private Limited | 1,53,431 | 496.86 | 496.86 | 4,532 | 32.94 | 32.94 | 0 | 0 | 0 | 1,57,963 | 529.8 | 529.8 |
| 8.4 | Annapurna Microfinance Pvt. Ltd. | 4,65,573 | 1,381.63 | 1,381.53 | 11,215 | 136.96 | 136.95 | 194 | 14.66 | 14.66 | 47,6,982 | 1,533.26 | 1,533.15 |
| 8.5 | Varam Capital Private Limited | 5,040 | 11.94 | 11.94 | 0 | 0 | 0 | 0 | 0 | 0 | 5,040 | 11.94 | 11.94 |
| 8.6 | Village Financial Services Pvt Ltd | 3,65,242 | 1,103.84 | 1,103.84 | 0 | 0 | 0 | 0 | 0 | 0 | 3,65,242 | 1,103.84 | 1,103.84 |
| 8.7 | Muthoot Microfin Ltd | 5,22,233 | 1,899.13 | 1,899.13 | 0 | 0 | 0 | 0 | 0 | 0 | 5,22,233 | 1,899.13 | 1,899.13 |
| 8.8 | ASA International India Microfinance Pvt. Ltd. | 3,84,797 | 1,033.75 | 1,033.75 | 58 | 0.33 | 0.33 | 0 | 0 | 0 | 3,84,855 | 1,034.08 | 1,034.08 |
| 8.9 | Samasta Microfinance Limited | 10,36,320 | 2073.1 | 2073.1 | 0 | 0 | 0 | 0 | 0 | 0 | 10,36,320 | 2,073.1 | 2073.1 |
| 8.10 | JAGARAN MICROFIN PVT LTD. | 2,21,475 | 613.96 | 613.96 | 0 | 0 | 0 | 0 | 0 | 0 | 2,21,475 | 613.96 | 613.96 |
| 8.11 | Spandana Sphoorty Financial Limited | 16,33,092 | 4,185.61 | 4,185.61 | 14,402 | 108.11 | 108.11 | 103 | 9.91 | 9.91 | 16,47,597 | 4,303.63 | 4,303.63 |
| 8.12 | SARVODAYA NANO FINANCE LIMITED | 52,211 | 112.68 | 112.68 | 0 | 0 | 0 | 0 | 0 | 0 | 52,211 | 112.68 | 112.68 |
| 8.13 | NIGHTINGALE FINVEST PVT. LTD. | 23,990 | 72.66 | 72.66 | 227 | 1.35 | 1.35 | 0 | 0 | 0 | 24,217 | 74.01 | 74.01 |
| 8.14 | Grameen Koota Financial Services Private Limited | 16,57,651 | 4,298.68 | 4,298.68 | 1,920,99 | 1,365.47 | 1,365.47 | 0 | 0 | 0 | 18,49,750 | 5,664.15 | 5,664.15 |
| 8.15 | M Power Microfinance Pvt Ltd | 61,793 | 191.12 | 191.12 | 0 | 0 | 0 | 0 | 0 | 0 | 61,793 | 191.12 | 191.12 |
| 8.16 | MADURA MICRO FINANCE LIMITED | 5,43,542 | 1,564.75 | 1,564.75 | 0 | 0 | 0 | 0 | 0 | 0 | 5,43,542 | 1,564.75 | 1,564.75 |
| 8.17 | Chaitanya India Fin Credit Pvt Ltd | 3,10,826 | 802.67 | 802.67 | 0 | 0 | 0 | 0 | 0 | 0 | 3,10,826 | 802.67 | 802.67 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 8.18 | MSM Microfinance Limited | 28444 | 108.86 | 108.86 | 0 | 0 | 0 | 0 | 0 | 0 | 28444 | 108.86 | 108.86 |
| 8.19 | SHARE MICROFIN LIMITED | 408347 | 1044.7 | 1044.7 | 17554 | 92.9 | 92.9 | 0 | 0 | 0 | 425901 | 1137.6 | 1137.6 |
| 8.20 | ASMITHA MICROFIN LIMITED | 623 | 1.13 | 1.13 | 0 | 0 | 0 | 0 | 0 | 0 | 623 | 1.13 | 1.13 |
| 8.21 | Belstar Investment and Finance Private Limited | 3,57,283 | 1,068.35 | 1,068.35 | 22,591 | 142.97 | 142.97 | 0 | 0 | 0 | 3,79,874 | 1,211.32 | 1,211.32 |
| 8.22 | Namra Finance Ltd. | 1,17,745 | 303.5 | 303.5 | 0 | 0 | 0 | 0 | 0 | 0 | 1,17,745 | 303.5 | 303.5 |
| 8.23 | SVATANTRA MICROFIN PRIVATE LIMITED | 3,70,346 | 1,108.96 | 1,108.96 | 0 | 0 | 0 | 0 | 0 | 0 | 3,70,346 | 1,108.96 | 1,108.96 |
| 8.24 | Saija Finance private limited | 87,817 | 182.79 | 182.79 | 0 | 0 | 0 | 0 | 0 | 0 | 87,817 | 182.79 | 182.79 |
| 8.25 | Satin Creditcare Network Limited | 19,91,054 | 5,015.47 | 5,015.47 | 12,354 | 61.82 | 61.82 | 0 | 0 | 0 | 20,03,408 | 5,077.29 | 5,077.29 |
| 8.26 | Margdarshak Financial Services Limited | 63,253 | 138.97 | 138.97 | 606 | 3.85 | 3.85 | 0 | 0 | 0 | 63,859 | 142.82 | 142.82 |
| 8.27 | Sambandh Finserve Private Limited | 64,117 | 181 | 181 | 0 | 0 | 0 | 0 | 0 | 0 | 64,117 | 181 | 181 |
| 8.28 | Navachetana Microfin Services Pvt Ltd | 1,14,062 | 191.95 | 191.95 | 0 | 0 | 0 | 0 | 0 | 0 | 1,14,062 | 191.95 | 191.95 |
| 8.29 | Asirvad Microfinance Pvt. Ltd | 15,11,301 | 3,095.54 | 3,095.54 | 0 | 0 | 0 | 0 | 0 | 0 | 15,11,301 | 3,095.54 | 3,095.54 |
| 8.30 | Intrepid Finance & Leasing Pvt. Ltd | 97,761 | 318.86 | 318.86 | 10,711 | 62 | 62 | 0 | 0 | 0 | 1,08,472 | 380.86 | 380.86 |
| 8.31 | Fusion Microfinance Pvt. Ltd. | 10,47,983 | 2,821.27 | 2,781.5 | 88 | 0.55 | 0.55 | 0 | 0 | 0 | 10,48,071 | 2,821.83 | 2,782.05 |
| 8.32 | Arohan Financial Services Pvt. Ltd. | 15,77,225 | 4,196.49 | 4,196.49 | 1,210 | 7.11 | 7.11 | 0 | 0 | 0 | 15,78,435 | 4203.6 | 4203.6 |
| 8.33 | SKS Microfinance Limited | 6,50,8571 | 17,052.64 | 15,094.65 | 0 | 0 | 0 | 0 | 0 | 0 | 65,08,571 | 17,052.64 | 15,094.65 |
| 8.34 | Light Microfinance Private Limited | 53,778 | 173.02 | 173.02 | 4,666 | 27.76 | 27.76 | 0 | 0 | 0 | 58,444 | 200.78 | 200.78 |
| 8.35 | Shikhar Microfinance Pvt Ltd | 12,692 | 31.06 | 31.06 | 781 | 3.2 | 3.2 | 0 | 0 | 0 | 13,473 | 34.26 | 34.26 |
| 8.36 | Midland Microfinance Limited | 3,15,231 | 791.15 | 791.15 | 1,059 | 7.49 | 7.49 | 0 | 0 | 0 | 3,16,290 | 798.65 | 798.65 |
| 8.37 | SMILE Microfinance Limited | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8.38 | DIGAMBER CAPFIN LIMITED | 1,41,286 | 511.17 | 511.17 | 11 | 0.26 | 0.26 | 0 | 0 | 0 | 1,41,297 | 511.43 | 511.43 |
| 8.39 | Uttrayan Financial Services Private Li ited | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,13,992 | 302.44 | 302.44 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 8.40 | NEED Livelihood Microfinance Private Limited | 24384 | 56.44 | 56.44 | 0 | 0 | 0 | 0 | 0 | 0 | 24384 | 56.44 | 56.44 |
| | Total | 2,25,55,542 | 5,8731.48 | 56,733.62 | 2,94,164 | 2,055.07 | 2,055.06 | 1,14,289 | 327.01 | 327.01 | 2,29,63,995 | 61,113.56 | 59,115.7 |
| 9 | Non Banking Financial Companies | | | | | | | | | | | | |
| 9.1 | Reliance Capital Ltd | 2,34,093 | 606.55 | 606.55 | 1,179 | 12.24 | 12.24 | 120 | 9.21 | 9.21 | 2,35,392 | 628 | 628 |
| 9.2 | CAPITAL FIRST LIMITED | 1,17,404 | 501.42 | 497.64 | 4,79,092 | 4,231.45 | 4,231.14 | 7,531 | 490.3 | 490.26 | 6,04,027 | 5,223.17 | 5,219.05 |
| 9.3 | Mahindra and Mahindra Financial Services Limited | 0 | 0 | 0 | 22,950 | 979.6 | 979.6 | 42,902 | 2,613.77 | 2,613.77 | 65,852 | 3,593.38 | 3,593.38 |
| 9.4 | Magma Fincorp Limited | 0 | 0 | 0 | 31,969 | 1,011.78 | 1,011.78 | 8,126 | 553.73 | 553.73 | 40,095 | 1,565.51 | 1,565.51 |
| 9.5 | Bajaj Finance Limited | 2,427 | 2.71 | 2.69 | 3,0271 | 1,151.92 | 1,060.37 | 22,392 | 1,762.79 | 1,588.34 | 55,090 | 2,917.42 | 2,651.4 |
| 9.6 | Fullerton India Credit Company Limited | 16,39,879 | 4,021.77 | 4,021.77 | 3,09,969 | 4,674.7 | 4674.7 | 29,420 | 1,935.62 | 1,935.62 | 19,79,268 | 10,632.09 | 10,632.09 |
| 9.7 | Shriram Transport Finance Co. Ltd. | 2,996 | 13.47 | 13.47 | 2,20,077 | 6,132.31 | 6,132.31 | 60,302 | 3,855.33 | 3,855.33 | 2,83,375 | 10,001.11 | 10,001.11 |
| 9.8 | Tata Motors Finance Limited | 0 | 0 | 0 | 27,920 | 1,109.05 | 1,109.05 | 8,409 | 485.42 | 485.42 | 36,329 | 1,594.47 | 1,594.47 |
| 9.9 | Electronica Finance Limited | 0 | 0 | 0 | 0 | 0 | 0 | 220 | 14.8 | 13.29 | 220 | 14.8 | 13.29 |
| 9.10 | Cholamandalam Investment and Finance Private Limited. | 0 | 0 | 0 | 1,269 | 53.67 | 53.67 | 5,175 | 361.1 | 361.1 | 6,444 | 414.77 | 414.77 |
| 9.11 | L&T Finance Limited | 24,65,390 | 8,134.51 | 8,134.51 | 0 | 0 | 0 | 0 | 0 | 0 | 24,65,390 | 8,134.51 | 8,134.51 |
| 9.12 | Hinduja Leyland Finance Limited | 1,540 | 4.61 | 4.61 | 63,378 | 1,443.73 | 1,443.73 | 10,025 | 599.94 | 599.94 | 74,943 | 2,048.28 | 2,048.28 |
| 9.13 | Kotak Mahindra Prime | 0 | 0 | 0 | 4,402 | 168.75 | 168.75 | 2,863 | 200.48 | 200.48 | 7,265 | 369.23 | 369.23 |
| | Total | 44,63,729 | 13,285.07 | 13,281.26 | 11,92,476 | 20,969.2 | 20,877.34 | 1,97,485 | 12,882.48 | 12,706.48 | 58,53,690 | 4,7136.75 | 46,865.09 |
| 10 | Small Finance Banks | | | | | | | | | | | | |
| 10.1 | SURYODAY MICRO FINANCE LIMITED | 5,16,134 | 1,415.27 | 1,415.27 | 12,453 | 103.57 | 103.55 | 345 | 28.12 | 26.99 | 5,28,932 | 1,546.96 | 1,545.82 |
| 10.2 | Utkarsh Small Finance Bank | 1025530 | 2945.38 | 2931.31 | 34613 | 245.57 | 245.57 | 567 | 41.85 | 41.85 | 1060710 | 3232.8 | 3218.73 |
| 10.3 | Fincare Small Finance Bank | 16873 | 49.38 | 45.41 | 202465 | 683.2 | 682.3 | 68037 | 2425.7 | 2421.37 | 899709 | 3158.29 | 3149.07 |
| 10.4 | Ujjivan Small Finance Bank | 1864026 | 5873.07 | 5873.07 | 81553 | 672.98 | 672.98 | 297 | 21.05 | 21.05 | 1945876 | 6567.1 | 6567.1 |
| 10.5 | JANALAKSHMI FINANCIAL SERVICES LIMITED | 1083377 | 4049.26 | 4047.92 | 122547 | 1168.24 | 1166.08 | 528 | 47.2 | 43.68 | 1206452 | 5264.71 | 5257.68 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10.6 | Equitas Small Finance Bank | 9,75,356 | 2,816.74 | 2,816.74 | 0 | 0 | 0 | 0 | 0 | 0 | 9,75,356 | 2,816.74 | 2,816.74 |
| 10.7 | North East Small Finance Bank Limited | 5,45,629 | 1,727.42 | 1,727.42 | 31,086 | 190.81 | 190.81 | 1 | 0.08 | 0.08 | 5,76,716 | 1,918.31 | 1,918.31 |
| 10.8 | AU Small Finance Bank Limited | 1,446 | 6.2 | 6.2 | 74,540 | 2,161.1 | 2,161.1 | 25,536 | 1,663.26 | 1,663.26 | 1,01,522 | 3,830.56 | 3,830.56 |
| 10.9 | ESAF Small Finance Bank | 3,82,942 | 1,114.11 | 1,114.11 | 42,042 | 275.43 | 275.43 | 0 | 0 | 0 | 4,24,984 | 1,389.54 | 1,389.54 |
| 10.10 | Capital Small Finance Bank | 17 | 0.07 | 0.07 | 1,439 | 42.13 | 42.13 | 351 | 27.16 | 27.16 | 1,807 | 69.37 | 69.37 |
| | Total | 64,11,330 | 19,996.9 | 19,977.52 | 6,02,738 | 5,543.03 | 5,539.94 | 7,07,996 | 4,254.44 | 4,245.45 | 77,22,064 | 29,794.37 | 29,762.92 |
| | Grand Total | 5,15,07,438 | 1,42,345.25 | 1,39,651.55 | 66,06,009 | 1,04,386.68 | 99,868 | 17,56,871 | 74,990.86 | 72,291.84 | 59,870,318 | 3,21,722.79 | 3,11,811.38 |

*Source:* MUDRA

## ANNEXURE 4.1a: Population Group wise progress under PMMY during 2018-19

**(Amount Rs. in Crore)**

| Sr No | Category | Shishu | | | | Kishore | | | | Tarun | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (Loans up to Rs. 50,000) | | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | | | |
| | | No Of A/Cs | Sanctioned Amt | Disbursement Amt | Outstanding Amt | No Of A/Cs | Sanctioned Amt | Disbursement Amt | Outstanding Amt | No Of A/Cs | Sanctioned Amt | Disbursement Amt | Outstanding Amt | No Of A/Cs | Sanctioned Amt | Disbursement Amt | Outstanding Amt |
| 1 | General | 2,59,93,019 | 74,816.03 | 73,985.06 | 54,383.3 | 44,39,825 | 78,947.67 | 75,818.02 | 66,989.3 | 13,02,379 | 66,365.45 | 63,984.62 | 58,706.19 | 3,17,35,223 | 2,20,129.14 | 2,13,787.7 | 1,80,078.8 |
| 2 | SC | 87,67,153 | 23,253.35 | 22,556.66 | 16,376.78 | 5,52,277 | 5,291.86 | 5,069.8 | 4,618.98 | 1,33,089 | 1,412.16 | 1,362.91 | 1,890.12 | 94,52,519 | 29,957.36 | 28,989.37 | 22,885.88 |
| 3 | ST | 30,12,074 | 7,697.71 | 7,421.42 | 5,279.9 | 2,00,315 | 2,352.7 | 2,195.75 | 2,092.01 | 1,28,940 | 1,003.14 | 973.1 | 1,043.58 | 33,41,329 | 11,053.54 | 10,590.27 | 8,415.49 |
| 4 | OBC | 1,37,35,192 | 36,578.17 | 35,688.4 | 26,723.83 | 14,13,592 | 17,794.45 | 16,784.42 | 14,951.39 | 1,92,463 | 6,210.12 | 5,971.21 | 7,072.71 | 1,53,41,247 | 6,0582.74 | 58,444.04 | 48,747.93 |
| 5 | Total | 5,15,07,438 | 1,42,345.25 | 1,39,651.55 | 1,02,763.82 | 66,06,009 | 1,04,386.68 | 99,868 | 88,651.68 | 1,756,871 | 74,990.86 | 72,291.84 | 68,712.6 | 5,98,70,318 | 3,21,722.79 | 3,11,811.38 | 2,60,128.1 |
| | Out of Above | | | | | | | | | | | | | | | | |
| 6 | Women Enterpreneurs | 3,34,03,579 | 96,253.15 | 93977 | 67,437.83 | 28,75,392 | 26,741.23 | 25,666.77 | 25,034.39 | 7,83,591 | 10,039.23 | 9,509.46 | 10,213.62 | 3,70,62,562 | 1,33,033.62 | 1,29,153.23 | 1,02,685.84 |
| 7 | New Enterpreneurs / Accounts | 1,09,35,180 | 29,133.3 | 28,768.86 | 21,239.45 | 2,016,546 | 43,337.87 | 40,195.47 | 36,228.67 | 4,42,076 | 33,561.89 | 31,961.25 | 30,833.54 | 1,33,93,802 | 1,06,033.06 | 1,00,925.58 | 88,301.66 |
| 8 | Minority | 54,55,596 | 15,004.01 | 14,604.17 | 1,02,50.94 | 7,25,905 | 9,629.53 | 9,244.44 | 7,803.03 | 70,139 | 5,490.23 | 5,180.85 | 4,637.55 | 62,51,640 | 30,123.77 | 29,029.47 | 22,691.52 |
| 9 | PMJDY OD Account | 6,71,691 | 124.34 | 62.06 | 64.58 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,71,691 | 124.34 | 62.06 | 64.58 |
| 10 | Mudra card | 1,34,238 | 324.05 | 292.39 | 319.27 | 23,701 | 598.08 | 587.92 | 462.99 | 9,366 | 789.81 | 771.65 | 611.7 | 1,67,305 | 1,711.94 | 1,651.97 | 1,393.96 |
| 11 | NULM | 5,521 | 23.36 | 20.74 | 20.53 | 12,592 | 209.31 | 189.58 | 166.55 | 292 | 20.49 | 19.09 | 17.78 | 18,405 | 253.17 | 229.41 | 204.86 |
| 12 | NRLM | 14,364 | 64.41 | 48.73 | 96.9 | 1,30,797 | 3,299.77 | 2,541.39 | 3,096.25 | 7,892 | 521.22 | 512.29 | 2,223.27 | 1,53,053 | 3,885.4 | 3,102.41 | 5,416.42 |
| 13 | Other Govt. Sponsored Prog. | 3,77,944 | 990 | 964.95 | 844.64 | 2,15,928 | 4,151.12 | 3,808.27 | 3,373.74 | 30,430 | 2,386.6 | 2,226.15 | 1,948.11 | 6,24,302 | 7,527.72 | 6,999.36 | 6,166.5 |

*Source:* MUDRA

## ANNEXURE 4.1b: Bank-wise progress under Pradhan Mantri Mudra Yojana during 2018-19

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 1 | SBI and Associates | | | | | | | | | | | | | |
| 1.1 | | State Bank of India | 21,14,366 | 6,150.08 | 6,113.25 | 4,05,922 | 10,807.62 | 10,676.13 | 2,16,791 | 16,868.23 | 16,823.12 | 27,37,079 | 33,825.92 | 33,612.5 |
| | | Total | 21,14,366 | 6,150.08 | 6,113.25 | 4,05,922 | 10,807.62 | 10,676.13 | 2,16,791 | 16,868.23 | 16,823.12 | 27,37,079 | 33,825.92 | 33,612.5 |
| 2 | Public Sector Commercial Banks | | | | | | | | | | | | | |
| 2.1 | | Allahabad Bank | 22,159 | 92.19 | 91.79 | 82,219 | 1,656.13 | 1,645 | 16,637 | 1,226.27 | 1,221.24 | 1,21,015 | 2,974.59 | 2,958.03 |
| 2.2 | | Andhra Bank | 88,525 | 90.56 | 74.73 | 76,940 | 1,755.93 | 1,558.19 | 14,130 | 1,161.12 | 1,107.76 | 1,79595 | 3,007.62 | 2,740.67 |
| 2.3 | | Bank of Baroda | 2,78,269 | 769.4 | 761.95 | 1,29,016 | 2,784.03 | 2,698.49 | 28,666 | 2,470.23 | 2,428.78 | 4,35,951 | 6,023.66 | 5,889.23 |
| 2.4 | | Bank of India | 1,81,610 | 585.25 | 557.96 | 1,49,641 | 3,157.44 | 2,895.28 | 34,021 | 2,688.04 | 2,439.19 | 3,65,272 | 6,430.74 | 5,892.44 |
| 2.5 | | Bank of Maharashtra | 9,024 | 36.28 | 30.51 | 37,086 | 967.66 | 856.37 | 13,040 | 1,126.29 | 1,015.05 | 59,150 | 2,130.23 | 1,901.93 |
| 2.6 | | Canara Bank | 3,54,483 | 729.3 | 723.9 | 1,83,552 | 4,438.86 | 4,217.19 | 61,160 | 5,128.84 | 4,828.06 | 5,99,195 | 102,97 | 9,769.16 |
| 2.7 | | Central Bank of India | 3,14,064 | 193.05 | 112.67 | 56,769 | 1,306.91 | 1,077.4 | 12,814 | 1,058.05 | 878.89 | 3,83,647 | 2,558.02 | 2,068.96 |
| 2.8 | | Corporation Bank | 34,378 | 150.26 | 126.2 | 31,651 | 675.45 | 653.29 | 13,297 | 1,032.2 | 1,022.89 | 79,326 | 1,857.9 | 1,802.38 |
| 2.9 | | Dena Bank | 1,094 | 3.54 | 3.35 | 1,135 | 24.59 | 22.55 | 284 | 22.55 | 21.59 | 2,513 | 50.69 | 47.49 |
| 2.10 | | Indian Bank | 25,439 | 81.44 | 80.84 | 65,792 | 1,161.46 | 1,068.45 | 7,584 | 604.1 | 584.84 | 98,815 | 1,847 | 1,734.14 |
| 2.11 | | Indian Overseas Bank | 80,662 | 247.74 | 246.04 | 88,411 | 1,458.18 | 1,418.29 | 7,402 | 582.26 | 563.37 | 1,76,475 | 2,288.18 | 2,227.7 |
| 2.12 | | Oriental Bank of Commerce | 50,595 | 162.31 | 159.84 | 51,658 | 1,236.94 | 1,191.18 | 19,074 | 1,652.35 | 1,639.17 | 1,21,327 | 3,051.6 | 2,990.19 |
| 2.13 | | Punjab National Bank | 1,50,395 | 537.12 | 338.56 | 1,49,529 | 2,947.01 | 2,313.15 | 33,399 | 2,831.24 | 2,312.56 | 3,33,323 | 6,315.37 | 4,964.27 |
| 2.14 | | Syndicate Bank | 32,988 | 119.65 | 98.66 | 82,311 | 1,945.84 | 1,586.84 | 13,318 | 1,080.19 | 818.43 | 1,28,617 | 3,145.68 | 2,503.93 |
| 2.15 | | Union Bank of India | 53,256 | 135.38 | 113.76 | 1,21,434 | 2,628.16 | 2,342.04 | 21,306 | 1,637.96 | 1,423.55 | 1,95,996 | 4,401.51 | 3,879.35 |
| 2.16 | | United Bank of India | 57,485 | 173.46 | 167.8 | 41,711 | 807.16 | 758 | 5,094 | 410.23 | 399.18 | 1,04,290 | 1,390.85 | 1,324.98 |
| 2.17 | | Punjab & Sind Bank | 20,860 | 49.11 | 45.23 | 20,809 | 485.32 | 441.43 | 7,362 | 615.47 | 573.12 | 4,9031 | 1,149.9 | 1,059.78 |
| 2.18 | | UCO Bank | 2,33,788 | 253.29 | 172.48 | 56,028 | 1141 | 958.33 | 9,491 | 809.51 | 693.02 | 2,99,307 | 2,203.8 | 1,823.83 |
| 2.19 | | Vijaya Bank | 39,720 | 169.62 | 164.99 | 42,974 | 946.78 | 882.88 | 12,612 | 985.36 | 945.13 | 95,306 | 2,101.76 | 1,993.01 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 2.20 | | IDBI Bank Limited | 54,901 | 183.67 | 183.67 | 28684 | 713.99 | 713.99 | 15,454 | 1,285.3 | 1,285.3 | 99,039 | 2,182.95 | 2,182.95 |
| | | Total | 20,83,695 | 4,762.62 | 4,254.94 | 14,97,350 | 32,238.85 | 29,298.35 | 3,46,145 | 28,407.56 | 26,201.12 | 39,27,190 | 65,409.04 | 59,754.41 |
| 3 | | | | | | | | | | | | | | Private Sector Commercial Banks |
| 3.1 | | Federal Bank | 81 | 0.37 | 0.35 | 194 | 6.22 | 5.25 | 89 | 7.49 | 5.84 | 364 | 14.09 | 11.44 |
| 3.2 | | Jammu & Kashmir Bank | 21,794 | 37.31 | 37 | 67,823 | 1,693.36 | 1,665.05 | 1,1916 | 883.44 | 867.36 | 1,01,533 | 2,614.11 | 2,569.41 |
| 3.3 | | Karnataka Bank | 656 | 1.58 | 0 | 4,576 | 119.61 | 0.01 | 2,236 | 161.77 | 0.11 | 7,468 | 282.95 | 0.12 |
| 3.4 | | Karur Vysya Bank | 205 | 0.46 | 0.45 | 2,116 | 44.98 | 44.75 | 628 | 41.45 | 40.97 | 2,949 | 86.89 | 86.18 |
| 3.5 | | City Union Bank | 127 | 0.54 | 0.52 | 184 | 3.47 | 3.46 | 15 | 1.28 | 1.28 | 326 | 5.29 | 5.26 |
| 3.6 | | Lakshmi Vilas Bank | 1 | 0.01 | 0.01 | 29 | 0.64 | 0.64 | 13 | 0.92 | 0.92 | 43 | 1.57 | 1.57 |
| 3.7 | | The Nainital Bank Limited | 332 | 0.61 | 0.61 | 370 | 10.02 | 10.02 | 118 | 9 | 8.98 | 820 | 19.64 | 19.62 |
| 3.8 | | Ratnakar Bank | 33,038 | 61.92 | 61.92 | 19,985 | 514.16 | 514.16 | 3,376 | 255.26 | 255.26 | 56,399 | 831.35 | 831.35 |
| 3.9 | | South Indian Bank | 99 | 0.45 | 0.45 | 666 | 21.13 | 20.89 | 568 | 46.33 | 46.23 | 1,333 | 67.91 | 67.58 |
| 3.10 | | Tamilnad Mercantile Bank | 944 | 3.94 | 3.91 | 4414 | 130.07 | 129.23 | 2,893 | 239.35 | 237.82 | 8,251 | 373.35 | 370.95 |
| 3.11 | | ICICI Bank | 2,43,431 | 755.11 | 707.45 | 86,809 | 2,404.57 | 2,404.57 | 46,701 | 3,419.73 | 3,419.73 | 3,76,941 | 6,579.41 | 6,531.74 |
| 3.12 | | Axis Bank | 10,09,886 | 2,622.02 | 2,622.02 | 7771 | 293.74 | 293.74 | 15,183 | 1,132.82 | 1,132.82 | 10,32,840 | 4,048.59 | 4,048.59 |
| 3.13 | | IndusInd Bank | 29,39,617 | 7,676.85 | 7,676.85 | 2,09,421 | 3,087.13 | 3,087.13 | 24,039 | 1,329.53 | 1,329.53 | 31,73,077 | 1,2093.5 | 1,2093.5 |
| 3.14 | | Yes Bank | 7,02,647 | 2,016.93 | 2,016.93 | 290 | 10.47 | 10.47 | 246 | 19.85 | 19.85 | 7,03,183 | 2,047.25 | 2,047.25 |
| 3.15 | | HDFC Bank | 13,39,757 | 3,477.08 | 3,477.08 | 90,867 | 2,054.5 | 2,054.5 | 25,985 | 1,637.34 | 1,637.34 | 14,56,609 | 7,168.92 | 7,168.92 |
| 3.16 | | DCB Bank | 88 | 0.05 | 0.05 | 4,993 | 179.22 | 179.22 | 2,996 | 190.4 | 190.4 | 8,077 | 369.67 | 369.67 |
| 3.17 | | Kotak Mahindra Bank | 1,75,301 | 515.46 | 515.46 | 4,846 | 174.4 | 174.4 | 5,195 | 369.83 | 369.83 | 1,85,342 | 1,059.69 | 1,059.69 |
| 3.18 | | Bandhan Bank | 30,81,068 | 12,364.52 | 12,364.52 | 1320,250 | 8,548.96 | 8,548.96 | 0 | 0 | 0 | 44,01,318 | 2,0913.48 | 2,0913.48 |
| 3.19 | | IDFC Bank Limited | 1685066 | 4795.68 | 4795.64 | 75999 | 630.59 | 629.44 | 51 | 2.72 | 2.69 | 1761116 | 5428.99 | 5427.77 |
| | | Total | 11234138 | 34330.9 | 34281.22 | 1901603 | 19927.24 | 19775.89 | 142248 | 9748.51 | 9566.96 | 13277989 | 64006.64 | 63624.07 |
| 4 | | | | | | | | | | | | | | Foreign Banks |
| 4.1 | | Citibank | 0 | 0 | 0 | 272 | 8.36 | 8.36 | 297 | 22.25 | 22.25 | 569 | 30.61 | 30.61 |
| | | Total | 0 | 0 | 0 | 272 | 8.36 | 8.36 | 297 | 22.25 | 22.25 | 569 | 30.61 | 30.61 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 5 | State Co-operative Banks | | | | | | | | | | | | | |
| 5.1 | | Andaman & Nicobar State Co-operative Bank Ltd. | 197 | 1 | 1 | 60 | 0.6 | 0.6 | 0 | 0 | 0 | 257 | 1.6 | 1.6 |
| | | Total | 197 | 1 | 1 | 60 | 0.6 | 0.6 | 0 | 0 | 0 | 257 | 1.6 | 1.6 |
| 6 | Regional Rural Banks | | | | | | | | | | | | | |
| 6.1 | | Andhra Pradesh Grameena Vikas Bank | 23,262 | 117.68 | 117.68 | 5,227 | 90.97 | 90.97 | 586 | 40.75 | 40.75 | 29,075 | 249.4 | 249.4 |
| 6.2 | | Andhra Pragathi Grameena Bank | 44,832 | 196.15 | 196.15 | 35,495 | 526.72 | 507.35 | 255 | 18.21 | 14.67 | 80,582 | 741.08 | 718.17 |
| 6.3 | | Chaitanya Godavari Grameena Bank | 6,143 | 28.29 | 26.21 | 13,316 | 197.14 | 119.1 | 1,103 | 88.84 | 75.04 | 20,562 | 314.27 | 220.36 |
| 6.4 | | Telangana Grameena Bank | 6,154 | 25.54 | 25.54 | 2,823 | 36.15 | 36.15 | 50 | 4.21 | 4.21 | 9,027 | 65.9 | 65.9 |
| 6.5 | | Saptagiri Grameena Bank | 5,611 | 19.5 | 19.5 | 11,687 | 351.48 | 351.48 | 1,951 | 145.85 | 145.85 | 19,249 | 516.84 | 516.84 |
| 6.6 | | Assam Gramin Vikash Bank | 1,222 | 4.59 | 4.53 | 2,978 | 55.37 | 45.37 | 131 | 10.04 | 9.38 | 4,331 | 70 | 59.27 |
| 6.7 | | Langpi Dehangi Rural Bank | 3,685 | 12.92 | 12.92 | 206 | 3.87 | 3.87 | 28 | 1.84 | 1.84 | 3,919 | 18.63 | 18.63 |
| 6.8 | | Arunachal Pradesh Rural Bank | 7 | 0.04 | 0.04 | 2 | 0.07 | 0.07 | 0 | 0 | 0 | 9 | 0.1 | 0.1 |
| 6.9 | | Uttar Bihar Gramin Bank | 4,129 | 20.56 | 17.31 | 34,808 | 1324.62 | 720.73 | 64 | 4.57 | 4.52 | 39,001 | 1,349.75 | 742.56 |
| 6.10 | | Madhya Bihar Gramin Bank | 7,927 | 34.81 | 34.42 | 25,994 | 624.63 | 617.29 | 445 | 42.17 | 42.07 | 34,366 | 701.61 | 693.78 |
| 6.11 | | Bihar Gramin Bank | 395 | 1.86 | 1.86 | 4,766 | 179.03 | 179.03 | 108 | 9.78 | 9.78 | 5,269 | 190.67 | 190.67 |
| 6.12 | | Chattisgarh Rajya Gramin Bank | 17,811 | 60.5 | 20.35 | 24,613 | 326.82 | 159.79 | 188 | 14.63 | 10.42 | 42,612 | 401.95 | 190.56 |
| 6.13 | | Dena Gujarat Gramin Bank | 973 | 3.53 | 3.31 | 1,933 | 42.7 | 34.68 | 133 | 9.52 | 8.42 | 3,039 | 55.74 | 46.41 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 6.14 | | Baroda Gujarat Gramin Bank | 2,294 | 8.5 | 8.48 | 3,258 | 55.15 | 55.08 | 251 | 15.34 | 14.2 | 5,803 | 78.99 | 77.76 |
| 6.15 | | Saurashtra Gramin Bank | 402 | 1.53 | 1.53 | 1,279 | 21.79 | 21.56 | 144 | 11.68 | 11.58 | 1,825 | 35 | 34.67 |
| 6.16 | | Sarva Haryana Gramin Bank | 2,842 | 10.65 | 10.22 | 12,085 | 182.51 | 169.14 | 361 | 28.51 | 24.25 | 15,288 | 221.67 | 203.6 |
| 6.17 | | Himachal Pradesh Gramin Bank | 828 | 3.86 | 3.86 | 3,169 | 72.31 | 72.31 | 402 | 35.5 | 35.5 | 4,399 | 111.66 | 111.66 |
| 6.18 | | Jharkhand Gramin Bank | 2,257 | 9.96 | 9.9 | 5,517 | 121.58 | 120.89 | 63 | 4.59 | 4.43 | 7,837 | 136.13 | 135.22 |
| 6.19 | | Vananchal Gramin Bank | 430 | 2.15 | 2.15 | 154 | 2.57 | 2.57 | 60 | 3.64 | 3.64 | 644 | 8.36 | 8.36 |
| 6.20 | | Jammu And Kashmir Grameen Bank | 762 | 3.56 | 3.54 | 5,072 | 117.4 | 114.31 | 472 | 35.04 | 32.6 | 6,306 | 156 | 150.45 |
| 6.21 | | Ellaquai Dehati Bank | 432 | 2.12 | 2.12 | 1,041 | 19.74 | 19.74 | 87 | 6.91 | 6.91 | 1,560 | 28.77 | 28.77 |
| 6.22 | | Kaveri Grameena Bank | 7,166 | 30.95 | 28.61 | 12,392 | 203.1 | 193.02 | 226 | 19.33 | 17.01 | 19,784 | 253.38 | 238.64 |
| 6.23 | | Karnataka Vikas Grameena Bank | 19,745 | 72.33 | 72.33 | 43,859 | 760.97 | 760.97 | 998 | 107.47 | 107.47 | 64,602 | 940.78 | 940.78 |
| 6.24 | | Pragathi Krishna Gramin Bank | 1,72,354 | 682.16 | 679.9 | 10,2377 | 1,346.02 | 1,332.56 | 5,435 | 404.37 | 404.37 | 2,80,166 | 2,432.54 | 2,416.82 |
| 6.25 | | Kerala Gramin Bank | 1,57,239 | 374.32 | 374.28 | 1,06,236 | 1,459.09 | 1,457.01 | 3,478 | 292.22 | 288.33 | 2,66,953 | 2,125.64 | 2,119.63 |
| 6.26 | | Maharashtra Gramin Bank | 2,054 | 9.06 | 9.06 | 9,611 | 209.56 | 209.56 | 1,112 | 88.7 | 88.7 | 12,777 | 307.32 | 307.32 |
| 6.27 | | Vidharbha Konkan Gramin Bank | 4,491 | 20.21 | 19.9 | 8,452 | 146.21 | 144.06 | 178 | 13.79 | 11.39 | 13,121 | 180.21 | 175.35 |
| 6.28 | | Narmada Jhabua Gramin Bank | 9414 | 42.09 | 40.82 | 11735 | 235.3 | 227.57 | 1129 | 82.39 | 81.99 | 22278 | 359.78 | 350.38 |
| 6.29 | | Central Madhya Pradesh Gramin Bank | 3862 | 17.83 | 17.19 | 2334 | 44.17 | 42.18 | 227 | 17 | 15.3 | 6423 | 79 | 74.67 |
| 6.30 | | Madhyanchal Gramin Bank | 9837 | 36.3 | 32.69 | 3446 | 62.2 | 55.81 | 97 | 7.9 | 7.08 | 13380 | 106.39 | 95.58 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 6.31 | | Manipur Rural Bank | 1,504 | 6.88 | 6.64 | 1,241 | 18.7 | 18.54 | 72 | 5.26 | 5.17 | 2,817 | 30.83 | 30.35 |
| 6.32 | | Meghalaya Rural Bank | 1,382 | 6.49 | 6.49 | 72 | 1.26 | 1.26 | 1 | 0.1 | 0.1 | 1,455 | 7.85 | 7.85 |
| 6.33 | | Mizoram Rural Bank | 1,002 | 4.63 | 4.48 | 6,098 | 116.78 | 107.02 | 84 | 6.94 | 5.91 | 7,184 | 128.35 | 117.42 |
| 6.34 | | Nagaland Rural Bank | 262 | 0.66 | 0.66 | 60 | 1.72 | 1.72 | 21 | 1.81 | 1.81 | 343 | 4.18 | 4.18 |
| 6.35 | | Odisha Gramya Bank | 12,399 | 56 | 56 | 11,156 | 192.98 | 192.64 | 215 | 13.31 | 13.31 | 23,770 | 262.29 | 261.95 |
| 6.36 | | Utkal Grameen Bank | 1,187 | 4.58 | 1.29 | 818 | 20.74 | 5.36 | 98 | 7.47 | 1.73 | 2,103 | 32.79 | 8.39 |
| 6.37 | | Punjab Gramin Bank | 6,789 | 29.43 | 27.49 | 16,009 | 209.92 | 198.75 | 145 | 10.92 | 9.26 | 22,943 | 250.27 | 235.5 |
| 6.38 | | Malwa Gramin Bank | 654 | 2.87 | 2.87 | 388 | 6.53 | 6.53 | 11 | 0.91 | 0.91 | 1,053 | 10.31 | 10.31 |
| 6.39 | | Sutlej Gramin Bank | 178 | 0.68 | 0.68 | 102 | 1.21 | 1.21 | 0 | 0 | 0 | 280 | 1.89 | 1.89 |
| 6.40 | | Puduvai Bharathiar Grama Bank | 1,594 | 7.19 | 7.19 | 989 | 31.9 | 31.9 | 1 | 0.07 | 0.07 | 2,584 | 39.16 | 39.16 |
| 6.41 | | Baroda Rajasthan Ksethriya Gramin Bank | 4,875 | 20.01 | 19.72 | 15,781 | 243.95 | 234.99 | 159 | 9.6 | 9.6 | 20,815 | 273.56 | 264.31 |
| 6.42 | | Marudhara Rajasthan Gramin Bank | 6,891 | 29.45 | 24.85 | 3702 | 76.95 | 35.71 | 72 | 5.31 | 1.35 | 10,665 | 111.71 | 61.91 |
| 6.43 | | Pandyan Grama Bank | 46,799 | 110.12 | 110.12 | 19,964 | 221.25 | 221.25 | 84 | 6.05 | 6.05 | 66,847 | 337.41 | 337.41 |
| 6.44 | | Pallavan Grama Bank | 4,839 | 19.51 | 19.51 | 20,039 | 311.49 | 311.49 | 5,039 | 369.07 | 369.07 | 29,917 | 700.06 | 700.06 |
| 6.45 | | Tripura Gramin Bank | 18,618 | 69.08 | 68.83 | 6,074 | 99.62 | 93.29 | 213 | 16.36 | 14.3 | 24,905 | 185.06 | 176.42 |
| 6.46 | | Allahabad UP Gramin Bank | 3,672 | 16.31 | 12.86 | 3,140 | 51.95 | 44.33 | 222 | 18.47 | 15.36 | 7,034 | 86.73 | 72.56 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/ Cs | Sanction Amt | Disbursement Amt | No Of A/ Cs | Sanction Amt | Disbursement Amt | No Of A/ Cs | Sanction Amt | Disbursement Amt | No Of A/ Cs | Sanction Amt | Disbursement Amt |
| 6.47 | | Baroda UP Gramin Bank | 27,482 | 103.6 | 100.47 | 8,965 | 216.59 | 191.24 | 996 | 73.37 | 68.33 | 37,443 | 393.56 | 360.04 |
| 6.48 | | Gramin Bank Of Aryavrat | 11,937 | 66.1 | 63.79 | 23,073 | 498.99 | 458.07 | 422 | 32.32 | 29.42 | 35,432 | 597.4 | 551.28 |
| 6.49 | | Kashi Gomti Samyut Gramin Bank | 18,125 | 33.7 | 33.37 | 8,907 | 181.09 | 181.09 | 528 | 42.96 | 42.96 | 27,560 | 257.74 | 257.42 |
| 6.5 | | Prathama Bank | 19,048 | 27.57 | 27.57 | 9,831 | 239.49 | 239.49 | 1,231 | 103.87 | 103.87 | 30,110 | 370.93 | 370.93 |
| 6.51 | | Purvanchal Bank | 37,843 | 187.38 | 187.38 | 448 | 21.82 | 21.82 | 183 | 15.89 | 15.89 | 38,474 | 225.1 | 225.1 |
| 6.52 | | Sarva UP Gramin Bank | 8,308 | 29.48 | 28.65 | 14,080 | 208.98 | 154.67 | 311 | 22.21 | 16.48 | 22,699 | 260.66 | 199.8 |
| 6.53 | | Uttarakhand Gramin Bank | 1,674 | 6.85 | 6.85 | 3,730 | 71.53 | 71.27 | 403 | 30.68 | 30.54 | 5,807 | 109.06 | 108.66 |
| 6.54 | | Bangiya Gramin Vikash Bank | 2,599 | 7.4 | 6.88 | 11,968 | 242.89 | 219.32 | 141 | 10.78 | 9.87 | 14,708 | 261.07 | 236.06 |
| 6.55 | | Paschim Banga Gramin Bank | 6,463 | 28.49 | 28.49 | 24,839 | 667.82 | 667.82 | 1,206 | 111.87 | 106.39 | 32,508 | 808.18 | 802.69 |
| 6.56 | | Uttarbanga Kshetriya Gramin Bank | 366 | 1.8 | 1.8 | 4,085 | 61.33 | 6,1.33 | 0 | 0 | 0 | 4,451 | 63.13 | 63.13 |
| | | Total | 7,65,050 | 2,729.79 | 2,651.32 | 7,11,424 | 12,836.72 | 11,636.32 | 31,620 | 2,480.38 | 2,399.44 | 15,08,094 | 18,046.89 | 16,687.08 |
| 7 | Micro Finance Institutions | | | | | | | | | | | | | |
| 7.1 | | NON NBFC-Micro Finance Institutions | 18,79,391 | 2,357.41 | 2,357.41 | 0 | 0 | 0 | 0 | 0 | 0 | 18,79,391 | 2,357.41 | 2,357.41 |
| | | Total | 1,879,391 | 2,357.41 | 2,357.41 | 0 | 0 | 0 | 0 | 0 | 0 | 18,79,391 | 2,357.41 | 2,357.41 |
| 8 | NBFC-Micro Finance Institutions | | | | | | | | | | | | | |
| 8.1 | | Agora Microfinance India Ltd | 16,019 | 44.89 | 44.89 | 0 | 0 | 0 | 0 | 0 | 0 | 16,019 | 44.89 | 44.89 |
| 8.2 | | VEDIKA CREDIT CAPITAL LTD | 2,09,004 | 450.88 | 450.88 | 0 | 0 | 0 | 0 | 0 | 0 | 2,09,004 | 450.88 | 450.88 |
| 8.3 | | Pahal Financial Services Private Limited | 1,53,431 | 496.86 | 496.86 | 4,532 | 32.94 | 32.94 | 0 | 0 | 0 | 1,5,7,963 | 529.8 | 529.8 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 8.4 | | Annapurna Microfinance Pvt. Ltd. | 4,65,573 | 1,381.63 | 1,381.53 | 11,215 | 136.96 | 136.95 | 194 | 14.66 | 14.66 | 4,76,982 | 1,533.26 | 1,533.15 |
| 8.5 | | Varam Capital Private Limited | 5,040 | 11.94 | 11.94 | 0 | 0 | 0 | 0 | 0 | 0 | 5,040 | 11.94 | 11.94 |
| 8.6 | | Village Financial Services Pvt Ltd | 3,65,242 | 1,103.84 | 1,103.84 | 0 | 0 | 0 | 0 | 0 | 0 | 3,65,242 | 1,103.84 | 1,103.84 |
| 8.7 | | Muthoot Microfin Ltd | 5,22,233 | 1,899.13 | 1,899.13 | 0 | 0 | 0 | 0 | 0 | 0 | 5,22,233 | 1,899.13 | 1,899.13 |
| 8.8 | | ASA International India Microfinance Pvt. Ltd. | 3,84,797 | 1,033.75 | 1,033.75 | 58 | 0.33 | 0.33 | 0 | 0 | 0 | 3,84,855 | 1,034.08 | 1,034.08 |
| 8.9 | | Samasta Microfinance Limited | 10,36,320 | 2073.1 | 2,073.1 | 0 | 0 | 0 | 0 | 0 | 0 | 10,36,320 | 2073.1 | 2,073.1 |
| 8.10 | | JAGARAN MICROFIN PVT LTD. | 2,21,475 | 613.96 | 613.96 | 0 | 0 | 0 | 0 | 0 | 0 | 2,21,475 | 613.96 | 613.96 |
| 8.11 | | Spandana Sphoorty Financial Limited | 16,33,092 | 4,185.61 | 4,185.61 | 14,402 | 108.11 | 108.11 | 103 | 9.91 | 9.91 | 16,47,597 | 4,303.63 | 4,303.63 |
| 8.12 | | SARVODAYA NANO FINANCE LIMITED | 52,211 | 112.68 | 112.68 | 0 | 0 | 0 | 0 | 0 | 0 | 52,211 | 112.68 | 112.68 |
| 8.13 | | NIGHTINGALE FINVEST PVT. LTD. | 23,990 | 72.66 | 72.66 | 227 | 1.35 | 1.35 | 0 | 0 | 0 | 24,217 | 74.01 | 74.01 |
| 8.14 | | Grameen Koota Financial Services Private Limited | 16,57,651 | 4,298.68 | 4,298.68 | 1,92,099 | 1,365.47 | 1,365.47 | 0 | 0 | 0 | 18,49,750 | 5,664.15 | 5,664.15 |
| 8.15 | | M Power Microfinance Pvt Ltd | 61,793 | 191.12 | 191.12 | 0 | 0 | 0 | 0 | 0 | 0 | 61,793 | 191.12 | 191.12 |
| 8.16 | | MADURA MICRO FINANCE LIMITED | 5,43,542 | 1,564.75 | 1564.75 | 0 | 0 | 0 | 0 | 0 | 0 | 5,43,542 | 1,564.75 | 1,564.75 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 8.17 | | Chaitanya India Fin Credit Pvt Ltd | 3,10,826 | 802.67 | 802.67 | 0 | 0 | 0 | 0 | 0 | 0 | 3,10,826 | 802.67 | 802.67 |
| 8.18 | | MSM Microfinance Limited | 28,444 | 108.86 | 108.86 | 0 | 0 | 0 | 0 | 0 | 0 | 28,444 | 108.86 | 108.86 |
| 8.19 | | SHARE MICROFIN LIMITED | 4,08,347 | 1,044.7 | 1,044.7 | 17554 | 92.9 | 92.9 | 0 | 0 | 0 | 4,25,901 | 1,137.6 | 1,137.6 |
| 8.20 | | ASMITHA MICROFIN LIMITED | 623 | 1.13 | 1.13 | 0 | 0 | 0 | 0 | 0 | 0 | 623 | 1.13 | 1.13 |
| 8.21 | | Belstar Investment and Finance Private Limited | 3,57,283 | 1,068.35 | 1,068.35 | 22,591 | 142.97 | 142.97 | 0 | 0 | 0 | 3,79,874 | 1,211.32 | 1,211.32 |
| 8.22 | | Namra Finance Ltd. | 1,17,745 | 303.5 | 303.5 | 0 | 0 | 0 | 0 | 0 | 0 | 1,17,745 | 303.5 | 303.5 |
| 8.23 | | SVATANTRA MICROFIN PRIVATE LIMITED | 3,70,346 | 1,108.96 | 1,108.96 | 0 | 0 | 0 | 0 | 0 | 0 | 3,70,346 | 1,108.96 | 1,108.96 |
| 8.24 | | Saija Finance private limited | 87,817 | 182.79 | 182.79 | 0 | 0 | 0 | 0 | 0 | 0 | 87,817 | 182.79 | 182.79 |
| 8.25 | | Satin Creditcare Network Limited | 19,91,054 | 5,015.47 | 5,015.47 | 12,354 | 61.82 | 61.82 | 0 | 0 | 0 | 20,03,408 | 5,077.29 | 5,077.29 |
| 8.26 | | Margdarshak Financial Services Limited | 63,253 | 138.97 | 138.97 | 606 | 3.85 | 3.85 | 0 | 0 | 0 | 63,859 | 142.82 | 142.82 |
| 8.27 | | Sambandh Finserve Private Limited | 64,117 | 181 | 181 | 0 | 0 | 0 | 0 | 0 | 0 | 64,117 | 181 | 181 |
| 8.28 | | Navachetana Microfin Services Pvt Ltd | 1,14,062 | 191.95 | 191.95 | 0 | 0 | 0 | 0 | 0 | 0 | 1,14,062 | 191.95 | 191.95 |
| 8.29 | | Asirvad Microfinance Pvt. Ltd | 15,11,301 | 3,095.54 | 3,095.54 | 0 | 0 | 0 | 0 | 0 | 0 | 15,11,301 | 3,095.54 | 3,095.54 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 8.30 | | Intrepid Finance & Leasing Pvt. Ltd | 97,761 | 318.86 | 318.86 | 1,0711 | 62 | 62 | 0 | 0 | 0 | 108472 | 380.86 | 380.86 |
| 8.31 | | Fusion Microfinance Pvt. Ltd. | 10,47,983 | 2,821.27 | 2,781.5 | 88 | 0.55 | 0.55 | 0 | 0 | 0 | 10,48,071 | 2,821.83 | 2,782.05 |
| 8.32 | | Arohan Financial Services Pvt. Ltd. | 15,77,225 | 4,196.49 | 4,196.49 | 1,210 | 7.11 | 7.11 | 0 | 0 | 0 | 15,78,435 | 4,203.6 | 4,203.6 |
| 8.33 | | SKS Microfinance Limited | 65,08,571 | 17,052.64 | 15,094.65 | 0 | 0 | 0 | 0 | 0 | 0 | 65,08,571 | 17,052.64 | 15,094.65 |
| 8.34 | | Light Microfinance Private Limited | 53,778 | 173.02 | 173.02 | 4,666 | 27.76 | 27.76 | 0 | 0 | 0 | 58,444 | 200.78 | 200.78 |
| 8.35 | | Shikhar Microfinance Pvt Ltd | 12,692 | 31.06 | 31.06 | 781 | 3.2 | 3.2 | 0 | 0 | 0 | 13,473 | 34.26 | 34.26 |
| 8.36 | | Midland Microfinance Limited | 3,15,231 | 791.15 | 791.15 | 1,059 | 7.49 | 7.49 | 0 | 0 | 0 | 3,16,290 | 798.65 | 798.65 |
| 8.37 | | SMILE Microfinance Limited | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8.38 | | DIGAMBER CAPFIN LIMITED | 1,41,286 | 511.17 | 511.17 | 11 | 0.26 | 0.26 | 0 | 0 | 0 | 1,41,297 | 511.43 | 511.43 |
| 8.39 | | Uttrayan Financial Services Private Li ited | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,13,992 | 302.44 | 302.44 |
| 8.4 | | NEED Livelihood Microfinance Private Limited | 243,84 | 56.44 | 56.44 | 0 | 0 | 0 | 0 | 0 | 0 | 24,384 | 56.44 | 56.44 |
| | | Total | 225,55,542 | 58,731.48 | 56,733.62 | 2,94,164 | 2,055.07 | 2,055.06 | 1,14,289 | 327.01 | 327.01 | 2,29,63,995 | 61,113.56 | 59,115.7 |
| 9 | | | | | | | | | | | | | | Non Banking Financial Companies |
| 9.1 | | Reliance Capital Ltd | 2,34,093 | 606.55 | 606.55 | 1,179 | 12.24 | 12.24 | 120 | 9.21 | 9.21 | 2,35,392 | 628 | 628 |
| 9.2 | | CAPITAL FIRST LIMITED | 1,17,404 | 501.42 | 497.64 | 4,79,092 | 4,231.45 | 4,231.14 | 7,531 | 490.3 | 490.26 | 6,04,027 | 5,223.17 | 5,219.05 |

| Sr No | Bank Type Name | Bank Name | Shishu | | | Kishore | | | Tarun | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Loans up to Rs. 50,000) | | | (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | | | |
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 9.3 | | Mahindra and Mahindra Financial Services Limited | 0 | 0 | 0 | 22,950 | 979.6 | 979.6 | 42,902 | 2,613.77 | 2,613.77 | 65,852 | 3,593.38 | 3,593.38 |
| 9.4 | | Magma Fincorp Limited | 0 | 0 | 0 | 31,969 | 1011.78 | 1,011.78 | 8,126 | 553.73 | 553.73 | 40,095 | 1,565.51 | 1,565.51 |
| 9.5 | | Bajaj Finance Limited | 2,427 | 2.71 | 2.69 | 30,271 | 1,151.92 | 1,060.37 | 22,392 | 1,762.79 | 1,588.34 | 55,090 | 2,917.42 | 2,651.4 |
| 9.6 | | Fullerton India Credit Company Limited | 16,39,879 | 4,021.77 | 4,021.77 | 3,09,969 | 4674.7 | 4,674.7 | 29,420 | 1,935.62 | 1,935.62 | 19,79,268 | 10,632.09 | 10,632.09 |
| 9.7 | | Shriram Transport Finance Co. Ltd. | 2,996 | 13.47 | 13.47 | 2,20,077 | 6,132.31 | 6,132.31 | 60,302 | 3855.33 | 3,855.33 | 2,83,375 | 10,001.11 | 10,001.11 |
| 9.8 | | Tata Motors Finance Limited | 0 | 0 | 0 | 27,920 | 1,109.05 | 1,109.05 | 8,409 | 485.42 | 485.42 | 36,329 | 1,594.47 | 1,594.47 |
| 9.9 | | Electronica Finance Limited | 0 | 0 | 0 | 0 | 0 | 0 | 220 | 14.8 | 13.29 | 220 | 14.8 | 13.29 |
| 9.10 | | Cholamandalam Investment and Finance Private Limited. | 0 | 0 | 0 | 1,269 | 53.67 | 53.67 | 5,175 | 361.1 | 361.1 | 6,444 | 414.77 | 414.77 |
| 9.11 | | L&T Finance Limited | 24,65,390 | 8,134.51 | 8,134.51 | 0 | 0 | 0 | 0 | 0 | 0 | 24,65,390 | 8,134.51 | 8,134.51 |
| 9.12 | | Hinduja Leyland Finance Limited | 1,540 | 4.61 | 4.61 | 63,378 | 1,443.73 | 1,443.73 | 10,025 | 599.94 | 599.94 | 74,943 | 2,048.28 | 2,048.28 |
| 9.13 | | Kotak Mahindra Prime | 0 | 0 | 0 | 4,402 | 168.75 | 168.75 | 2,863 | 200.48 | 200.48 | 7,265 | 369.23 | 369.23 |
| | | Total | 44,63,729 | 13,285.07 | 13,281.26 | 1192,476 | 2,0969.2 | 20,877.34 | 1,97,485 | 1,2882.48 | 12,706.48 | 58,53,690 | 47,136.75 | 46,865.09 |
| 10 | | | | | | | | | | | | | | Small Finance Banks |
| 10.1 | | SURYODAY MICRO FINANCE LIMITED | 5,16,134 | 1,415.27 | 14,15.27 | 12,453 | 103.57 | 103.55 | 345 | 28.12 | 26.99 | 5,28,932 | 1,546.96 | 1,545.82 |
| 10.2 | | Utkarsh Small Finance Bank | 1,025,530 | 2,945.38 | 2,931.31 | 34,613 | 245.57 | 245.57 | 567 | 41.85 | 41.85 | 10,60,710 | 3,232.8 | 3,218.73 |
| 10.3 | | Fincare Small Finance Bank | 16,873 | 49.38 | 45.41 | 2,02,465 | 683.2 | 682.3 | 68,037 | 2425.7 | 2,421.37 | 8,99,709 | 3,158.29 | 3,149.07 |

| Sr No | Bank Type Name | Bank Name | Shishu (Loans up to Rs. 50,000) | | | Kishore (Loans from Rs. 50,001 to Rs. 5.00 Lakh) | | | Tarun (Loans from Rs. 5.00 to Rs. 10.00 Lakh) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt | No Of A/Cs | Sanction Amt | Disbursement Amt |
| 10.4 | | Ujjivan Small Finance Bank | 1,864,026 | 5,873.07 | 5,873.07 | 81,553 | 672.98 | 672.98 | 297 | 21.05 | 21.05 | 19,45,876 | 6,567.1 | 6,567.1 |
| 10.5 | | JANALAKSHMI FINANCIAL SERVICES LIMITED | 1,083,377 | 4,049.26 | 4,047.92 | 12,2547 | 1,168.24 | 1,166.08 | 528 | 47.2 | 43.68 | 12,06,452 | 5,264.71 | 5,257.68 |
| 10.6 | | Equitas Small Finance Bank | 9,75,356 | 2,816.74 | 2,816.74 | 0 | 0 | 0 | 0 | 0 | 0 | 9,75,356 | 2,816.74 | 2,816.74 |
| 10.7 | | North East Small Finance Bank Limited | 5,45,629 | 1,727.42 | 1,727.42 | 31,086 | 190.81 | 190.81 | 1 | 0.08 | 0.08 | 5,76,716 | 1,918.31 | 1,918.31 |
| 10.8 | | AU Small Finance Bank Limited | 1,446 | 6.2 | 6.2 | 74,540 | 2,161.1 | 2,161.1 | 25,536 | 1,663.26 | 1,663.26 | 1,01,522 | 3,830.56 | 3,830.56 |
| 10.9 | | ESAF Small Finance Bank | 3,82,942 | 1,114.11 | 1,114.11 | 42,042 | 275.43 | 275.43 | 0 | 0 | 0 | 4,24,984 | 1,389.54 | 1,389.54 |
| 10.10 | | Capital Small Finance Bank | 17 | 0.07 | 0.07 | 1,439 | 42.13 | 42.13 | 351 | 27.16 | 27.16 | 1,807 | 69.37 | 69.37 |
| | | Total | 6,4,11,330 | 19,996.9 | 19,977.52 | 6,02,738 | 5,543.03 | 5,539.94 | 7,07,996 | 4,254.44 | 4,245.45 | 77,22,064 | 29,794.37 | 29,762.92 |
| | | Grand Total | 51,507,438 | 142,345.25 | 1,39,651.55 | 6606,009 | 1,04,386.68 | 99,868 | 1756,871 | 74,990.86 | 72,291.84 | 5,98,70,318 | 3,21,722.79 | 3,11,811.38 |

*Source:* MUDRA

**ANNEXURE 4.2: Loan products of Suryodat Small Finance Bank (as of June 2019)**

| | Eligibility | Tenure | Loan Amount Range | Interest rate | Security |
|---|---|---|---|---|---|
| Inclusive Finance Segment | | | | | |
| Microfinance JLG | Women with income generating activity | 12-24 Months | 10,000 to 52,500 | 23-70%-25.76% | Unsecured |
| Microfinance Individual (product closed) | Individual with identifiable business activity | 12-24 Months | 14,000 to 40,000 | 20.24%-25.74% | Unsecured |
| T-nagar business loans | Individual with identifiable business activity | 12-36 Months | 50,000 to 4,00,000 | 24.56%-25.92% | Unsecured |
| Retail Segment | | | | | |
| MSME Micro | Small Business (manufacturer, traders and service providers) with business vintage of 3+ years | Max 48 Months | 4,00,000 - 50,00,000 | 16.50% - 27.00% | Unsecured |
| Housing Loan | Salaried, traders, skilled and semi-skilled workers | Max 240 Months | 3,00,000 to 1 crores | 10.50% - 16.00% | House |
| Loan Against Property | Traders - Retailers / Wholesalers / Distributors / Stockists etc., Services - C & F Agents, Transport / Food services etc., Manufacturers, Semi-skilled Units, Doctors, Architects, Chartered Accountants, Engineers | Max 180 Months | Upto 5 Crs | 12.00% - 24.00% | Collateral |
| Commercial Vehicle | First time buyers & used CV buyers including - small, medium and large transport operators and captive users | Max 60 Months | Upto 3 Crs | 10.00% - 14.00% | Vehicle |
| FIG | NBFCs and MFIs | Max 60 Months | Upto 10 Crs | 16.50% - 27.00% | Collateral |
| SME | Manufactures / SME Units and Wholesalers / Retailers / Distributors / Service Providers | Max 84 Months | 2,00,000 to 5 crores | 11.00% - 16.00% | Collateral |
| Overdraft | Small Transporter, Retail Transporter, Large Transporter, Captives, Traders - Retailers / Wholesalers / Distributors / Stockists etc., Services - C & F Agents, Transport / Food services etc., Manufacturers, Semi-skilled Units | Max 12 Months | Upto 5 crores | 12.00% - 16.00% | Secured against FD |

*Source:* Provided by the bank to the author

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# Microfinance Institutions: 56 Million Clients and Growing…

5

## OVERVIEW

Since its emergence in the 1990s as a NGO (non-governmental organisation)-led model, the private sector microfinance model has indeed come a long way. During the last 30 years, the landscape has changed dramatically. In early 2000s, the transformation of NGOs to non-banking financial companies (NBFCs) started and, in the current decade, owing to Reserve Bank of India's (RBI's) intervention, NBFCs have transformed into NBFC-microfinance institutions (MFIs) and also graduated as Universal Bank and Small Finance Banks. Other than the metamorphosis of NBFC-MFIs as banks, an interesting feature of change in the present decade has been the downscaling of mainstream banks and NBFCs [other than NBFC-MFIs], which have started building microfinance portfolio. Some banks lend directly through group methodology, while the majority build it through the BC route. Small Finance Banks (SFBs), which have graduated from microfinance, are an important part of the microfinance ecosystem. Besides NBFC-MFIs, other types of NBFCs have increased their lending in this space, though as per RBI guidelines they cannot have more than 10 percent of the portfolio in microfinance. Counting all the players, the total sector size was Rs 1,87,386 crore[1] as on March 2019 (excluding self-help group or SHG lending by banks), amounting to an annual growth of 38 percent, which is impressive seen in the backdrop of stagnant growth in the formal sector economy. The sector now serves 56 million clients and services 96 million loan accounts.[2]

While the growth in outreach and attraction of multiple players to microfinance is a thing to be celebrated in our quest for financial inclusion for all, it is not bereft of issues. Questions on different sets of rules for each player, credit concentration, credit absorption capacity of borrowers, ability to withstand disruptions like loan waiver, push versus pull in retailing credit and profitability orientation have become stronger, and addressing these will be integral to future growth.

The chapter starts with presenting the figures pertaining to the microfinance universe but later is focused on NBFC-MFIs due to two factors. First, if both on-book and off-book portfolios serviced by NBFC-MFIs is taken into consideration, they account for nearly 50 percent market share and second, with the Micro Finance Institutions Network (MFIN) publications, granular data is available for NBFC-MFIs. Additionally, NBFC-MFIs can be seen as setting the contours of microfinance lending; other players mirror their products and processes to a large extent. However, while examining issues like concentration, data of all lenders is also analysed to have a complete picture.

## CONSISTENT HIGH GROWTH OF MICROFINANCE—NBFC-MFIs ACCOUNT FOR 37 PERCENT SHARE

As mentioned in the introductory section, the microfinance industry numbers reveal that it has not only weathered the blip caused by demonetisation in November 2016 as well as the liquidity crisis among NBFCs during major part of the current year 2019, but has also shown strong growth. The overall industry, which includes banks, small finance banks, NBFCs, NBFC-MFIs and NGO-MFIs recorded an annual growth of 38 percent during 2018–19 and had loans of Rs 1,87,386 crore outstanding as on March 31, 2019. Incidentally, unlike last year, this year the data reported by CRIF High Mark[3] on microfinance portfolio is almost similar to that reported in MFIN's *Micrometer*. As per discussions, with MFIN and Credit Bureau, these figures for microfinance portfolio conform to "Qualifying

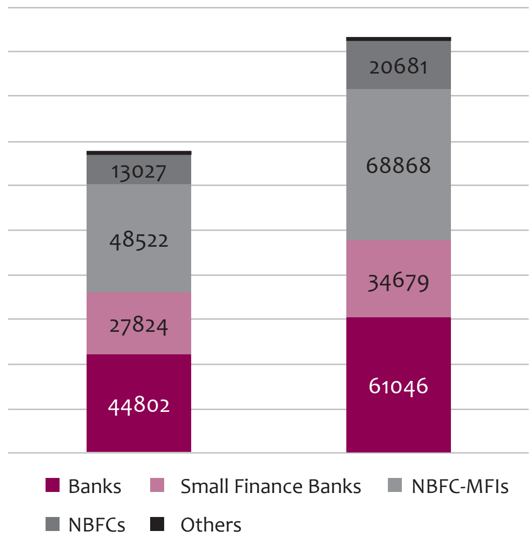



**Figure 5.1:** Microfinance Portfolio across institutions March 2019 (Rs. crore)

*Source:* MFIN Micrometer, March 2019

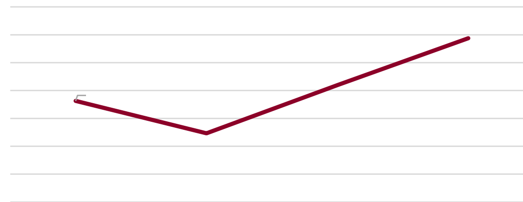


**Figure 5.2:** Annual Growth in Portfolio (in %)

*Source:* MFIN Micrometer, March 2019

assets" definition for NBFC-MFIs set by RBI.[4]

Interestingly, the contribution of various institutions in the overall microfinance portfolio has remained largely unchanged since 2018. NBFC-MFIs continue to be the largest player with a market share of 36.75 percent, with banks, SFBs and NBFCs contributing 32.5 percent, 18.5 percent and 11 percent respectively (Fig. 5.1). However, changes in institutional forms over the years make it interesting. Post 2016, conversion of 8 NBFC-MFIs to SFBs reduced the share of NBFC-MFIs and by next year, with the merger of Bharat Financial Inclusion Ltd., the largest NBFC-MFI, with IndusInd Bank, a large chunk of NBFC-MFI portfolio will shift to banks. Despite these changes in institutional forms, two things stand out, namely, *(a)* microfinance continues to record a steady growth and *(b)* with time, the category "others" comprising of NGO-MFIs and Section-8 companies continues to decline [in March 2019, its share was 1.13 percent].

Institution-wise growth rates reflect that NBFC-MFIs continue to record the highest growth (Fig. 5.2). If the microfinance portfolio originated and serviced by NBFC-MFIs as Business Correspondents (BCs of banks is added to NBFC-MFIs), their share in portfolio and growth rates make them the sector leader—way ahead of others. Notably, NBFC-MFIs have BC portfolio of around 30–40 percent of own portfolio. Banks using NBFC-MFIs to build portfolio has emerged as the major trend in microfinance since the last three–four years as it provides a win–win situation for both players. Banks get to build their portfolio in a low delinquency market at a healthy margin, while NBFC-MFIs are able to earn a margin similar to own portfolio with reduced capital requirements. For the clients, nothing changes as the front end remains with the MFI and products/processes also remain same. In recent years, with the acquisition of NBFC-MFIs by banks like Kotak Bank taking over BSS and IndusInd acquiring BFIL, the trend has accelerated.

The attractiveness of microfinance across the players is evident. Overall, if the SHG-Bank Linkage Programme numbers and Small Borrower Accounts (SBA) of scheduled commercial banks were juxtaposed with these numbers, the overall size of microfinance market in India touched Rs 3,10,600[5] crore by March 31, 2019. Such a conclusion can be arrived at, considering the fact that all of it can be seen as microfinance by virtue of the similarity in client profile and loan size. All put together show that lending to low-income clients in India is now fairly large.

## KEY DEVELOPMENTS IN THE LAST TWELVE MONTHS: KYC, CODE OF RESPONSIBLE LENDING, IPOs-ACQUISITIONS, SFBs ON TAP, FRESH START…

Other than growth in numbers, putting to rest the deceleration caused by demonetisation, quite a few challenging and interesting developments took place during the year. Aadhar-based Know Your Customer (KYC) had become the norm in microfinance industry with organisations relying on biometric-based e-KYC for member verification as well as uploading the records to the credit bureau. The whole process brought in a great deal of robustness in checking indebtedness as MFIs were using the UIDAI services either as Authentication User Agency (AUA) or KYC User Agency (KUA) and use of Aadhar had become mandatory for microfinance clients. However, after the data privacy concerns and Supreme Court judgement in KS Puttaswamy vs Union of India, wherein the court struck down sections 57 and 33(2) of the

Aadhar Act, private entities cannot mandatorily insist on Aadhar as KYC. UIDAI sprung into action and insisted on strong data privacy guidelines for Authentication User Agencies (AUAs) and KYC User Agencies (KUAs) as well as temporarily froze its services to them, which implied that MFIs were unable to make use of Aadhar authentication. The passing of Aadhar and Other Laws (Amendment) Bill 2019 by the Parliament in July 2019[6] has also not made things easier as now it says that Aadhar authentication service can be used by "An entity, if the UIDAI is satisfied that it is: (i) compliant with certain standards of privacy and security, or (ii) permitted by law, or (iii) seeking authentication for a purpose specified by the central government in the interest of the State." UIDAI is still to come out with implementation guidelines for these changes and, in the process, the MFIs have still not been able to restart the process. It has the potential of derailing the efficacy of credit bureau check and its consequent effect on client indebtedness. The subject is dealt in more detail in the chapter on digital finance.

Aligned to the issue of problems in having access to Aadhar authentication is the ever-growing microfinance portfolio leading to concerns on multiple borrowings and consequent over indebtedness of clients. In last year's Inclusive Finance India Report, it was mentioned that operations of various entities are concentrated in the Top 100 districts of the country and different players operate based on a different set of regulatory guidelines, which can lead to multiple borrowings, debt overhang and then default. The position has only exacerbated during 2018-19 [dealt in detail later in this chapter]. As can be seen from Table 5.1, there is a consistent increase in the number of lenders associated with microfinance clients—nearly 1 percent clients have more than five lenders.

In this, MFIN took the lead to evolve a common set of guidelines like cap on individual debt level for every player in microfinance lending in 2017. However, nothing much happened for the last two years and recently efforts to have a common set of guidelines has been revived. Considering the importance of common set of rules, this initiative was revived by MFIN and a Steering Committee representing banks, NBFC-MFIs, NBFCs and SFBs was constituted last year (July 2018) to drive it. It has narrowed its agenda to focus on client indebtedness and also renamed it as Code of Responsible Lending. However, considering its past trajectory and the fact that institutions may not agree to give up the regulatory advantage or flexibility in pursuit of a common objective, remains real. It will be a welcome and overdue measure but its acceptance and then compliance remain doubtful.

While the above issues stare at the sector, there seems to be no dearth of funding equity or debt, especially for the top 20 MFIs, which make up the majority market. Last year, CreditAccess Grameen had its successful Initial Public Offer (IPO) and two more NBFC-MFIs [Spandana and Muthoot Finance] had filed their Draft Red Herring Prospectus (DRHP) with Securities and Exchange Board of India (SEBI) signalling their intent to go for IPO. CreditAccess Grameen was the second NBFC-MFI after Bharat Financial Inclusion Limited to go for IPO. Spandana has finally decided to go for the IPO albeit with a reduced offer size in August 2019,[7] while Muthoot's plans are still under wraps. Going by the price movement in CreditAccess Grameen shares, it can be said that the market is appreciative of the NBFC-MFI value proposition; as against the offer price of Rs 422, the shares touched a high of Rs 585 and were trading at Rs 536, as on July 31, 2019. Global private equity (PE) major, Warburg Pincus chose to invest Rs 520 crore in Fusion Microfinance, marking their first investment in the microfinance sector globally and the second investment by them in India's financial services space in 2018. Flipkart co-founder, Sachin Bansal, invested Rs 25 crore in Chaitanya India Finance, a micro-finance company run by Chaitanya Rural Intermediation Developments Services. Besides these, there were several other equity deals in the NBFC-MFI sector like Capital First taking stake in Kolkata-based Village Financial Services. The year also finally saw the closure of biggest NBFC-MFI Bharat Financial Inclusion Limited completing its merger with IndusInd Bank. The point being of interest in all

**Table 5.1: Percentage of Joint Liability Group Clients having more than One Lender Association**

| Lender Association | Mar-17 | Mar-18 | Mar-19 |
|---|---|---|---|
| 1 Lender | 74.8 | 72.7 | 64.8 |
| 2 Lenders | 20.2 | 20.9 | 22.9 |
| 3 Lenders | 4.3 | 5.4 | 9.3 |
| 4 Lenders | 0.6 | 0.9 | 2.3 |
| 5 or more Lenders | 0.1 | 0.1 | 0.6 |

*Source:* Crif High Mark

these is that NBFC-MFI sector continues to be seen as a profitable business venture and over the years its value proposition is only increasing for investors.

The acquisition of NBFC-MFIs by banks over the past two years, with BFIL-IndusInd being the last to be completed is raising questions as to whether pure play MFIs have a role in future. The growth numbers belie the existential doubts, though it is felt that occasional transformations like graduating to be a SFB or being acquired by a bank will continue. The RBI gave first-time licenses to 10 entities for SFB in 2016, of which 8 were NBFC-MFIs and has recently stirred the pot again by announcing that it will make the SFB licensing on tap in August 2019.[8] This may be a stepping stone for few more conversions from NBFC-MFIs.

A fresh issue has been grappling the sector this year since the article on "Fresh Start" appeared in a newspaper,[9] wherein the author pointed towards unnotified provisions of Insolvency and Bankruptcy Code, 2016 relating to personal insolvency. It was pointed out that it contains provisions wherein borrower of an unsecured loan having specified income and asset holding can apply for relief under these provisions. As microfinance loans are unsecured and the borrower profile matches the conditionalities, it was cited as a possible cause of concern. The issue has been taken up by the microfinance networks with the Insolvency and Bankruptcy Board and Ministry of Corporate Affairs and it is hoped that the aspect of misuse will be taken care of, in case the provision is notified. The key aspect in this is that while relief under these provisions do not envisage debt waiver, it creates complications for the lender and have the potential to be misused.

On the policy side, while no major changes in operational guidelines for NBFC-MFIs took place, the RBI took the important step in consumer protection by extending the Ombudsman scheme for all NBFCs having assets of more than Rs 100 crore. While earlier, the scheme was applicable for deposit taking NBFCs, now its scope has been extended. As per the scheme, a customer can register complaints against an NBFC under 13 grounds such as non-observance of fair practices code; non-payment of deposits or interest by the NBFC; failure to provide adequate security documents or requisite notice; failure to ensure transparency; and so on.

## KEY HIGHLIGHTS OF NBFC-MFI PERFORMANCE DURING 2018-19

As mentioned above, the performance analysis of NBFC-MFIs for the year 2018-19 is limited to members of MFIN, which account for 71 percent of on-balance sheet portfolio of NBFC-MFIs as on March 31, 2019. The total outstanding in respect of 82 NBFC-MFIs was Rs 68,868 crore, of which 53 MFIN members accounted for Rs 48,590 crore.[10]

**Key Highlights 2018/19—NBFC-MFIs (53 MFIN members)**

- 53 member NBFC-MFIs had a network of 12,277 branches and employed 104,973 staff.
- MFIs now have presence in 33 states/union territories.
- As of March 31, 2019, **3.17 Cr** clients have loan outstanding from NBFC-MFIs, which is an increase of 32 percent over March 31, 2018 figure.
- The aggregate Gross Loan Portfolio (GLP) of NBFC-MFIs (both on and off balance sheet) was **Rs 70,174 Cr** as on March 31, 2019. This represents an annual growth of **51** percent as compared to March 31, 2018.
- Off-balance sheet loans saw an annual increase of 138 percent—a result of liquidity crisis affecting smaller NBFC-MFIs.
- Loan amount of **Rs 82,928 Cr** was disbursed in FY 2018-19 through **3.25 Cr** accounts.
- Average loan amount disbursed per account during FY 2018-19 was **Rs 25,543**, which is an increase of around 13 percent in comparison to loans disbursed during FY 2017-18.
- Portfolio at Risk (PAR) > 30 as on March 31, 2019 is **1.73 percent**. PAR >30 has come down from 4 percent reported as on March 31, 2018.
- 73 percent GLP comes from rural areas, while 27 percent is from urban areas. The trend has been reversed since last three years—in March 2016, 60 percent GLP came from metropolitan/urban/semi urban areas. The exit of SFBs is the reason for higher rural share.
- Purpose-wise, 57 percent GLP is accounted for by agriculture and allied activities, 40 percent by non-agriculture and 3 percent by household finance.

*Source: MFIN Micrometer,* 17, 25 and 29 with adjustments by the author.
*Notes: MFIN Micrometer* 29 does not include Quarter 4 data for two MFIs—Spandana and Muthoot. Author has made adjustments based on other publicly available data.

In addition, to this, MFIN members had Rs 21,584 crore of off-balance sheet portfolio accounted for by BC business and securitisation transactions.

## DETAILED REVIEW OF NBFC-MFIs OPERATIONS DURING 2018-19

This section aims to present a detailed analysis of performance of NBFC-MFI operations in terms of outreach, regional spread, growth dimensions across entities, drivers of productivity and the depth versus breadth dimensions of growth. For an industry which owes its DNA to being a double bottom line industry, growth per se is not a sufficient indicator and there are other critical dimensions which need to be analysed, notably the portfolio concentration, multiple borrowings related indebtedness, product innovation, impact on lives of clients and field staff productivity. Growth of microfinance is essential to financial inclusion in India and MFIs remain the key players in the last mile segment, but often the growth is not accompanied by prudence. Such growth is a cause of concern, as it has the potential to cause black swan events, jeopardising the past gains. This section has to be read with the section of the chapter dealing with analysis of credit bureau data, for a holistic understanding of geographical coverage. Wherever possible, data of all players in the microfinance segment has been also analysed.

### Outreach and Regional Spread

#### *86 percent Coverage of Districts*

Over the years, operations of NBFC-MFIs have been spreading far and wide. MFIN member NBFC-MFIs operations are spread across 579 districts in India, out of a total of 712 districts as on March 31, 2018 and increase of 30 districts over last year. If the 44 districts of Andhra Pradesh and Telangana are excluded from the analysis, wherein the microfinance operations are negligible, it is seen that NBFC-MFI operations cover 86 percent districts in India. This is a significant outreach, and the fact that 494 districts have more than five lenders (Fig. 5.3) adds to the outreach significance. It is interesting to note that the number of districts with less than five MFIs has decreased, which means majority of districts have now more than five MFIs. If the entire microlending space is considered, including banks, SFBs and NBFCs, the outreach goes up to 619 districts. The fact that inclusion of the all players increases the outreach marginally, is a pointer to the NBFC-MFIs driving the outreach story.

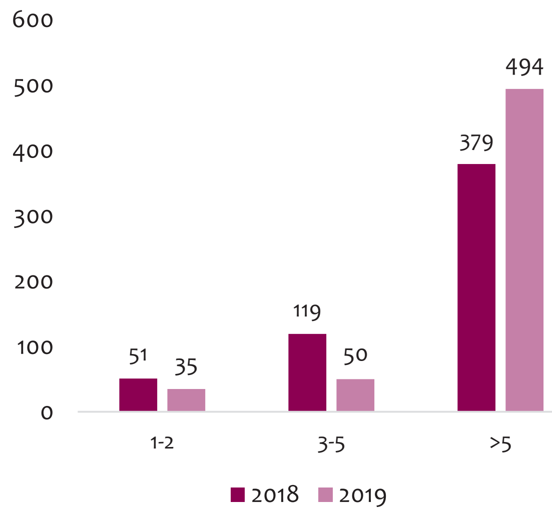



**Figure 5.3:** District Presence of MFIN member NBFC-MFIs

*Source:* Crif High Mark

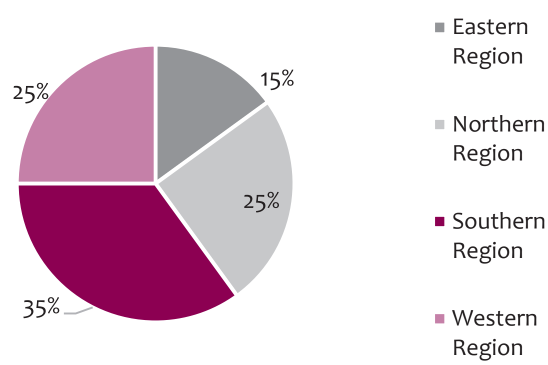



**Figure 5.4:** Region wise share in NBFC-MFI loan portfolio, March 2016

*Source:* MFIN Micrometer, Issue No. 17.

#### *East and North East Continue To Have the Maximum Share in Portfolio*

In the last three years, the share of various regions has undergone a dramatic shift, and this shift has been accentuated by two factors, namely, major players in the South have transformed as SFBs and change in the classification of regions as reported by MFIN. Over the years, the sector started with the dominant share of the southern region in MFI portfolio, which later changed to equal share of all four regions in March 2016 (Fig. 5.4). From 2018, the data reported by MFIN mentioned addition of one more region—the central region, with Chhattisgarh and Madhya Pradesh which were earlier parts of western zone, and included Bihar in the East and the North-East (NE) in the North.

The revised regional classification based share of NBFC-MFI portfolio shows a dominant share of the East and NE at 38 percent followed by the South at 24 percent (Fig. 5.5). The high share of East and NE in portfolio seems to be both a welcome and worrying feature; welcome because these states have relatively higher levels of exclusion as well as low socio-economic parameters and worrisome because other lenders, especially Bandhan Bank, also have a large portfolio in this region. If all microfinance lenders are included, West Bengal is the state with maximum microfinance portfolio in the country, followed by Tamil Nadu and the average loan size in West Bengal is also higher at 41,000[11] as compared to the all-India figure. The regional pie hides the state specific portfolio share. For example, Bihar, Odisha and West Bengal account for 82 percent share in the East and NE and Karnataka accounts for 50 percent share in the South and Maharashtra accounts for 60 percent share in the West. Details of the state-wise and region-wise portfolio are given in Annexure 5.1.

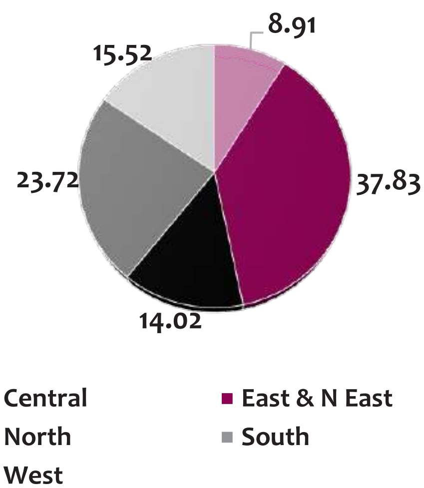



**Figure 5.5:** Zone-wise Share in NBFC-MFI Portfolio as on 31 March 2019

*Source:* MFIN

**Table 5.2: Share of Top 6 States in NBFC-MFI Portfolio as on March 2019**

| States | Portfolio (Rs crore) | Percentage of All India Portfolio |
|---|---|---|
| Karnataka | 8,097 | 11.87 |
| Bihar | 7,990 | 11.71 |
| Odisha | 7,329 | 10.74 |
| Maharashtra | 6,276 | 9.20 |
| Uttar Pradesh | 6,084 | 8.92 |
| West Bengal | 5,958 | 8.73 |

*Source: MFIN Micrometer*, 29.

### *Dominance of the Top Six States Continues—61 percent of the NBFC-MFI Portfolio and Top 10 States Account for 84 percent of the Portfolio*

On account of high share of individual states across regions, it is seen that six states continue to account for 61 percent of the portfolio (62 percent last year) and this shows the geographical skew in operations (see Table 5.2). The only difference between last year and 2019 is that Bihar and Maharashtra have moved up the ladder; which is especially surprising with respect to Maharashtra, considering the post demonetisation delinquency crisis there.

Significantly, this state-wise pattern seen in case of NBFC-MFIs is mirrored across the spectrum. Data available from CRIF High Mark for March 2019 covering all microfinance lenders shows that these six states are also the top six in all agencies' lists, with some changes in ranking. West Bengal is at the top in all agencies' portfolio lists followed by Tamil Nadu. The share gets more skewed, when seen at district level [later in the chapter]. The persistence of Bihar, Odisha and Uttar Pradesh in top six, be it NBFC-MFI or all agencies is generally seen as a positive feature but there are concerns on the sustainability of credit absorption potential in these states. Further, in all these major states, the average size of microfinance loan is higher as against the all-India average. This implies that much of the growth

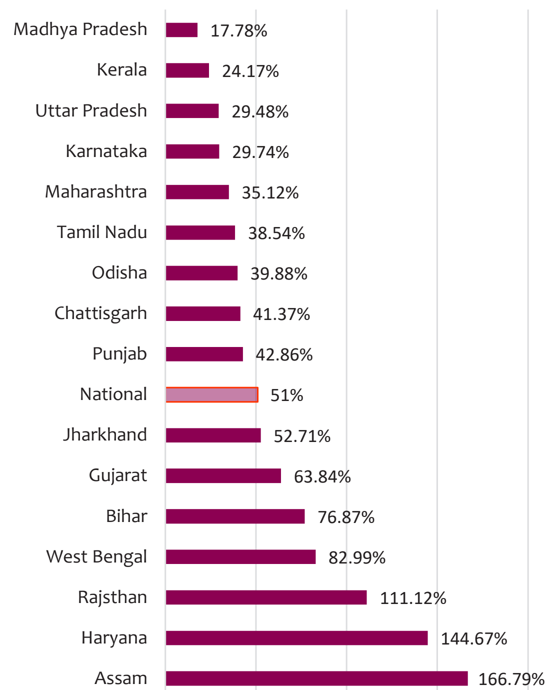



**Figure 5.6:** Annual Portfolio Growth Rate across States with>1000 crore Portfolio on 31 March 2019

*Source:* MFIN Micrometer, Issue 29

> Among the Top 10 states, only Bihar and West Bengal grew by more than national average in 2018–19.

is accounted for by depth (higher loan per client) rather than by addition of more clients.

The portfolio growth across states shows a mixed trend during 2018-19. Compared with national growth of 51 percent, 7 states recorded growth more than the national average, and 9 states were below the national average (Fig. 5.6). States with portfolio more than Rs 1,000 crore have been considered for the analysis. Interestingly, even two of the traditionally strong microfinance states—West Bengal and Bihar, which are also part of the top six states—recorded growth in excess of national average. West Bengal and Bihar also exceeded the national average last year. Normally, it is expected that states with higher portfolio have a lower annual growth, but this does not hold good uniformly. Karnataka, the state with the highest portfolio grew at 29.74 percent, which is on expected lines considering the large size of portfolio there.

If the high growth stats are analysed, Rajasthan and Assam stand out. Both these states have been growing at nearly 100 percent or more over last two years. In 2018-19, Assam recorded an annual growth of 134 percent and this year it has reached 166 percent.

The high growth in Gujarat and Haryana comes out as a distinctive trend for the year 2018-19 as microfinance has been a slow starter in these states. The practitioners had argued that considering the high per capita credit demand, microfinance is not the suitable mode for credit delivery in these two states. But this seems to be not true.

Summing up, it can be said that while the names change, the consistent pattern over the years has been that nearly 50 percent of the states grew more than national average and some states like West Bengal, Bihar, Assam and Rajasthan have been doing so consistently over the last two years.

## What is Happening on the Institutional Side?

### *Institutional scene is also shaped by Top 20 NBFC-MFIs with 90 percent Market Share, Bottom 33 have 10 percent*

Analysis of growth based on individual NBFC-MFIs also throws up critical insights. The institutional transformation in the sector over the last five years by way of Bandhan becoming a universal bank and eight others evolving as SFBs and the acquisition of few others by banks has not changed the characteristic of the market. Bigger institutions continue to dominate the market share overwhelmingly. As nine top MFIs morphed into banks, universal and SFB, the expectation was, that the market share will be more equally shared [In 2015, Bandhan constituted 23.75 percent of total NBFC-MFI portfolio] but this has not happened, others have occupied their place. The predominant share of a few MFIs continues to be the characteristic of the market. As of March 2019, top 10 NBFC-MFIs had 90 percent, and top 10 had 75 percent market share. Thirty-three institutions, below the top 20, make up for mere 10 percent market share. Two trends are clearly seen—timeline analysis shows that "Big is Beautiful" continues to be the mantra for funders and as such the exit of Bharat Financial Inclusion Limited (BFIL) from the list of NBFC-MFIs, which has 25 percent market share as on March 2019 will not have an impact on the distribution of portfolio across MFIs. Second, considering the liquidity crisis in the NBFC sector, it is expected that smaller institutions may find it difficult to mobilise funds and consequently their share will further shrink. Seen with the near obliteration of NGO-MFIs, it is very likely that in the future, the top 10–15 NBFC-MFIs will dominate the sector.

The growth of top 10 MFIs during the year 2018-19 shows great divergence. The range of annual growth varies from 172 percent in the case of Samasta to 31 percent for Spandana [Please read note 11 for Spandana and Muthoot as these growth rates in Fig. 5.7 are understated]. While the growth of the sector has come down from 91 percent in

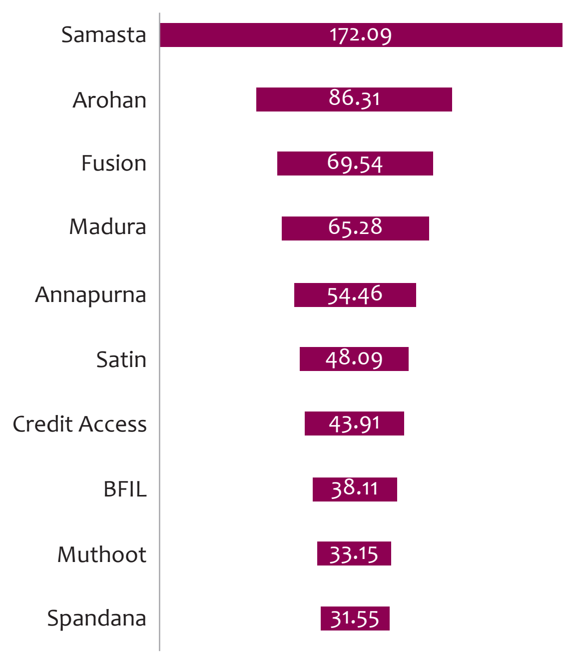



**Figure 5.7:** Growth Rate of Top 10 NBFC-MFIs in 2018-19

*Source:* MFIN Micrometer, Issue 29

2016, statistics show that some institutions are still growing at a fiery pace. While Samasta has not only gone to the top in 2016, it has also gone up from being the 14th largest MFI to the 9th in 2018-19. The case of Samasta has to be seen in the light of its acquisition by India Infoline and the consequent transfer of rapid growth metrics. The largest MFI, i.e., BFIL because of its high base has always grown at around 30–35 percent in the last few years, but Arohan and Fusion have been growing at more than national average for the last two years.

Another interesting thing to be noted is that MFIs in run-up to Initial Public Offerings (IPOs) do accelerate their growth. CreditAccess Grameen grew by 62 percent in 2017-18—the year preceding the IPO and the case of Spandana confirms the logic. Spandana grew by 144 percent during 2017-18 and this year its lending has been growing at a fast pace, though the figures above do not capture the full growth due to data limitation. While there is nothing wrong in growth per se, the past shows that institutions which did not adhere to tempered growth, did experience serious portfolio quality problems with a lag. The portfolio build-up in Andhra Pradesh before 2010, the case of Janalakshmi—which is now a SFB, recent portfolio quality issues in Maharashtra, all point to one thing—fast build-up either by an institution or in a geography does lead to potential issues. The problems arise because of multiple loans to the same client, laxities in credit appraisal process and a situation wherein money starts chasing people. Despite these proven incidents, lessons of the past get forgotten soon in the drum beat of "huge untapped potential" logic. It is more pertinent now as field observations show that credit appraisal has become almost fully reliant on credit bureau check and the pitfalls of that are well known.

## Growth Dynamics

### *Where Is the Growth Coming from?*

MFIs grow through different means like opening more branches, expanding to new areas, adding new clients or by increasing loan sizes. While the first and second approaches lead to greater breadth in operations, the last approach leads to depth within existing area of operation by giving higher loans to existing clients. During the year 2018-19, analysis of operations of the top 10 NBFC-MFIs (barring Spandana and Muthoot as their numbers are dated) shows that depth approach was the trend (Fig. 5.8).

In all cases, the growth in portfolio is higher than the growth in the number of clients. The overall data for 53 NBFC-MFIs also confirms this trend, as the sector average growth in number of clients was mere 33 percent as against 51 percent growth in portfolio. It seems as a logical corollary of this aspect is that MFIs are witnessing a situation, wherein the growth is mainly happening from existing areas of operation and clients. The data from credit bureau analysed later adds evidence to this logic as the portfolio is concentrated in 200 districts. It is agreed that some amount of gap between portfolio growth and client growth is on account of higher loan sizes to mature clients, but too wide a gap shows higher than normal increase in loan sizes.

If growth is to be analysed from a different perspective to confirm the trend, we can compare the growth in number of branches with that of clients. This provides a useful indication of whether the clients are being added in the same


**Figure 5.8:** Top 8 MFIs-Annual Growth in Portfolio and Clients

*Source:* MFIN Micrometer, Vol 29 CreditAccess Grameen data corrected by author


**Figure 5.9:** Top 8 MFIs-Comparison of Annual Growth in Branch Network vs Growth in Clients

*Source:* MFIN Micrometer, Vol 29 CreditAccess Grameen data corrected by author

geography by increasing number of clients covered by branches or by expanding to new areas. Analysis of eight bigger NBFC-MFIs shows a mixed trend (Fig. 5.9). Among the three bigger players, BFIL, CreditAccess Grameen and Satin, the growth in number of branches is more or less same as the annual growth in clients implying expansion as the strategy in addition of clients. Arohan, Fusion and Madura figures show that the major thrust has been on the expansion of the client base of existing branches, while Annapurna and Samasta have emphasised on the addition of more branches. Growth in branch network does not immediately give results due to lag time in attaining scale and maturity.

If the data on average loan size of various NBFC-MFIs during 2018-19 is seen, there seems to be a steep upward trend. In a pool of 53-member NBFC-MFIs, six MFIs had average loan disbursement size of more than Rs 30,000 during 2018-19. The range across MFIs is between lowest of 21,131 and highest of 37,484 in case of Growing Opportunity. However, it has to be noted that average loan disbursed data gives the picture on a lower side as the impact of higher ticket size loans is negated by many small size loans for new clients. Field realities show that the loan sizes have gone up to 40,000–45,000 in an attempt to compete with higher-sized loans from banks and SFBs. As argued in previous year's report, it would be better if data is reported in terms of cycles, i.e., the average disbursement for clients in the first loan cycle, then in the second loan cycle, and so on. Such cycle-wise data will also inform the sector on client attrition rates, as institutions with high attrition will have lesser clients in higher cycle brackets. Parallel to this jump in loan size, there is also a growing discussion among practitioners as to whether the group joint liability will continue to hold; higher loan sizes imply higher liability for each member in case of default by others.

> With increase in loan sizes, will the concept of joint liability work? A critical rethink is required.

## *Productivity of Loan Officers Goes on Increasing*

Loan officers or the field staff are the foot soldiers in microfinance, responsible for client acquisition, group formation, group training, loan appraisal, loan utilisation verification and collection of repayments. Past crises have brought the client protection issues to the fore but sadly, the story of loan officers has always remained on the fringes, while they form nearly 70–75 percent of the microfinance workforce. There have been discussions on how technology in the form of Tab-based client on-boarding and reduction of paper work has reduced loan officers' workload but the fact that other things have got added to their work list goes unnoticed. For example, MFIs now increasingly do cross-sell of third party products, which is also handled by them and there are incentives linked to sales, which further distorts the picture. The issue of third party products was

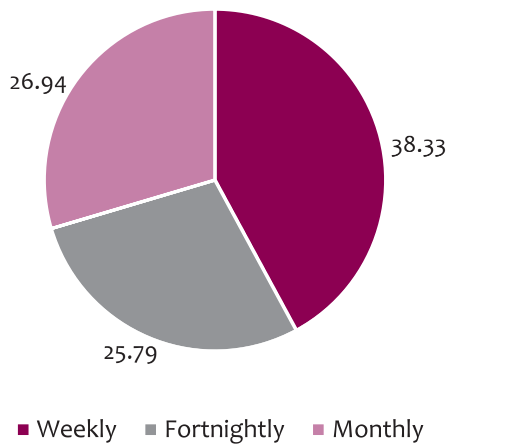



**Figure 5.10:** Repayment Frequency of MFI Loans as on 31 March, 2019

*Source:* Crif High Mark

brought out in last year's report as the thin line between usefulness of the product and forcing clients to buy is often blurred. It is heartening to note that the problem has been identified by MFIN and a guidance note on the subject was issued in 2019.

The trend of increasing loan officer productivity, in other words, increase in the loan officer's workload started since the regulations capped the interest rate; MFIs faced with the choice of maintaining profitability at a reduced yield and no control on cost of funds had no choice but to ramp up the staff productivity. It has been rationalised by changing the repayment frequency; while earlier, most loans were based on weekly repayment, the sector has increasingly adopted fortnightly and monthly repayment schedules (see Fig. 5.10). As on March 2019, the trend of going towards other than weekly repayments has almost reached its peak and the share of weekly loans is majorly accounted by BFIL and CA Grameen. These are the two largest MFIs and have continued to mainly operate on weekly model. With the merger of BFIL with IndusInd, by next year, the weekly share is likely to fall to around 15 percent. It is pertinent to note that a model which was predicated on regular touch as the key has now 30 percent loans repaid monthly.

An analysis of the top eight NBFC-MFIs for the year 2018-19 shows that the ramp up of number of clients being handled by one loan officer and the loan portfolio serviced by him/her continues to rise (Fig. 5.11). While the sector average for clients and portfolio handled by a loan officer is 488 and Rs 11 million respectively, individual institutions show great diversity. For example, BFIL even with weekly collections and third party sales has each loan officer handling 633 clients. Six institutions in Fig. 5.11 have the ratio in excess of 500.

Consequently, the loan portfolio handled by loan officer is also on the rise. Typically, nowadays in most institutions, one loan officer handles ~10 million of the loan portfolio. Combination of both increase in number of clients per loan officer and increase in loan sizes resulted in increase of portfolio handled per loan officer (Fig. 5.11). It is seen that in some MFIs like Arohan and Madura, the annual increase was substantial (31 percent for Arohan and 42 percent for Madura).

> Increasing field staff productivity rides on laxities in credit appraisal and client touch, the critical pieces of last mile services.

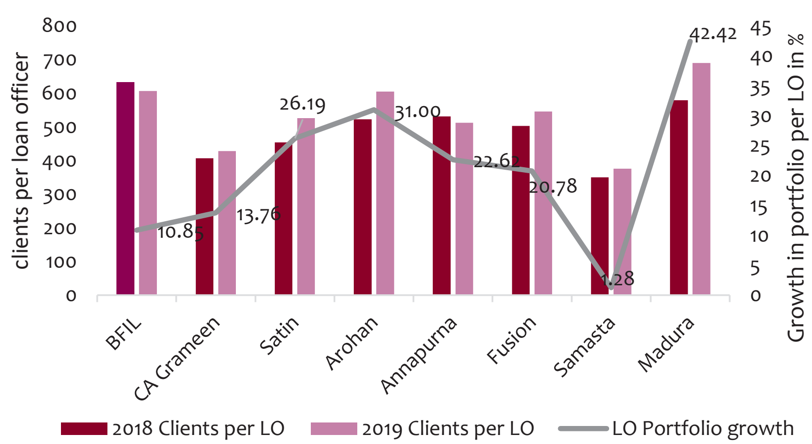



**Figure 5.11:** Top 8 MFIs-Clients and Portfolio per Loan Officer

*Source:* MFIN Micrometer, Vol 29

The sector will need to introspect as to how much more the productivity can be stretched before it gives away. In the field, the author observed that due to this, the traditional roles of credit appraisal and maintaining close touch with the client has given way to client–loan officer relationship becoming transactional.

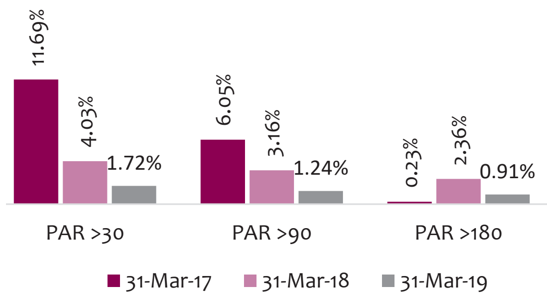



**Figure 5.12:** Portfolio of Risk (%) for NBFC-MFIs

*Source:* MFIN Micrometer, Vol 29

## Portfolio Quality: Is It Really Normal or is Stress Showing Up? Data Discrepancies...

In 2018, the impact of demonetisation resulted in higher than usual Portfolio at Risk (PAR) for the sector. Since last year, the situation has more or less stabilised with some very limited pockets still in higher than usual PAR. The year also saw a few critical state elections (Madhya Pradesh, Rajasthan) and national elections; the associated promises of loan waiver did spook the industry. However, the proactive work done by both networks led to the events passing off without affecting the credit culture in microfinance. Madhya Pradesh government did announce a loan waiver for farmers with loans up to Rs 2 lakh[12] but it did not lead to any disruption in microfinance repayments. The follow-up by other states like Rajasthan did lead to a demand for national-level waiver of farm loans, but luckily better economic sense prevailed on the national government and it emphasised on other measures to alleviate farmers' stress.

As per MFIN reported data, the industry level PAR moved back to normal levels by March 31, 2019. The recovery from 11 percent PAR in 2017 to 1.72 percent in 2019 is a testimony to the resilience of the sector. It has been able to do so without significant effect on profitability. Low PAR>180 days at 0.91 percent shows that old unpaid loans have been written off (see Fig. 5.12).

State-level position of PAR with regard to the top 15 states as per MFIN data shows the normalisation trend with some exceptions like Uttar Pradesh, Madhya Pradesh and Maharashtra (Table 5.3). For Kerala, high PAR is understandable, as portfolio quality in Kerala has been seriously impacted following the excessive rains and flooding in 2018. However, build up of PAR in less than 180 days' bucket in Uttar Pradesh, Maharashtra and Madhya Pradesh shows that even fresh loans are suffering from credit quality. Is it because MFIs tried to get

**Table 5.3: Portfolio at Risk for top 15 States in terms of Gross Loan Portfolio – 31 March 2019**

| States | PAR >30 | PAR >90 | PAR >180 |
|---|---|---|---|
| Karnataka | 1.13 percent | 1.13 percent | 0.71 percent |
| Bihar | 0.30 percent | 0.30 percent | 0.12 percent |
| Odisha | 0.59 percent | 0.59 percent | 0.23 percent |
| Maharashtra | 2.73 percent | 2.73 percent | 1.93 percent |
| Uttar Pradesh | 3.17 percent | 3.17 percent | 1.88 percent |
| West Bengal | 0.54 percent | 0.54 percent | 0.26 percent |
| Tamil Nadu | 2.07 percent | 2.07 percent | 0.42 percent |
| Madhya Pradesh | 3.34 percent | 3.34 percent | 1.92 percent |
| Rajasthan | 0.61 percent | 0.61 percent | 0.30 percent |
| Kerala | 2.28 percent | 2.28 percent | 0.80 percent |
| Assam | 0.33 percent | 0.33 percent | 0.14 percent |
| Jharkhand | 0.92 percent | 0.92 percent | 0.39 percent |
| Punjab | 1.59 percent | 1.59 percent | 1.04 percent |
| Chhattisgarh | 0.71 percent | 0.71 percent | 0.31 percent |
| Gujarat | 1.42 percent | 1.42 percent | 0.90 percent |

Source: *MFIN Micrometer*, 29

**PAR 180+ Levels**

| | Rural | | | Urban | | |
|---|---|---|---|---|---|---|
| | Mar 2018 | Sep 2018 | Mar 2019 | Mar 2018 | Sep 2018 | Mar 2019 |
| NBFC MFIs | 3.65% | 2.74% | 2.33% | 5.48% | 4.67% | 4.01% |
| Banks | 1.78% | 1.77% | 1.56% | 2.38% | 2.26% | 2.02% |
| Others | 4.48% | 3.81% | 3.42% | 6.98% | 5.69% | 5.21% |
| SFBs | 12.73% | 11.41% | 9.59% | 18.89% | 17.77% | 15.01% |
| Grand Total | 4.74% | 4.02% | 3.33% | 8.14% | 7.25% | 6.00% |

The Risk Level is basis the 180 days or more past due Portfolio & Overall Portfolio reported at the respective book closing period.

**Figure 5.13:** PAR >180 days across Microfinance Lenders

*Source:* MicroLend, 7 March 2019

over the post demonetisation situation by extending fresh credit to delinquent clients which had the effect of reducing the PAR? But in some pockets, credit quality issues have resurfaced; showing that evergreening can mask the PAR but its impact comes with a time lag.

The more discomforting point relates to data discrepancy in PAR>180 days category, wherein the MFIN reported data for NBFC-MFIs is 0.91 percent, which shows that most bad loans have been written off. However, as per CRIF High Mark data (Fig. 5.13), the figure is 2.33 percent for rural areas and 4.01 percent for urban areas. As the data reported by credit bureau is more reliable, it is clear that MFIs still carry ~5 percent of more than 180 days delinquent portfolio. This coupled with the rise in delinquency in fresh loans across major states like Uttar Pradesh, Madhya Pradesh, Maharashtra and Tamil Nadu, gives ample indication of the build up of stress. CRIF High Mark data also shows that SFBs are the worst performers in this respect. The figures based on geography show a clear trend that across lenders, delinquency is higher in urban portfolio.

While the issue of stress in microfinancing system is dealt in more detail later in the chapter, the above analysis clearly shows that the days of zero delinquency are a thing of the past and the sector needs to acknowledge it.

## Interest Rates: MFIs Continue to Lower Interest Rates

Before 2011, MFIs were criticised on charging high interest rates to clients and the RBI introduced margin cap regulations based on recommendations of the Malegam Committee in 2016. The pricing formula continues to be based on a similar formula with some minor tinkering over the year and has remained the same during 2017-18 and 2018-19. Two options are explained here:[13]

- The cost of funds plus margin (margin to be 10 percent for large MFIs - loan portfolios exceeding Rs 100 crore) and 12 percent for the others
- The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter

The pan-India formula for interest rate cap is not a good idea as it nudges institutions to avoid remote and sparsely populated areas and the fact that it does not account for the high cost of retailing micro loans plus the high risk associated with unsecured loans. However, the regulatory guidelines have been in place for a decade now and as mentioned in the previous section, MFIs have lived with this interest rate regime by increasing productivity and efficiency—notwithstanding the adverse effects on field staff workload.

In this scenario, analysis of interest rate of top 20 NBFC-MFIs for March 2018 and March 2019 shows that interest rates are being constantly reduced (Fig. 5.14). Three MFIs–BFIL, CreditAccess Grameen and Svatantrata now operate below 20 percent interest rate. During the year 2018-19, 12 of the top 20 MFIs reduced their rate, three made no change and five marginally revised their rates upward.

The pricing is mainly dependent on two factors—cost of funds and operating expenses. MFIs have no control over cost of funds and the RBI has also clearly specified the components of cost of funds and the same is verified by a chartered accountant as well as by the RBI. MFIs are arranged according to size, with BFIL being the largest. Interest rate charged by top 20 MFIs shows that while size does matter as larger MFIs are able to have economies of scale as also get a better rate on borrowings, size and interest rate correlation does not always hold true. Arohan, the fourth largest NBFC-MFI, increased its interest rate by 0.26 percent, while Fusion, eighth in the list, reduced interest rates by 1.82 percent. This indicates that despite the size advantage, many MFIs have not been able to bring down the interest rates, owing to either higher

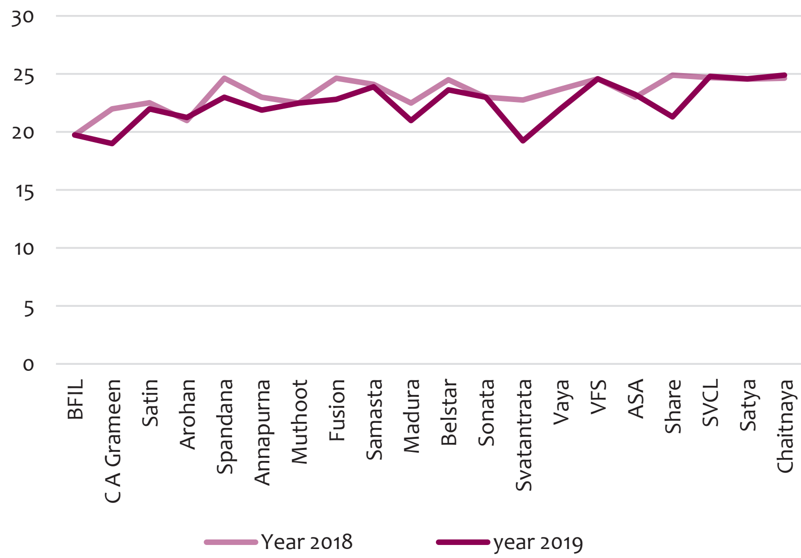



**Figure 5.14:** Interest rate on Major Portfolio of Top 20NBFC-MFIs

*Source:* Micrometer Vols 25 and 29

operating costs, or retaining higher profit margins.

The Cost of Funds (COF) plays a major part in determining interest rates. Evidence from the March 2019 issue of Micrometer brought out by MFIN shows that COF across entities differs widely, especially between large MFIs and others (Fig. 5.15).

MFIs with portfolio less than Rs 100 crore are counted as small, medium MFIs are those with portfolio between Rs 100–500 crore and large MFIs have portfolio more than 500 crore. There is a 1.5 percent point difference between median COF of a small MFI and large MFI, and 1.7 percent difference between medium and large MFIs. This is mainly on account of small and medium MFIs having a larger share of borrowings from NBFCs at a higher rate, as against large MFIs, which have better access to borrowings from banks at a lower rate. As per reported data, during 2018-19, while 69 percent debt funding for large MFIs was from the banks, in case of small MFIs the share of banks was mere 15 percent.

The fact that despite higher COF the interest rates in the sector are moving downward is a testimony to the work of MFIs. This has been possible mainly because of increase in loan officer workload and higher loan sizes which can be counterproductive beyond a point. Higher loan sizes beyond the repayment capacity of the client can lead to defaults, while increased work load for loan officers leads to attrition and lapses in appraisal of clients. Over the years, Operating Expense Ratio (OER) in the sector has come down to the range of 5–7 percent, and there is hardly any scope for further reduction. However,

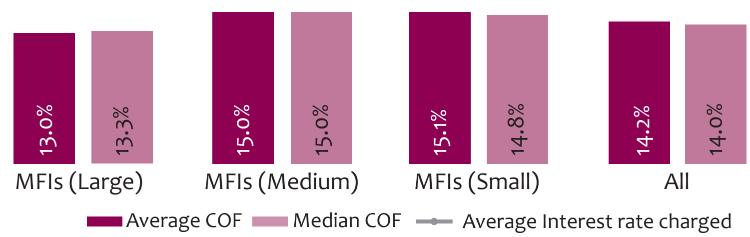



**Figure 5.15:** Average and Median Cost of Funds as of March 2019

*Source: Micrometer*, 29, data as of March 2019

as against the downward trajectory of interest rates of MFIs, microfinance loans from private banks continue to remain high at around 26 percent. Banks which have graduated from NBFC-MFIs like SFBs or Universal Banks have little separating their interest rates from MFIs. Bandhan Bank's current interest rate on microfinance loans is 17.95 percent per annum, while that of Ujjivan is 22 percent p.a.,[14] while their cost of funds is lower due to access to retail deposits.

> RBI needs to examine the regulatory arbitrage in pricing of microfinance loans by banks.

## SECTOR-LEVEL MAJOR INITIATIVES DURING LAST YEAR

### Cyclone FANI; Natural Calamities and Measures to Mitigate Stress

In last one year, natural calamities in the form of excess rains and flooding in Kerala and Cyclone Fani in Odisha have severely impacted the livelihood of microfinance clients. This has an impact on the portfolio quality of MFIs, the impact of that is now visible in case of Kerala in some districts. Odisha has been no exception with MFIs operating in four severely affected districts of Cuttack, Jagatsinghpur, Khordah and Puri, reporting loan repayment issues affecting loan portfolio worth Rs 916 crore. Further, in 10 other partly affected districts, the total portfolio of NBFC-MFIs was Rs 1995 crore.[15]

The problems with MFIs in such cases are manifold. First, inability of some members to pay their loan installments and insistence of institutions on not accepting part payments often leads to cascading effect on defaults. This is so because other group members who have the ability to repay also get added to the list of defaulters. As instalments keep accruing, the repayment amount keeps on increasing making it even more difficult for customers to pay. In the past, there have also been instances of pressure by MFIs' field staff on clients to repay, which then leads to client unrest. Second, as per present practice, normally the MFIs do not have a policy for rescheduling of delinquent loans and issue of fresh loans to the customer to restart his/her livelihood. For banks, there is a well laid out policy for rescheduling, which means extending the repayment period with reduced EMIs and issue of fresh loans. MFIs typically issue a fresh loan in such cases but deduct the outstanding balance of delinquent loan. This achieves the purpose of showing good portfolio quality but the reduced cash outflow to the client is an issue as it reduces the impact of fresh loan on rebuilding livelihood. Finally, at present, there are no risk mitigation measures like insurance to prevent credit risk in such events.

Considering the fact that climate change impact is likely to cause more frequent occurrence of such events in future, the sector has tried to proactively address the issue. Before going to these, the proactive response of the MFI sector in dealing with Cyclone Fani aftermath needs a mention.

## Relief measures by MFIs in Odisha

The Odisha State Association of Financial Inclusion Institutions (OSAFII), which took the lead in coordinating the relief efforts in consultation with MFIN is a member-based network organisation of various MFIs that offer financial services to the poor and promote financial inclusion in Odisha (see Table 5.4). It has got 22 members at present. Immediately after the cyclone, small teams from MFIs operational in the area visited the affected communities, talked to the clients and their family members as also made a quick need assessment of the damage and required support. There were weekly meetings coordinated by OSAFII to plan, review and undertake relief work. Various

**Table 5.4: Relief Provided by MFIs in Odisha**

| ***Coverage of MFIs through their Relief Measures*** | | | | |
|---|---|---|---|---|
| **Name of the MFI** | **District/Block** | **GPs/Wards** | **No of Villages** | **No of Households** |
| Adhikar Microfinance Pvt Ltd | 03/08 | 18 | 62 | 25,000 |
| Arohan Financial Services Ltd | 03/14 | 75 | 780 | 14,000 |
| Asirvad Microfinance Ltd | 03/08 | 30 | 58 | 3,000 |
| Bharat Financial Inclusion Ltd | 03/16 | 83 | 361 | 18,397 |
| Centrum Microcredit Ltd | 01/03 | 10 | 31 | 700 |
| Fusion Microfinance Pvt Ltd | 03/03 | 10 | 30 | 1,000 |
| GU Fin Services Pvt Ltd | 02/05 | 10 | 35 | 16,700 |
| Mahashakti Foundation | 02/02 | 10 | 38 | 1,088 |
| Madura Microfinance Pvt Ltd | 03/17 | 94 | 120 | 4,000 |
| Samasta Microfinance Pvt.Ltd | 03/06 | 30 | 123 | 8,500 |
| Spandana Sphoorty Financial Services Ltd | 02/12 | 129 | 386 | 12,600 |
| Satin Creditcare Network Ltd | 03/08 | 30 | 76 | 1,620 |
| Ujjivan Small Finance Bank | 03/05 | 21 | 81 | 15,000 |
| VAYA Finserve Pvt Ltd | 03/18 | 450 | 942 | 20,337 |
| Vedika Credit Capital | 01/07 | 22 | 35 | 500 |

*Source:* Information provided by OSAFII vide email dated 10 July 2019

MFIs chipped in providing relief in the form of food supplies, clothes, medicines and solar lights. As per information received from OSAFII, relief worth Rs 50 million was provided to around 15 million microfinance clients An amount of Rs 3.3 million was also contributed by OSAFII to Chief Minister's relief fund.

More importantly, as it was observed that the clients had lost their productive assets and income-generating enterprises during the cyclone and were not in a position to make their loan repayments, it was mutually agreed to give the affected clients loan collection/repayment holiday in a phased manner (@15 days per phase) for more than a month's time. It was also agreed to review the situation and extend the period further, if required, for the clients of Puri, Khordha and Cuttack districts.

Further, the field staff responsible for loan collection were asked to maintain ethical behaviour and not use any coercive method to collect repayment of loans. The author went to the affected district of Puri in the month of June, 2019 to interact with the clients and district authorities. It was heartening to note that none of the clients complained of any sort of pressure by MFIs to repay and were also appreciative of the relief effort. In the meeting with Shri Balwant Singh, District Magistrate of Puri on June 24, 2019, the issue was discussed in the wake of reports in regional newspapers about a possible march by microfinance clients. The district magistrate confirmed that there have been no reports of any misbehaviour or pressure on clients by the MFI staff and was appreciative of the relief efforts.

MFIN on its part provided support and guidance. MFIN regional representative visited the field areas in Odisha and followed it up with extensive stakeholders' engagements in severely impacted districts with local authorities and also at the state level with the directorate of institutional finance and the RBI. It organised an emergency state meeting on May 17, 2019 to take stock of the situation and circulated MFIN's Dos and Don'ts to members to deal with the field crisis in affected districts, which was reiterated by OSAFII. The other national level association Sa-Dhan also pitched in by joining these meetings and supporting the initiatives.

## Guidelines on Fresh Loans in Natural Calamities

However, the issue of fresh loans continued to be contentious and it was well appreciated that adjustment of old dues with fresh loans negates the utility of new loans. The need for rescheduling old loans and issue of fresh loans to clients affected by natural calamities was appreciated and MFIN has rightly issued directive to its members on the issue on June 24, 2019,[16] which states:

> For loans which are delinquent due to a natural disaster in an area, NBFC-MFI can consider rescheduling loans to the extent of impairment to repayment capacity. Any rescheduling must be necessarily aligned to regulatory directions. If required, all NBFC-MFIs operating in that area can come together to arrive at uniform norms for rescheduling.
>
> New loans to own customers (who have delinquent account(s) with the NBFC-MFI as a result of natural disaster) can be given under following conditions approved by the Board:
>
> - Such loan is given within 90 days from date of last repayment (for loan account which is delinquent due to such event).
> - A detailed due-diligence process is taken factoring estimation on losses and time/resource requirements for recovery of household livelihoods, existing debt obligations and repayment capacities. There should be a separate high-level approval process for sanctioning of such loans.
> - Loan offering is suitably modified to meet the current circumstances of customer such as longer moratorium period and lower interest rates or processing fee.
> - There should not be any deduction from the disbursed amount of new loan to settle the overdue amount of delinquent loans.

This is a significant directive as it meets both issues of fresh loans without any deduction and reschedulement of delinquent loans. Though the enabling directions have been given, the final decision rests with the MFI which can decide to act as per this or go the old way. As per ground reports, as repayment has slightly improved, the MFIs have still not effected any reschedulement but some have provided top up loans for clients to overcome the crisis. Being a new initiative, its full impact is likely to be seen in future. As said before, it is a welcome step and the only possible way to tide over such situations.

## Exploring Possible Insurance Cover for MFIs

Considering the possible future event and severity of impact, MFIN has proactively taken up work on natural calamities insurance product (Called as NatCaT). The GIZ Global Project InsuResilience Action Area 2[17] initialised and led the conceptualisation and development of the innovative NatCat insurance linked to group micro credits of MFIs. The initiative is being done in cooperation with Weather Risk Management Services (WRMS) and Kaleidofin, on behalf of the member MFIs of MFIN. MFIN is set to lead and coordinate the implementation activities of the NatCat insurance in the upcoming pilot phase. Swiss Re is understood to have confirmed the product design and agreed to underwrite the risk of the primary insurer(s), which Swiss Re would bring along. Under the project, microfinance clients will be insured to the extent of three loan repayment instalments—the logic being that post recovery period, the clients will be in a position to repay as before. Before designing the concept, GIZ conducted multiple qualitative surveys (like Key Informant Interviews, FGDs) in Tamil Nadu, Bihar, Gujarat and Karnataka. The results indicate the need for the product and the willingness to pay off MFI customers.

A proposal has been submitted to KFW for accessing support from InsuResiliance Fund. As per the proposal, the Pilot will be conducted in four states (Bihar, Odisha, Maharashtra and Tamil Nadu), across 45 selected branches of five partner MFIs that are prone to catastrophe risk and covering four perils (cyclone, earthquake, flood and drought) in a bundled product.

While it is a critical initiative to provide relief to affected microfinance clients as well as protect MFIs from portfolio quality issues, there are key impediments to be overcome. First, the insurance regulator should approve it and then RBI which regulates the sector should be willing to buy in the concept. Second, as per extant RBI guidelines, such a product cannot be made mandatory and there are doubts on voluntary insurance to click with microfinance clients. The concept of insurance still remains alien to low-income clients and more so in case of risks which are not routine. It will require extensive insurance awareness campaigns on insurance literacy to be designed and implemented in support of the product. Finally, the price point- premium versus insurance cover is not clear and that can be a major barrier to overcome.

### Low-Income Clients Awareness Workshops

As reported in the last year's report, both the self-regulatory organisations [MFIN and Sa-Dhan] came together to propose a nationwide financial literacy drive funded by the Depositors Education and Awareness (DEA), held by RBI. During the year, the RBI approved the proposal submitted by both organisations with three phases, pilot, training of trainers and roll out of pan-India workshops.

In the pilot phase, MFIN conducted three workshops covering around 180 clients. The point of interest is that these workshops are not exclusively for microfinance clients but cater to all in the area of the workshop. The aim of the pilot was to test the modules developed for the workshop, get an understanding whether the workshop duration is optimal and obtain feedback from RBI as well as the participants for finetuning and finalisation of the modules. The DEA Cell of RBI provided MFIN with Standardised Material Kit for the "Depositors' Education and Awareness Programmes conducted under DEA Fund Scheme". These included details of topics and sub-topics to be covered during the workshops. The topics were categorised into (i) mandatory clubbed under six broad modules and (ii) optional modules.

**Mandatory Modules** cover topics related to creating awareness about banking in general and the facilities that banks offer to depositors in particular.

- Module 1: Removal of inhibitions of a depositor—the first step towards a bank
- Module 2: Know more about your deposit and deposit accounts
- Module 3: Account opening and how to do transactions
- Module 4: Fringe benefits with deposit accounts
- Module 5: Grievance redressal
- Module 6: Special facilities for elderly and disabled customers as prescribed by RBI

**Optional Modules** include topics that could be supplemented during a workshop based on the profile of the target group.

- Module 1: General banking (financial awareness messages on BSBD accounts, financial literacy for senior citizens and financial literacy for school children)
- Module 2: Electronic banking (customer liability in case of unauthorised transactions and good practices for safe digital banking)
- Module 3: Other financial schemes and messages (Risk vs Returns, Fictitious emails and RBI cautions)
- Module 4: Grievance redressal (how to lodge complaints and banking ombudsman)

Using the topics suggested by the DEA cell, MFIN developed the workshop module in-house. The module was developed in a way that it includes all mandatory topics as well as the optional topics (with the trainer having the choice to touch up on optional topics if time and profile of participants permit). The pilot-phase participants were varied but largely women since they are also the clients of facilitating MFI-Fusion. However, along with them other non-client households in the neighbourhood (men, women and senior citizens) also got to know and were invited to participate leading to a varied pool (Fig. 5.16).

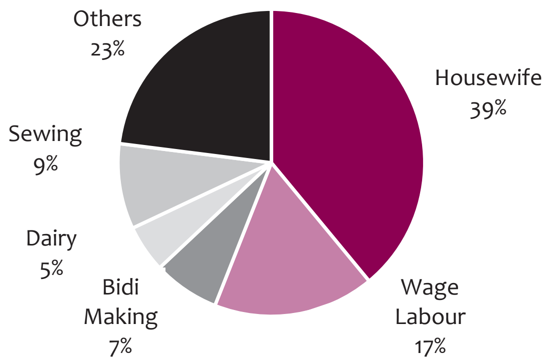



**Figure 5.16:** Occupational Profile of Pilot Workshop Participants

The wide coverage of relevant topics in a Learn-Act-Do (LAD Model), incorporating before and after assessment of participants and system for obtaining feedback from participants lends lot of credibility to the workshops. As of August 2019, Training of Trainers is going on, which will be followed by roll out of 2,250 pan-India workshops during the year. With expected average participation of 60 in each workshop, it will cover 135,000 low-income people. It is a welcome initiative taken by the regulator and MFIs collectively in addressing the financial literacy gaps and thereby ensuring that clients make well-informed financial choices.

## INSTITUTIONAL INITIATIVES DURING LAST YEAR

During last year, the focus of various MFIs has been primarily on cashless disbursements and digital collection (covered in Digital Finance chapter), improvement of processes, training and some product changes. As most MFIs now have field staff equipped with android tabs or mobile phones to take technology to the last mile, which work in both online and offline mode and disbursement of loans in bank account, they are not being detailed here. The focus here is on capturing the new developments in processes, products and other client-centric initiatives.

### Processes: Instilling Rigour and Best Practices

Svatantra, a Mumbai Head Quartered MFI, accords special importance to risk assessment and has put in place a multilayer risk and quality assessment team. The operational risk management structure at Svatantra consists of one risk officer over two branches (and one branch as it crosses 4,000 to 4,500 customers). Normally, the MFI's risk management is head office based and field risk mitigation becomes the domain of internal audit, but by having a risk officer at branch level, Svatantra has gone a step ahead. The branch-level risk team ensures both pre-facto and post facto monitoring of field operations. Pre-facto monitoring includes shadowing the field team during all stages of credit delivery, collections and also conducting minimum number of loan utilisation checks. The post facto audit of operations include monitoring of 180 odd parameters at monthly level. The variance from the accepted practice is collated into rating of all branches and clusters which are linked to compute score. The score is intrinsically linked to incentive structures of the field team. In addition to the field risk team, each branch also has an operations manager to ensure that the inputs when captured by the field team on mobility platform are acceptable both in financial and non-financial aspects before they are transferred into the core banking system.

Svatantra has also modified its alert system to clients for repayments based on field experience. It started by sending text messages to clients after collection as proof of receipt but since the clients frequently change mobile numbers, the messages were often going to the wrong people. It came to know of the problem as people would call its toll free number and complain about the unrelated text message. Learning from this, Svatantra has moved from "push" to "pull" approach and named it as "Adhikaar." Under this, the mobile phone number of the clients is registered against their customer ID and once the client gives a missed call from the registered number an auto message is sent confirming the date of last EMI paid and loan outstanding balance. The clients as well as their spouses are communicated about this feature during all stages of client acquisition .

Satin Credit care Network Limited (SCNL) has started using psychometric testing in its credit appraisal process to gain more holistic assessment of the client as well as to choose the best loan fit for him/her. As SCNL works through the JLG model, a key aspect of the psychometric test is to assess whether a customer could or couldn't work with other members of the group. It has also started geo tagging KYC. Under the new process, the field officer has to upload the KYC of the client from the centre meetings, thereby obviating the need to bring the KYC to the branch. The QR code is used for uploading the KYC to the tab. This has been done with a view to protect client confidentiality and privacy.

As the microfinance portfolio is becoming high in several areas, retention of existing clients has become a key priority for MFIs. Arohan, headquartered in Kolkata, realised that gone are the times when Arohan's Loan Officer could choose from several applicants; getting new customers and retaining the existing ones was becoming challenging in a changed scenario. This situation manifested more in the eastern region, where Arohan has large exposure. The response from Arohan has been a well thought through "Retention process". The process is designed in such a way that repeat customers seamlessly move to the next cycle without having to service double EMI payment. Disbursement though retention process is done before the last EMI of existing loan. The first repayment of the next cycle loan starts seamlessly from the next meeting day (which is the last EMI of the previous cycle) and has helped Arohan improve retention of customers in the face of stiff competition.

In the face of increased saturation, Vaya Finserv has put a multi-stage process for the selection of a district and state for expansion. The objective is to weed out unhealthy/undesired districts and selecting the most feasible districts. Through the usage of census and credit bureau data, the districts are filtered at the following levels:

- *Eligibility*: Identifying the eligible districts based on
  - Suitability of the district in-line with Vaya's rural-first strategy and business model
  - Adjudging the viability of the business based on the internally decided population and density limits
  - Assessing the credit worthiness of the district, based on the Pin Code level PAR details
- *Credit Indexation*: Weighted indexation of the eligible districts based on
  - Industry penetration
  - Per capita indebtedness
  - Instalment to income ratio
- *Opportunity Indexation*: Assessment of available market potential
- *Attractiveness Indexation*: Segregation of district into quartiles of preferences/attractiveness on the basis of weighted credit indexation (point 2 above) and opportunity indexation (point 3 above).

## Training of Loan Officers

While MFIs do have their individual training model for staff, the issue has now been taken up at the industry level. MFIN has started a training, assessment and certification programme for loan officers in collaboration with Insurance Sector Skills Council (BFSI-SSC) and support from Ministry of Skill Banking Financial Services Development and Entrepreneurship (MSDE) under the Recognition of Prior Learning (RPL) scheme of Prime Minister Kaushal Vikas Yojna (PMKVY). The objective of the programme is to provide orientation to the customer facing micro-credit staff such as loan officers and branch managers on various aspects of customer engagement such as speaking, informing, transacting, understanding customer requirements, maintaining pleasant personality, prioritising customers' interests, ensuring privacy of customer information and handling complex and tough situations. This programme is being implemented in a completely on-line environment through an android APP and web. Till the end of June 2019, more than 3,000 candidates registered for this programme from 23 providers.

As mentioned above, the industry initiative supplements the institution efforts. Fusion Microfinance developed its in-house learning & development framework in 2018-19 and is available both on the web and mobile platforms. The guiding philosophy behind the content creation was:

- Simple to understand and effective to equip
- Dynamic delivery mode to optimise coverage given the expansive distribution network, data connectivity and operating model schedule
- Ability to provide multi-lingual interface, be scalable and nimble to update
- Combine facets of in-person and on-line training, which can be leveraged to build a real-time employee engagement platform

It has multiple modules covering aspects like:

- Basic concepts related to banking/finance including personal finance—savings, investments
- Importance of rural India as a country and a company
- Familiarising with basic technology, digitisation and how it can be an effective bridge with customers
- Behavioural/soft skills, functional skills
- Evolution of microfinance and current sector make-up
- Domain knowledge on organisational policies and processes
- Basics on key regulating bodies like role played by RBI and MFIN
- Compliance focus, understanding workplace/sexual harassment

## Product Innovation: Few and Far

Microfinance started with the promise of adopting a bottom up approach and being a double bottom line industry, it is expected that MFIs will continuously improve their product offerings based on client needs. Though it is a fair point that MFIs in India have regulatory limitations since 2011 on what products they can offer, as well as on loan size and tenure but even within the limited available maneuverability, there are possibilities of product changes. Further, MFIs have no regulatory restrictions on 15 percent portfolio as regulatory guidelines apply to qualifying portfolio, which should be minimum 85 percent. However, a scan of the industry shows that the typical income generating loan (IGL) continues to be the main offering as MFIs focus on streamlining processes with an intent to grow fast, leaving the product centricity far behind.

Much of what is being labelled as "new product" falls in the category of emergency loans, micro housing, health and education. However, their share in portfolio remains marginal, and more importantly, these loans have similar features as IGL, albeit with higher or lower loan amount and a different repayment period. Satya Capital, for example, has a "Repayment Holiday Festive Product", wherein there is a repayment holiday (during four festivals in a year) for 7-8 bi-weekly instalments during a loan tenure of two years. No instalment is collected from the clients during the four important state-based festivals.

Other than such tweaks to the main product, the sector does not seem to have even a handful of product innovation examples. Svatantra Microfinance over the last year has been working towards providing affordable and reliable healthcare insurance to its rural customers. Owing to its tie-up with its insurance partners, it provides Rs 50,000 of cashless Mediclaim for Rs 1024 annual premium (all inclusive). The insurance covers borrowers' family and parents. However, the important point is that it also does the following to ensure better client satisfaction:

- Empaneling select hospitals with an intent to serve rural customers
- Negotiating packages for common ailment such as cataract, child delivery, etc. so that the cover is adequate
- Have a dedicated team including medical concierge team (at the regional level) on ground which handholds customers to guide them to the right hospital, ensure cashless admission and treatment
- Use BOT technology to connect customer, medical concierge team, insurance partner team, hospital and insurance claim settlement team

Till June 2019, the insurance product has reached about 150,000 customers and settled claims of more than Rs 60 million.

It was reported in last year's report that in 2016 CreditAccess Grameen introduced retail finance loans on pilot basis, through the first branch in Bangalore city. Retail finance is a new business line, wherein individual loans are provided to captive customers (graduated group lending clients) for their income-generation activities. It caters to the higher loan amount requirements of graduated customers, for their income generation activities. Over the last three years, it has been able to generate scale. As of March 2019, it has been offering this product through 60 branches with an outreach of 41,025 clients. The retail finance portfolio now constitutes 5 percent CreditAccess Grameen's portfolio.[18]

However, the overall product innovations remain confined to isolated cases. There is also no comprehensive sector wide data on share of diversity of loan products, and its relative share in loan portfolio. Industry associations also do not publish data on product diversity. The information presented in this section has been gleaned from the material given by MFIs to the author as well as by looking at individual institutions' websites.

## INSIGHTS FROM CREDIT BUREAU DATA: GROWTH AREAS AND IMPACT

The sector has been growing every year and by March 2019 reached almost Rs 190,000 crore, with each institutional type showing growth trend be it NBFC-MFIs or banks. While the district presence and regional/state share has been detailed earlier in the chapter, this section tries to present key points from the credit bureau data with respect to districts. This analysis is to be seen with the fact that among all agencies purveying microfinance, MFIs are the most vulnerable and have often borne the brunt of client unrest. The localised issues in the past have often remained so but there is no guarantee that it will not change in future. It is difficult to attribute a single reason for such instances of weakened client discipline, wilful defaults and incitement by local leaders which often become the reasons in a medley of credit saturation, over-indebtedness, local level factors and staff behaviour.

During 2018-19, though there were no major events, various localised events continued to dot the operating landscape of MFIs. One keeps hearing about such events but it is difficult to source detailed information unless the place is visited. A few examples are being narrated here based on information gathered by the author. East Tundi block of Dhanbad district of Jharkhand had an issue of loan pipelining where nearly 1000 customers were duped involving Rs 2 crore. This points to the involvement of a ring leader, who would have enlisted clients for the MFIs and later managed to divert the loans to self. Ring leaders have been a persistent issue in the sector and the reasons for it are directly attributable to growth. Loan officers in order to avail higher incentive often bypass the usual group formation and go through influential persons in the area. The influential person forms a group promising loans and takes his/her cut, which may range anywhere from a small percentage to a major part. As long as the person (can be called ring leader) continues to repay in time, it goes unnoticed, but balloons up once there is default. Clients, when approached in such cases, claim to have received only part of the loan amount. Similar incidents of ring leaders duping clients came from Naupada and Mayurbhanj in Odisha and Madurai in Tamil Nadu. These are only some of the incidents; industry observers report that the problem of ring leaders is again resurfacing in a big way.

> MFI operations continue to be affected by local events often beyond their control; need to ensure that their growth targets do not add to the problem

Few incidents related to forceful sale of third party products also continued like the one in Osmanabad in Maharashtra, wherein women marched to the District Collector's office and submitted a representation. Buldhana in Maharashtra also reported a case of client suicide and as in the past it was linked to repayment pressure from MFIs. Along side, events related to illegal interference by state functionaries in MFI operations, incitement by local leaders, and incidents of cash robbery during field operations also continued. During last year, quite a few instances were reported from Chhattisgarh, wherein the police and district authorities asked MFI to close its branch or an investigation was started. Madhya Pradesh in its build-up to state elections saw cases of local leaders inciting the microfinance clients not to repay, making them believe that the loans would be waived.

Along with these old typology of events, new ones have also started to surface. Faking of Aadhaar cards is one. Fake Aadhaar cards was found in Sohela tehsil of Bargarh district in Odisha. A person was running operations to manipulate/alter the Aadhar card. It is learnt that he was operating in a large area and was charging up to Rs 2,000 per card for the alteration.

Incidents like promise of loan waiver and its impact on borrowers urge that state interference in legal operations of MFIs needs to be augmented as fake identities are beyond the control of MFIs and damage control can only be done at sector level through industry networks. The sector needs to contemplate that these events and others like presence of ring leaders are often reported in areas of high market saturation. This is especially complex now when like banks, SFBs are major micro-lenders, but often the problem is placed at the doorstep of MFIs. It is hoped that agency agnostic Code of Responsible Lending (CRL) will bear fruition this year and ensure that all agencies play by similar basic rules. The following section presents the findings related to concentration of operations at the district level, including all micro-lenders as well as NBFC-MFIs separately.

### Geographical Spread of Microfinance Operations at the District Level: 92 percent Districts Have Microlending Operations

Geographical spread of microfinance operations is an important indicator of the breadth of inclusion. The data from CRIF High Mark shows that as of March 2019, microlending is widespread, covering 619 districts in India, of which 565 have more than five lenders. Considering that 44 districts of Andhra Pradesh and Telangana have not seen resumption of microlending post 2010, AP ordinance, the microlending operations now cover 92 percent districts in India. NBFC-MFIs alone cover 599 districts and 515 districts have more than five NBFC-MFI lenders. In March 2018, microlending operations covered 569 districts, which means that in the last two years, only 19 districts have been added by microlenders.

### Breadth Does Not Mean Much as Portfolio Remains Concentrated in 200 Districts

In this section, the analysis of district-wise data with respect to all microlenders (banks, SFBs, NBFCs, NBFC-MFIs) and only NBFC-MFIs is presented and the data represents the group lending portfolio.

### Of 619 Districts, Top 100 Districts Account for 54 Percent Portfolio, Bottom 100 have 0.06 Percent Share

The district-wise portfolio analysis shows a similar trend across both microlenders as well as NBFC-MFIs. Even though the operations cover 619 districts for all lenders and 599 for NBFC-MFIs, two-thirds of the portfolio is in top 200 districts, in terms of portfolio size. If the data is analysed in terms of top 10, 25, 50 and 100 districts, the skew gets more accentuated. To illustrate the point, while top 100 districts account for nearly 50 percent portfolio, the top 10 districts have nearly 10 percent portfolio share. The district-level analysis shows it amply that there is a strong portfolio concentration at the district level.

Compared to last year, the concentration across each bucket in top 100 districts has increased marginally. Last year, top 100 districts accounted for 53 percent of portfolio, which has now moved to 54 percent (Fig. 5.17). Further, at the top, i.e., top 10 and 25 districts, the portfolio share almost becomes equal to the number of districts; top 10 having 11.19 percent of portfolio.

While increase in concentration in top 100 districts is one issue, the other issue relates to the further shrinkage of portfolio in the bottom 100 and 200 districts. It is striking that bottom 200 districts in both cases make up for less than 2.5 percent share in portfolio. Considering the overall microlending operations along with this data point, it can be said that effectively the presence is restricted to around 300 districts. In other districts, the portfolio is small, rather insignificant, compared with others. To illustrate the point further, the district with highest portfolio (North 24 Parganas) had Rs 2,767 crore of microfinance portfolio as on March 31, 2019, while the 100th ranked district (Bankura) had Rs 319 crore portfolio. In North 24 Parganas, the annual portfolio growth was 45 percent—quite high considering the high base. It all shows the wide divergences between districts, penetration-breadth remains effective only in upper 50 percent of districts reached by microfinance.

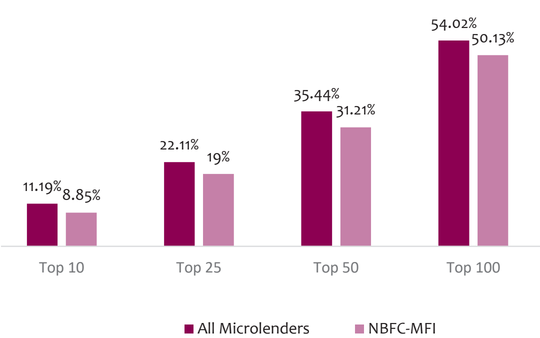



**Figure 5.17:** Share of Top Districts in Microfinance Portfolio in percentage as on March, 2019

*Source:* CRIF High Mark

**Table 5.5: District-wise Share in Portfolio**

| | All Micro Lenders | NBFC-MFIs |
|---|---|---|
| Top 200 | 76.38 (75.25) | 73.74 (76.72) |
| Top 100 | 54.02 (53.02) | 50.13 (51.93) |
| | | |
| Bottom 200 | 1.86 (3.55) | 2.52 (4) |
| Bottom 100 | 0.06 (0.37) | 0.11 (0.44) |

*Source:* CRIF High Mark. 2018 figures are within brackets

Nine out of top 10 districts are in Bengal. Six of these districts have portfolio in excess of Rs 1,200 crore.
All the districts also saw high growth during 2018–19.

## Top Districts are Concentrated in Few States

In the case of NBFC-MFIs, six states account for 61 percent of the portfolio—Karnataka, Bihar, Odisha, Uttar Pradesh, Bihar, West Bengal and Maharashtra. For all microlenders, the full state-wise data is not available, but there is quite an overlap in the top six states across all lenders and NBFC-MFIs. Tamil Nadu is among the top six states in case of all lenders in place of Odisha; the other five are the same. While it is logical that districts with higher loan portfolio will be in top six states, what is noteworthy is the skew in it. If all microlenders are seen, 18 out of top 25 districts are in West Bengal and Tamil Nadu (Fig. 5.18). The distribution is more even if only NBFC-MFIs are considered, as the state with highest number of districts in top 25 is West Bengal with seven districts. Notably, Uttar Pradesh, though part of the top six, in case of both all lenders and NBFC-MFIs does not have any district in the top 25 districts. The clustering of operations in few states/districts is a clear pointer of the concentration risk continuing to persist, rather increasing in the microfinance sector. The geographical risk pattern is shared by all lenders. While it is understood that there are other factors like formal banking outreach, economic potential and spread within the district which play a role in microfinance concentration, on a macro level, there is a problem. It will be useful for the regulator or the sector to have an empirical study to study reasons behind this.

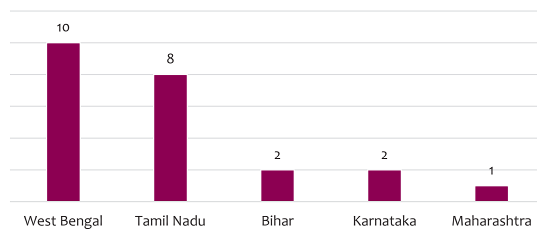



**Figure 5.18:** Share of Top 5 states in Top 25 Districts (All Lenders)

*Source:* CRIF High Mark

## MULTIPLE LENDERS AND INCREASE IN AVERAGE LOANS PER CLIENT—HOW MUCH MORE BEFORE IT BREAKS...

While the RBI regulations for NBFC-MFIs stipulate that not more than two lenders can lend to the same client, this does not apply to other players like banks. In order to analyse the lender associations per client, credit bureau data was analysed with respect to districts in the first and last decile of the top 100 districts. No clear pattern emerges (Fig. 5.19) as some districts in the last decile have higher percentage of clients with more than three lender associations. Districts with higher percentage of clients with >3 lenders in the last decile are in Tamil Nadu (Chamrajnagar–10.15 percent, Namakkal–6.15 percent) and the outlier district in the top decile is also from Tamil Nadu (Cuddalore–1.67 percent). Thus, the higher lender association is more of a state phenomena and the same is corroborated by CRIF High Mark's March 2019 publication, wherein 6.35 percent of clients in Tamil Nadu are reported to have more than three lender relationship. A word of caution here—the number of lenders is not a sufficient ground to assess indebtedness as one lender could give multiple loans and one lender with higher size loan can distort the picture even in areas with low lender associations.

To probe this, average exposure per client with more than three lenders in top and bottom decile


**Figure 5.19:** Percentage of Clients with >3 Lenders

*Source:* CRIF High Mark

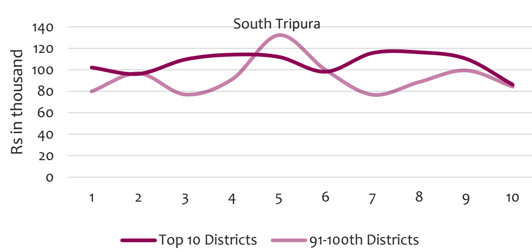



**Figure 5.20:** Average Credit Exposure per Client with >3 Lenders

*Source:* CRIF High Mark

in 100 districts analysis was analysed (Fig. 5.20). It proves the point that higher lender association does not always translate into higher credit exposure as districts in the top decile have much higher average loan outstanding per client as compared to the last decile despite having lower percentage of clients with more than three lenders. The only exception is South Tripura. Thus, while Tamil Nadu has highest clients with multiple lenders, it is the East (West Bengal, Assam and Tripura) which have higher exposure per client. At present, its impact on portfolio quality is not evident but how long will it continue is the question. With credit exposure to clients reaching Rs 1,00,000 in several districts, its impact on group dynamics, joint liability and defaults is likely to be evident in the near future.

> While higher number of lenders per client is a state-specific phenomena, credit exposure to clients in the top districts in the East is reaching tipping point.

Annexure 5.2 gives details of the top 100 districts for all lenders and Annexure 5.3 for NBFC-MFIs

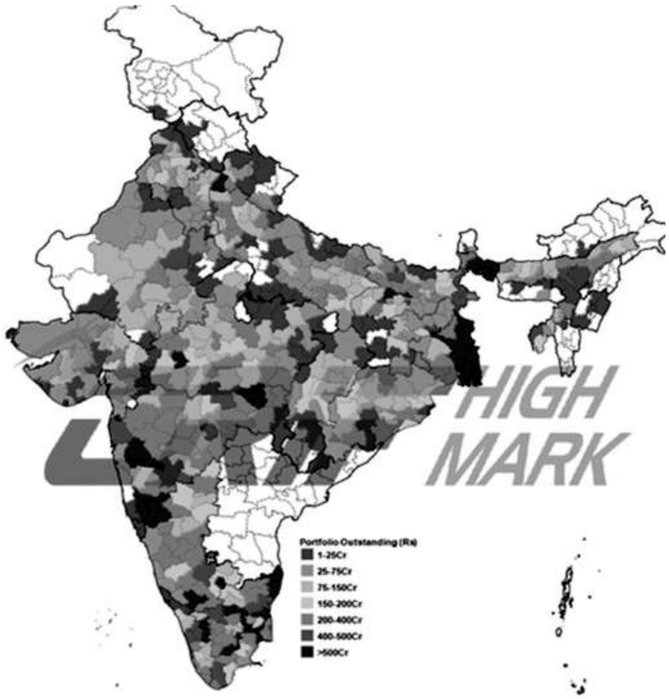
### Visual Presentation of Credit Concentration

The above analysis clearly shows heating measured by loan portfolio size in several districts and its comparison with last year shows the rapid build up. Figs 5.21 and 5.22 present the heat map at district level for all microlenders based on portfolio size in 2016 and 2019. Number of districts with more than Rs 500 crore microfinance portfolio has now gone up to 120 as compared to mere 28 in 2016. Out of 120 districts, 35 have more than Rs 1,000 crore portfolio.

The two maps clearly show the rapid increase in portfolio concentration in South, West and East India. Six districts have more than Rs 2,000 crore portfolio—all from West Bengal; 20 percent districts with microfinance presence have less than Rs 20 crore portfolio.

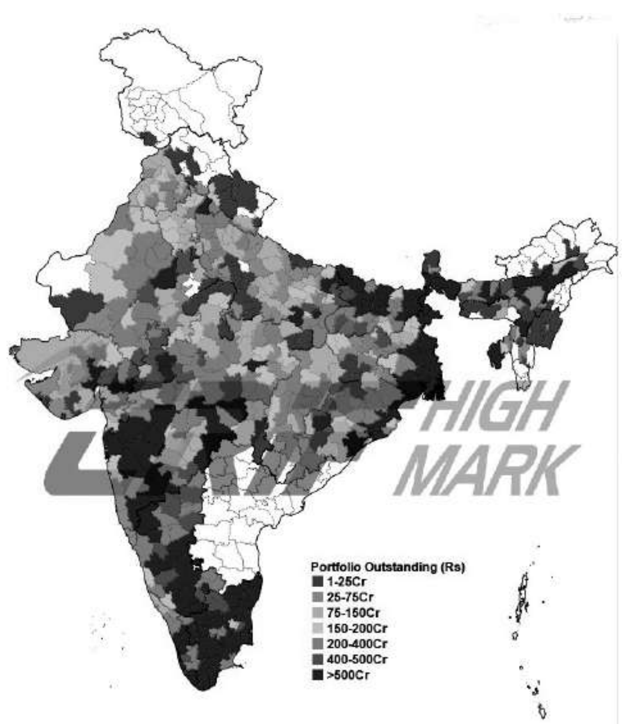
Fig. 5.23 shows the situation with regard to NBFC-MFIs, which also show concentration in a similar geography. But considering the fact that their portfolio is around 40 percent of the total microlending portfolio, the saturation is not so prominent.

In case of the district with the highest portfolio of NBFC-MFIs, Belgaum at Rs 685 crore (last year it was Mysore with Rs 580 crore) pales before North 24 Parganas at Rs 2,767 crore. Further, higher number of districts with lower portfolio in case



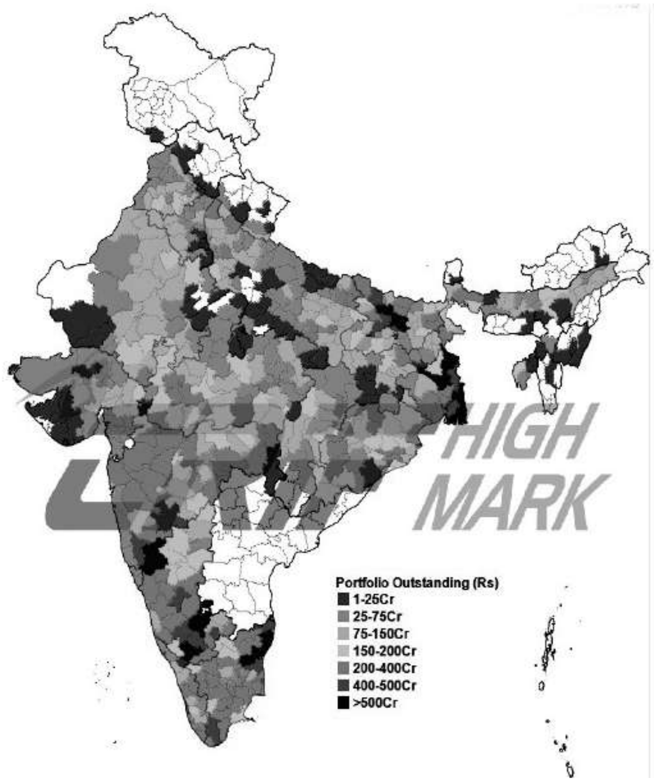

| Portfolio In Rs Cr | No. of Districts |
|---|---|
| >500 | 28 |
| 400-500 | 17 |
| 200-400 | 88 |
| 150-200 | 49 |
| 75-150 | 106 |
| 25-75 | 132 |
| 1-25 | 117 |

**Figure 5.21:** Microlending Heat Map as on March 2016




| Portfolio In Rs Cr | No. of Districts |
|---|---|
| >500 | 120 |
| 400-500 | 38 |
| 200-400 | 119 |
| 150-200 | 61 |
| 75-150 | 87 |
| 25-75 | 73 |
| 1-25 | 72 |
| >1 | 49 |

**Figure 5.22:** Microlending Heat Map as on March 2019




| Portfolio in Rs Cr | No. of Districts |
|---|---|
| >500 | 18 |
| 400-500 | 17 |
| 200-400 | 84 |
| 150-200 | 57 |
| 75-150 | 142 |
| 25-75 | 130 |
| 1-25 | 102 |

**Figure 5.23:** NBFC-MFI Heat Map as on March 2019

of NBFC-MFIs also shows that MFIs have better outreach in unpenetrated areas. However, this cannot be seen as a comforting factor, as the other lenders and NBFC-MFIs share the same products and clients—most other lending comes from banks and SFBs, which were earlier NBFC-MFIs. To add to it, this analysis excludes SHG lending.

The point of concern related to excessive credit in pockets is more of other than NBFC-MFIs players. NBFC-MFIs have more spread out portfolio and also operate with the restriction of margin cap, which should be a deterrent for spreading out in thinly populated and remote areas. Banks have no such restriction, charge higher interest rates and yet add to the build up of concentration risk. The long-standing argument for moving from form specific regulation to activity-based regulation in the earlier versions of this report has become a critical imperative for regulation, if issues of over indebtedness and client distress is to be avoided.

## CONCLUDING NOTES

The microfinance sector including NBFC-MFIs continues to grow at much higher rates than other sectors in the economy. Intermittent blips and major events like Andhra Pradesh Crisis and demonetisation notwithstanding, the steep growth path has been one common point over the last decade. Excluding SHG-Bank Linkage Programme, the sector now touches 56 million clients. While all this is heartening, especially as the sector touches the lives of the poor, the analysis of growth dynamics reveals some clear stress points. Most of the points have been persisting over the years but some new ones have also emerged. Among new areas of concern is the inability of MFIs to use Aadhar based e-KYC. This lacunae coupled with clear emergence of saturation in various pockets is likely to lead to debt overhang followed by defaults. Another issue pertains to frequency of data submission to credit bureaus. There is no uniformity of submission—some do it weekly, while others do it monthly leaving gaps in the efficacy of credit bureau checks. Both these issues require action from policy makers.

Persisting issues are many. The most pressing being that in pursuit of growth, the foundational principles of microfinance are being cast by the wayside. While banks and NBFCs have contributed to growth, the sector sees negligible product innovation, dilution of client-field officer contact and shift to monthly repayments. Field officer productivity is being stretched to an extent from where client relationship takes a backseat.

Incorporation of formal sector metrices in last mile banking runs the risk of destabilising the gains. The regulatory arbitrage available to other micro-lenders as compared to NBFC-MFIs is another persisting point—banks with lower cost of funds lending at similar or higher interest rates than MFIs is paradoxical. This seen with the growing number of clients with multiple lender relationship calls for a regulatory action in evolving common set of guidelines for all micro-lenders. MFIN is trying to achieve this through Code of Responsible Lending but the acceptance of it across banks and NBFCs seems a difficult proposition. It has to emanate from the regulator. Key areas of regulatory support required relate to levelling the playing field across microlenders, considering relaxations in pricing cap for enabling MFIs to expand operations into unsaturated areas and continuing with the policy of wholesale lending by banks to MFIs albeit at a lower rate, justified by the inclusion of last mile customer.

Growth in credit volumes is not a good indicator for sustainability. The questions which need to be the focal point are:

- Are microfinance services going to the areas where they are needed most?
- Is there an effort to customise products to the needs of clients which can only be done if the client touch is strengthened?
- Is it leading to positive changes in the lives of clients?

It is disappointing that these questions have taken a backseat in an industry, which is labelled as a double bottom line industry.

**ANNEXURE 5.1: State and Region-wise Portfolio Outstanding on MFIN Member NBFC-MFIs (in Rs. crore)**

| CENTRAL | March, 2015 | March,2016 | March, 2017 | March, 2018 | March, 2019 |
|---|---|---|---|---|---|
| Chhattisgarh | 363.39 | 582.25 | 811.19 | 1106.38 | 1564.08 |
| Madhya Pradesh | 1406.41 | 2314.18 | 2491.77 | 3833.68 | 4515.33 |
| | 1769.80 | 2896.43 | 3302.96 | 4940.05 | 6079.41 |
| EAST & N EAST | March, 2015 | March,2016 | March, 2017 | March, 2018 | March, 2019 |
| Arunachal Pradesh | | 0.23 | 0.69 | 1.64 | 1.89 |
| Assam | 62.17 | 170.94 | 363.62 | 849.80 | 2267.16 |
| Bihar | 1119.16 | 1956.28 | 3101.39 | 4517.26 | 7989.71 |
| Jharkhand | 251.49 | 544.89 | 814.10 | 1235.16 | 1886.27 |
| Manipur | | | 0.458 | 0 | 0 |
| Meghalaya | | 0.47 | 4.97 | 5.67 | 25.53 |
| Mizoram | | 0.56 | 2.07 | 3.31 | 4.87 |
| Nagaland | | | 0 | 0 | 0 |
| Odisha | 1287.71 | 2381.51 | 3125.87 | 5239.40 | 7329.04 |
| Sikkim | | 0.08 | 0.89 | 3.78 | 4.58 |
| Tripura | | 2.40 | 25.42 | 92.36 | 335.69 |
| West Bengal | 875.06 | 1417.99 | 2114.77 | 3255.76 | 5957.82 |
| | 3595.60 | 6475.36 | 9554.24 | 15204.15 | 25802.56 |
| NORTH | March, 2015 | March,2016 | March, 2017 | March, 2018 | March, 2019 |
| Chandigarh | 0.35 | 7.46 | 2.94 | 0.25 | 0 |
| Delhi | 121.74 | 127.89 | 55.73 | 87.11 | 225.96 |
| Haryana | 150.23 | 387.05 | 598.83 | 818.55 | 1184.19 |
| Himachal Pradesh | 1.95 | 7.52 | 12.06 | 18.27 | 31.25 |
| Jammu and Kashmir | 2.66 | 2.51 | 3.65 | 2.14 | 9.73 |
| Punjab | 249.41 | 587.72 | 796.92 | 1189.41 | 1699.14 |
| Uttar Pradesh | 2211.84 | 3431.59 | 3519.69 | 4698.47 | 6083.78 |
| Uttarakhand | 217.92 | 317.27 | 292.17 | 331.02 | 326.05 |
| | 2956.10 | 4869.01 | 5281.99 | 7145.22 | 9560.09 |
| SOUTH | March, 2015 | March,2016 | March, 2017 | March, 2018 | March, 2019 |
| Andhra Pradesh | 2166.11 | 2103.35 | 78.35 | 119.32 | 119.32 |
| Karnataka | 2155.28 | 3612.76 | 4303.46 | 6241.30 | 8097.47 |
| Kerala | 328.05 | 918.10 | 1546.63 | 1935.34 | 2403.12 |
| Puducherry | 21.88 | 21.63 | 28.99 | 53.83 | 91.03 |
| Tamil Nadu | 903.02 | 1805.18 | 3199.78 | 3946.56 | 5467.66 |
| Telangana | | | 1.90 | 1.30 | 4.43 |
| | 5574.34 | 8461.02 | 9159.11 | 12297.65 | 16183.04 |
| WEST | March, 2015 | March,2016 | March, 2017 | March, 2018 | March, 2019 |
| Goa | 5.09 | 8.42 | 13.16 | 37.22 | 40.53 |
| Gujarat | 222.88 | 444.28 | 496.70 | 826.06 | 1353.39 |
| Maharashtra | 1331.99 | 2504.09 | 3102.24 | 4644.65 | 6275.88 |
| Rajasthan | 308.89 | 574.03 | 732.42 | 1381.06 | 2915.72 |
| | 1868.85 | 3530.82 | 4344.53 | 6888.99 | 10585.52 |

*Source:* MFIN

**ANNEXURE 5.2: Top 75 Districts as per Joint Liability Group Portfolio Outstanding as on March 2019- All lenders**

| STATE | DISTRICT | Rank by POS | Number of Lenders | Number of Borrowers - active (lakh) | No of Active Loans (lakh) | JLG Portfolio Outstanding(Rs billion) |
|---|---|---|---|---|---|---|
| WB | NORTH TWENTY FOUR PARGANAS | 1 | 39 | 6.7 | 10.7 | 27.67 |
| WB | MURSHIDABAD | 2 | 30 | 6.1 | 9.4 | 23.08 |
| WB | BARDDHAMAN | 3 | 33 | 5.1 | 8.8 | 22.05 |
| WB | NADIA | 4 | 34 | 4.5 | 7.1 | 21.84 |
| WB | JALPAIGURI | 5 | 27 | 4.9 | 7.8 | 21.8 |
| WB | SOUTH TWENTY FOUR PARGANAS | 6 | 22 | 5.9 | 8.0 | 21.24 |
| WB | HAORA | 7 | 27 | 4.0 | 6.3 | 18.95 |
| WB | KOCH BIHAR | 8 | 24 | 4.1 | 6.3 | 18.62 |
| WB | HUGLI | 9 | 32 | 4.0 | 6.6 | 17.6 |
| TN | CUDDALORE | 10 | 39 | 4.0 | 8.9 | 16.75 |
| KA | MYSORE | 11 | 29 | 3.9 | 9.7 | 16.46 |
| KA | BANGALORE | 12 | 30 | 5.9 | 8.7 | 15.44 |
| TN | VILUPPURAM | 13 | 40 | 4.4 | 8.0 | 15.17 |
| TN | THANJAVUR | 14 | 41 | 4.0 | 7.8 | 14.5 |
| TN | KANCHEEPURAM | 15 | 42 | 4.4 | 7.5 | 14.41 |
| WB | KOLKATA | 16 | 27 | 4.0 | 6.1 | 14.31 |
| TN | COIMBATORE | 17 | 43 | 3.9 | 7.7 | 13.55 |
| TN | SALEM | 18 | 40 | 4.4 | 7.4 | 13.41 |
| BR | SAMASTIPUR | 19 | 42 | 3.4 | 6.6 | 12.93 |
| TR | WEST TRIPURA | 20 | 19 | 2.2 | 3.7 | 12.9 |
| BR | MUZAFFARPUR | 21 | 44 | 3.7 | 6.7 | 12.49 |
| TN | MADURAI | 22 | 37 | 3.6 | 7.0 | 12.63 |
| AS | NAGAON | 23 | 23 | 2.7 | 4.0 | 12.3 |
| MH | PUNE | 24 | 47 | 3.7 | 5.6 | 11.6 |
| TN | THIRUVALLUR | 25 | 39 | 3.9 | 6.2 | 11.6 |
| KA | BELGAUM | 26 | 36 | 3.6 | 6.6 | 11.67 |
| TN | TIRUNELVELI | 27 | 36 | 3.1 | 6.2 | 11.13 |
| WB | MALDAH | 28 | 24 | 2.7 | 4.1 | 11.42 |
| TN | TIRUCHIRAPPALLI | 29 | 43 | 3.2 | 6.2 | 11.22 |
| BR | PATNA | 30 | 38 | 3.4 | 5.7 | 11.16 |
| BR | PURBA CHAMPARAN | 31 | 39 | 3.3 | 5.8 | 11.08 |
| OR | GANJAM | 32 | 37 | 3.4 | 6.4 | 11.08 |
| BR | BEGUSARAI | 33 | 40 | 2.8 | 5.5 | 10.87 |
| TN | VELLORE | 34 | 41 | 3.9 | 6.1 | 10.49 |
| WB | PURBA MEDINIPUR | 35 | 24 | 2.4 | 3.7 | 10.19 |
| TN | NAGAPATTINAM | 36 | 33 | 2.6 | 5.4 | 9.83 |
| KA | TUMKUR | 37 | 30 | 2.8 | 5.9 | 9.78 |
| KL | KOLLAM | 38 | 23 | 2.5 | 5.4 | 9.82 |
| MH | SOLAPUR | 39 | 39 | 2.8 | 5.5 | 9.6 |

*(contd.)*

**ANNEXURE 5.2:** ***(contd.)***

| STATE | DISTRICT | Rank by POS | Number of Lenders | Number of Borrowers - active (lakh) | No of Active Loans (lakh) | JLG Portfolio Outstanding(Rs billion) |
|---|---|---|---|---|---|---|
| WB | PASCHIM MEDINIPUR | 40 | 24 | 2.6 | 4.0 | 9.56 |
| WB | UTTAR DINAJPUR | 41 | 28 | 2.6 | 3.8 | 9.24 |
| TN | DINDIGUL | 42 | 34 | 2.9 | 5.4 | 9.19 |
| OR | KHORDHA | 43 | 43 | 2.8 | 4.9 | 9.14 |
| KL | THIRUVANANTHAPURAM | 44 | 23 | 2.4 | 4.7 | 9.05 |
| AS | KAMRUP | 45 | 33 | 2.1 | 3.1 | 9.15 |
| WB | BIRBHUM | 46 | 26 | 2.4 | 3.9 | 8.84 |
| BR | VAISHALI | 47 | 37 | 2.5 | 4.5 | 8.91 |
| KL | THRISSUR | 48 | 25 | 2.3 | 5.1 | 8.71 |
| MH | NAGPUR | 49 | 34 | 3.4 | 5.5 | 8.75 |
| MH | JALGAON | 50 | 30 | 2.8 | 4.9 | 8.74 |
| KL | PALAKKAD | 51 | 29 | 2.2 | 4.9 | 8.44 |
| MP | INDORE | 52 | 48 | 2.6 | 4.6 | 8.62 |
| TN | THIRUVARUR | 53 | 35 | 2.4 | 4.9 | 8.65 |
| TN | TIRUPPUR | 54 | 40 | 2.6 | 5.0 | 8.58 |
| MH | KOLHAPUR | 55 | 39 | 2.4 | 4.9 | 8.35 |
| TN | ERODE | 56 | 41 | 2.6 | 4.8 | 8.37 |
| BR | SARAN | 57 | 35 | 2.4 | 4.1 | 7.97 |
| AS | SONITPUR | 58 | 21 | 1.9 | 3.2 | 8.73 |
| TN | CHENNAI | 59 | 39 | 3.1 | 4.3 | 8.1 |
| WB | DARJILING | 60 | 27 | 1.7 | 2.6 | 8.03 |
| KL | ALAPPUZHA | 61 | 23 | 2.1 | 4.8 | 7.86 |
| AS | CACHAR | 62 | 10 | 1.6 | 2.2 | 8.06 |
| OR | CUTTACK | 63 | 40 | 2.4 | 4.5 | 7.96 |
| KA | MANDYA | 64 | 28 | 1.9 | 4.5 | 7.88 |
| TN | TIRUVANNAMALAI | 65 | 40 | 2.5 | 4.2 | 7.87 |
| MH | THANE | 66 | 33 | 2.5 | 3.7 | 7.54 |
| TN | KANNIYAKUMARI | 67 | 30 | 1.8 | 3.8 | 7.56 |
| MH | AHMADNAGAR | 68 | 37 | 2.3 | 4.0 | 7.2 |
| KA | HASSAN | 69 | 27 | 1.9 | 4.2 | 7.13 |
| MH | AURANGABAD | 70 | 33 | 2.3 | 3.9 | 6.92 |
| BR | PASHCHIM CHAMPARAN | 71 | 28 | 2.1 | 3.7 | 6.97 |
| UP | GORAKHPUR | 72 | 32 | 2.6 | 3.9 | 6.94 |
| KA | BELLARY | 73 | 28 | 2.2 | 3.9 | 6.85 |
| AS | GOLAGHAT | 74 | 17 | 1.5 | 2.4 | 6.71 |
| BR | PURNIA | 75 | 35 | 1.8 | 3.2 | 6.79 |

*Source:* CRIF High Mark

**ANNEXURE 5.3: Top 75 Districts as per Joint Liability Group Portfolio Outstanding as on March 2019- NBFC-MFI**

| STATE | DISTRICT | No of Lenders | No of Loans (lakh) | Portfolio (Rs billion) |
|---|---|---|---|---|
| KA | BELGAUM | 17 | 4.2 | 6.85 |
| BR | SAMASTIPUR | 25 | 3.9 | 6.83 |
| KA | MYSORE | 12 | 4.3 | 6.33 |
| WB | NORTH TWENTY FOUR PARGANAS | 18 | 4.2 | 6.33 |
| WB | MURSHIDABAD | 17 | 3.9 | 5.96 |
| WB | BARDDHAMAN | 20 | 3.7 | 5.82 |
| BR | BEGUSARAI | 24 | 3.3 | 5.72 |
| BR | MUZAFFARPUR | 25 | 3.3 | 5.6 |
| WB | KOLKATA | 14 | 3.5 | 5.53 |
| TN | VILUPPURAM | 18 | 2.7 | 5.41 |
| KA | TUMKUR | 12 | 3.5 | 5.29 |
| WB | SOUTH TWENTY FOUR PARGANAS | 14 | 3.4 | 5.13 |
| TN | KANCHEEPURAM | 21 | 2.6 | 5.06 |
| TN | CUDDALORE | 17 | 2.8 | 5 |
| WB | NADIA | 20 | 3.1 | 4.86 |
| OR | GANJAM | 19 | 2.9 | 4.82 |
| BR | PURBA CHAMPARAN | 23 | 2.9 | 4.73 |
| BR | VAISHALI | 24 | 2.7 | 4.68 |
| MH | SOLAPUR | 17 | 2.9 | 4.42 |
| BR | PATNA | 22 | 2.7 | 4.39 |
| KA | BANGALORE | 11 | 2.9 | 4.37 |
| TN | TIRUNELVELI | 18 | 2.5 | 4.37 |
| TN | THIRUVALLUR | 21 | 2.2 | 4.13 |
| WB | HAORA | 13 | 2.6 | 4.08 |
| MH | KOLHAPUR | 17 | 2.7 | 4.07 |
| WB | JALPAIGURI | 12 | 2.9 | 4.01 |
| KA | HASSAN | 11 | 2.4 | 3.92 |
| WB | HUGLI | 20 | 2.4 | 3.87 |
| KA | DAVANAGERE | 14 | 2.3 | 3.87 |
| UP | GORAKHPUR | 15 | 2.2 | 3.86 |
| TN | MADURAI | 16 | 2.4 | 3.79 |
| OR | KHORDHA | 24 | 2 | 3.51 |
| KL | THIRUVANANTHAPURAM | 12 | 1.7 | 3.44 |
| TN | VELLORE | 16 | 2.3 | 3.44 |
| TN | SALEM | 15 | 2.2 | 3.4 |
| KA | CHITRADURGA | 12 | 2 | 3.29 |
| MH | AHMADNAGAR | 16 | 2.2 | 3.27 |
| RJ | BANSWARA | 18 | 1.9 | 3.26 |
| BR | PASHCHIM CHAMPARAN | 16 | 2 | 3.23 |
| KA | SHIMOGA | 15 | 1.9 | 3.22 |

*(contd.)*

**ANNEXURE 5.3: *(contd.)***

| STATE | DISTRICT | No of Lenders | No of Loans (lakh) | Portfolio (Rs billion) |
|---|---|---|---|---|
| TN | TIRUVANNAMALAI | 19 | 1.6 | 3.18 |
| MH | JALGAON | 12 | 2 | 3.12 |
| OR | BALANGIR | 16 | 1.9 | 3.06 |
| BR | MADHUBANI | 20 | 1.8 | 3.04 |
| KA | BELLARY | 15 | 1.8 | 3 |
| MH | AURANGABAD | 13 | 1.9 | 2.99 |
| KA | HAVERI | 14 | 1.7 | 2.98 |
| TN | NAGAPATTINAM | 13 | 1.6 | 2.96 |
| OR | CUTTACK | 22 | 1.8 | 2.94 |
| MP | INDORE | 22 | 1.8 | 2.93 |
| KA | MANDYA | 11 | 1.9 | 2.89 |
| BR | SARAN | 19 | 1.7 | 2.85 |
| MH | SANGLI | 15 | 1.8 | 2.82 |
| BR | DARBHANGA | 22 | 1.7 | 2.81 |
| KA | DHARWAD | 14 | 1.7 | 2.81 |
| OR | BHADRAK | 19 | 1.5 | 2.79 |
| MP | JABALPUR | 20 | 1.8 | 2.78 |
| OR | KALAHANDI | 13 | 1.7 | 2.78 |
| UP | KUSHINAGAR | 14 | 1.7 | 2.78 |
| KL | PALAKKAD | 13 | 1.4 | 2.75 |
| WB | MALDAH | 12 | 1.6 | 2.75 |
| TN | THANJAVUR | 15 | 1.6 | 2.72 |
| JH | GIRIDIH | 14 | 1.6 | 2.68 |
| MH | NANDED | 12 | 1.7 | 2.66 |
| WB | KOCH BIHAR | 10 | 2.3 | 2.65 |
| TN | COIMBATORE | 15 | 1.6 | 2.64 |
| KL | KOLLAM | 9 | 1.4 | 2.64 |
| KA | CHIKMAGALUR | 12 | 1.5 | 2.61 |
| KA | DAKSHINA KANNADA | 8 | 1.4 | 2.6 |
| MP | CHHINDWARA | 14 | 1.7 | 2.56 |
| TN | TIRUPPUR | 16 | 1.5 | 2.54 |
| MH | THANE | 15 | 1.4 | 2.52 |
| MH | YAVATMAL | 13 | 1.8 | 2.5 |
| UP | VARANASI | 20 | 1.5 | 2.48 |
| KL | ALAPPUZHA | 9 | 1.3 | 2.47 |

*Source:* CRIF High Mark

## NOTES AND REFERENCES

[1] The financial data is from Microfinance Institutions Network (MFIN), *Micrometer*, no. 29. CRIF High Mark in its quarterly publication *MicroLend* puts the figure at 188,500 crore.

[2] *MicroLend* published by CRIF High Mark; *Micrometer* of MFIN does not give this data point.

[3] *MicroLend*, quarterly publication on microfinance lending, CRIF High Mark.

[4] Qualifying assets should meet the following criteria: *(a)* annual household income in rural areas and urban areas should not be more than Rs100,000 and 160,000 respectively; *(b)* total indebtedness of the borrower does not exceed Rs 100,000; *(c)* loan amount does not exceed Rs 60,000 in the first cycle and Rs 1,00,000 in subsequent cycles; *(d)* tenure of the loan not to be less than 24 months for loan amount in excess of Rs 30,000 with prepayment without penalty; *(e)* No collateral and loans for income generation should not be less than 50 percent. For details see https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9827#1, accessed on July 7, 2019.

[5] SBA data from RBI's Banking and Statistical Returns for March 31, 2018.

[6] For details see https://www.prsindia.org/billtrack/aadhaar-and-other-laws-amendment-bill-2019, accessed on July 31, 2019.

[7] See https://www.livemint.com/companies/start-ups/spandana-sphoorty-reduces-ipo-size-sets-price-band-at-rs-853-856-1564551160903.html, accessed on August 1, 2019.

[8] For details see https://www.livemint.com/industry/banking/regulator-to-allow-on-tap-licences-for-small-finance-banks-1559848164159.html, accessed on July 20, 2019.

[9] See https://www.business-standard.com/article/opinion/a-new-challenge-for-the-microfinance-industry-119062300817_1.html, accessed on July 1, 2019.

[10] The figures given in *MFIN Micrometer* 29 have been adjusted by the author in respect of Spandana and Muthoot microfinance as the data in *Micrometer* was dated. However, no adjustment was possible in case of off-balance sheet figure and the figures reported in *Micrometer* have been used.

[11] *MicroLend*, CRIF High Mark.

[12] https://www.newsclick.in/congress-farm-loan-waiver-mp-reality-check, accessed on March 20, 2019.

[13] RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16

[14] See https://www.ujjivansfb.in/products-mfi.html, accessed on August 4, 2019.

[15] Information obtained from MFIN through correspondence by the author.

[16] http://mfinindia.org/wp-content/uploads/2016/10/Compendium-of-MFIN-Directives-and-Advisories_24th-June-2019.pdf, accessed on August 5, 2019.

[17] The GIZ Global Project InsuResilience action area 2 was commissioned by the German Federal Ministry of Economic Cooperation and Development (BMZ) to foster the development of markets for direct climate risk insurance solutions. This assignment has been carried out in four markets, namely Zambia, India, Paraguay, and Madagascar since July 2016.

[18] https://grameenkoota.org/wp-content/uploads/2019/05/Investor-Presentation-Q4FY19.pdf, accessed on August 5, 2019.

# SHG-Bank Linkage and the NRLM Inclusion Agenda

6

Within the larger Self-Help Group (SHG) movement, the programme for linking SHGs with banks has been the core innovation that has been the mainstay of SHG development for more than 25 years. The SHG model promoted by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) in 1992 was essentially a savings-led and savings-linked credit model, with a minimum savings period of six months prior to the availability of bank credit. It was positioned as a "supplementary channel" for the provision of credit, not as an alternative to mainstream banking by relying on social collateral instead of physical and financial collateral. The rationale for the interest of bankers was due to the possibility of externalisation of the transaction costs of small loans and ensured recoveries through the operation of peer pressure among group members. In the early years, leading NGOs acting as Self-Help Promoting Institutions (SHPIs) were supported by NABARD in group formation and linkage with banks. In later years, the initiative for SHG promotion, however, has been ceded by NABARD to the state governments. SHGs and SHG-based community institutions have currently emerged as an important part of the development infrastructure in India as also an arena for the empowerment of women.

The SHG Bank Linkage Programme (SBLP), as it has evolved, has been mainly about providing loans rather than savings and a wider range of financial services. Even though the volume of savings mobilised has been very impressive, several issues related to SBLP have emerged. These include, among others, concentration in selected regions, concerns about the quality of groups and institutional and banker support. Besides, as the digitisation process involving mapping and tracking of SHGs is undertaken it is emerging that perhaps only about 60–70 percent of groups that were ever given a loan are still active. Reports also suggest that the failure in capacity building has resulted in an absence of a sense of ownership among SHG members in many areas. Government involvement and mainstreaming of SHGs had also meant that they have become vulnerable to government management patterns, viz. target orientation, channels for the provision of subsidy and in the delivery of state-sponsored programmes; and SHG members being mobilized for political purposes.

Both NGOs and government agencies have also promoted community organisations in the form of SHG federations. This was done in order to strengthen the quality of groups, to facilitate bank-linkage, as also to act as MFIs on-lending to SHGs with borrowed funds. Over the years the role of the SHG federation has continued to be a contested one. While federations facilitate aggregation of SHG savings and demand for credit, and enable the provision of critical support services such as marketing and training, they supplant the role of the SHGs in financial intermediation and add another layer (or layers) in the intermediation chain. Besides, federations are seen as being organisationally weak and liable to elite capture as in the case of the cooperatives of yesteryear and the present day. Nevertheless, SHG federations have become quite widespread and in turn have also become the movers for activity-based producer groups. Only some of these federations have thus far been engaged as MFIs in large-scale financial intermediation. Though NABARD and the bankers did not seriously view SHG federations as financial intermediaries, the National Rural Livelihoods Mission (NRLM) is promoting cluster-level federations with a view to manage and lend funds provided by the NRLM, as also mobilised from banks and other financing agencies, to the SHGs.

At present it is the NRLM and its state chapters that have become the custodians of the promotion and nurturing of women SHGs and their federations with the objective of inclusive finance, holistic livelihoods development and wider empowerment goals.[1] This includes harnessing the potential of the SHG sector for convergence between GoI's mission for Financial Inclusion and its many elements with the pre-existing financial and social infrastructure represented by the SHGs, their promoters and associations by mainstreaming them into digital banking. A more broad-based objective of the NRLM, spanning different verticals and ministries seeks to place the SHGs at the heart of women-centred and women-led development involving multiple institutions, delivery structures and value chains.

In this chapter we examine the progress of the SHG Bank Linkage Programme, including the performance of different states and banking agencies. The ever-present question of NPAs at SHG level is also examined in detail as also the efforts of NABARD in support of SHGs and related initiatives in group-based livelihoods development. Efforts at promoting a digital platform at the SHG level towards a robust MIS, integration and sharing of SHG—and individual member—data through credit bureaus for improved appraisal in lending operations and piloting of online lending to SHGs are also discussed. The evolving strategy and status of the diverse efforts, including some new initiatives, by the NRLM in its leadership role in inclusive finance through women SHGs are reported and analysed as also the proposed direction of the role of women-led SHGs and community financial institutions in rural development.

## SHG BANK LINKAGE: PROGRESS AND PERFORMANCE

### Review of Progress of SBLP during 2018-19

The SHG programme has been growing steadily in recent years. Following an exponential growth path, by 31 March 2008, when savings data also started being generated for the programme, the number of savings-linked SHGs reached over 5 million with over 3.6 million SHGs having outstanding loans from banks. This growth pattern continued until 2010, after which, the growth tapered off for a few years before witnessing a revival with the advent of the NRLM and reaching double the number of SHGs by 31 March 2019.[2] However, though the number of savings-linked SHGs have doubled over the 11-year period to over ten million, the number of SHGs with outstanding loans has only grown by barely 20 percent to a little over 5 million. A more detailed analysis follows.

**Table 6.1: Overall Progress under SHG-Bank Linkage for the Last Six Years**

| | | 2013-14 | | 2014-15 | | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) |
| SHG Savings in Banks | Total SHGs | 7.43 | 98.97 | 7.70 | 110.60 | 7.90 | 136.91 | 8.58 | 161.14 | 8.74 | 195.92 | 10.01 | 233.24 |
| | | 1.53% | 20.45% | 3.59% | 11.74% | 2.68% | 23.79% | 8.53% | 17.69% | 1.91% | 21.58% | 14.52% | 19.05% |
| | NRLM/SGSY | 2.26 | 24.78 | 3.05 | 44.24 | 3.46 | 62.45 | 3.74 | 75.53 | 4.18 | 104.34 | 5.60 | 128.68 |
| | | 10.46% | 36.01% | 34.92% | 78.56% | 13.27% | 41.16% | 8.30% | 20.94% | 11.87% | 38.14% | 33.37% | 23.32% |
| | %NRLM/ SGSY | 30.45 | 25.03 | 39.65 | 40.00 | 43.70 | 45.61 | 43.65 | 46.87 | 47.85 | 53.26 | 55.72 | 55.17 |
| | NULM/ SJSRY | NA | NA | 0.43 | 10.72 | 0.45 | 10.06 | 0.55 | 11.27 | 0.43 | 13.51 | 0.44 | 16.14 |
| | | | | | | 3.00% | 6.12% | 22.42% | 11.99% | -22.73% | 19.86% | 3.29% | 19.52% |
| | % NULM/ SJSRY | NA | NA | 5.63 | 9.69 | 5.64 | 7.35 | 6.36 | 6.99 | 4.86 | 6.89 | 4.38 | 6.92 |
| | All women SHGs | 6.25 | 80.13 | 6.65 | 92.64 | 6.76 | 120.35 | 7.32 | 142.83 | 7.39 | 174.98 | 8.50 | 204.73 |
| | | 5.27% | 22.99% | 6.38% | 15.61% | 1.68% | 29.92% | 8.26% | 18.67% | 0.96% | 22.51% | 15.44% | 17.01% |
| | % Women Groups | 84.15 | 80.96 | 86.41 | 83.77 | 85.58 | 87.91 | 85.36 | 88.64 | 84.52 | 89.31 | 85.19 | 87.78 |

| | | 2013-14 | | 2014-15 | | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) | No. of SHGs (in million) | Amount (in Rs billion) |
| Loans Disbursed to SHGs in the Year | No of SHGs extended loan | 1.37 | 240.17 | 1.63 | 275.82 | 1.83 | 372.87 | 1.90 | 387.81 | 2.26 | 471.86 | 2.69 | 583.17 |
| | | 12.02% | 16.67% | 19.03% | 14.84% | 12.67% | 35.18% | 3.60% | 4.01% | 19.00% | 21.67% | 19.33% | 23.59% |
| | NRLM/ SGSY/ | 0.23 | 34.81 | 0.64 | 94.88 | 0.82 | 167.86 | 0.89 | 173.36 | 1.27 | 250.55 | 1.65 | 333.98 |
| | | 24.56% | 57.67% | 28.45% | 27.26% | 26.91% | 76.92% | 8.58% | 3.28% | 42.81% | 44.53% | 29.84% | 33.30% |
| | %NRLM/ SGSY/ | 16.52 | 14.49 | 39.54 | 34.40 | 44.54 | 45.02 | 46.69 | 44.70 | 56.21 | 53.10 | 61.12 | 57.27 |
| | NULM/ SJSRY | NA | NA | 0.11 | 18.72 | 0.11 | 26.20 | 0.11 | 26.76 | 0.11 | 24.24 | 0.13 | 34.20 |
| | | | | | | 5.71% | 40.00% | -4.50% | 2.12% | -3.64% | -9.41% | 21.70% | 41.07% |
| | %NULM/ SJSRY | NA | NA | 6.46 | 6.79 | 6.06 | 7.03 | 5.60 | 6.90 | 4.69 | 5.14 | 4.78 | 5.86 |
| | All women SHGs | 1.15 | 210.38 | 1.45 | 244.20 | 1.63 | 344.11 | 1.72 | 361.03 | 2.08 | 445.59 | 2.36 | 532.54 |
| | | 11.02% | 17.83% | 25.69% | 16.07% | 12.50% | 40.92% | 5.34% | 4.92% | 20.64% | 23.42% | 13.98% | 19.51% |
| | % Women Groups | 84.30 | 87.60 | 89.05 | 83.53 | 88.92 | 92.29 | 90.42 | 93.09 | 91.77 | 94.43 | 87.66 | 91.32 |
| SHG Loans Outstanding | Total SHGs | 4.20 | 429.28 | 4.47 | 515.46 | 4.67 | 571.19 | 4.85 | 615.81 | 5.02 | 755.98 | 5.07 | 870.98 |
| | | -5.71% | 9.02% | 6.46% | 20.06% | 4.59% | 10.81% | 3.74% | 7.81% | 3.51% | 22.76% | 1.14% | 15.21% |
| | NRLM/SGSY | 1.31 | 101.77 | 1.85 | 197.53 | 2.19 | 266.10 | 2.49 | 299.94 | 2.79 | 382.25 | 3.28 | 543.20 |
| | | 9.55% | 18.38% | 41.24% | 94.08% | 18.69% | 34.72% | 13.69% | 12.72% | 12.17% | 27.44% | 17.62% | 42.11% |
| | %NRLM SGSY | 31.10 | 23.70 | 41.32 | 38.32 | 46.89 | 46.59 | 51.37 | 48.71 | 55.64 | 50.56 | 64.70 | 62.37 |
| | NULM/ SJSRY | NA | NA | 0.32 | 34.63 | 0.32 | 39.80 | 0.32 | 41.33 | 0.29 | 53.51 | 0.22 | 41.10 |
| | | | | | | -1.57% | 14.93% | 1.60% | 3.86% | -9.38% | 29.46% | -22.41% | -23.17% |
| | % NULM/ SJSRY | NA | NA | 7.12 | 6.72 | 7.00 | 6.97 | 6.55 | 6.71 | 5.78 | 7.08 | 4.43 | 4.72 |
| | All women SHGs | 3.40 | 361.52 | 3.86 | 459.02 | 4.04 | 514.29 | 4.28 | 564.44 | 4.55 | 704.02 | 4.46 | 792.31 |
| | | -9.34% | 10.08% | 13.27% | 26.97% | 4.61% | 12.04% | 6.14% | 9.75% | 6.29% | 24.73% | -1.93% | 12.54% |
| | % Women Groups | 81.20 | 84.20 | 86.35 | 89.05 | 86.37 | 90.04 | 88.36 | 91.66 | 90.62 | 93.13 | 87.87 | 90.97 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

Note: Highlighted figures are percentage change from last year.

The progress of SBLP from the period 2013–14 to 2018–19 is given in Table 6.1. It is observed that over 10.01 million SHGs, with a membership of over 125.24 million have been savings-linked with banks as on 31 March 2019. The SBLP boasts of group savings with banks of Rs 233.24 billion (or SHG savings at group and bank level of Rs 777.47 billion)[3] with credit outstanding of Rs 870.98 billion to 5.07 million SHGs or to over 50 percent of total savings-linked groups. At 8.50 million, 85 percent of the SHGs are exclusively women's groups which reflects the immense contribution of the SHG movement for their participation in SHG-bank linkage and to women's empowerment.[4]

According to NABARD, it is continuing to support more than 5,000 partner agencies such as NGOs, RRBs. District Central Cooperative Banks (DCCBs) and other Self-Help Promoting Institution (SHPI) partners for promoting and nurturing SHGs.

During 2018–19 there was a net addition of 1.27 million SHGs to the number of SHGs savings-linked with formal financial institutions. A sizeable number of these SHGs have been added during the year in eastern region states like Bihar, Jharkhand, Odisha, and West Bengal that registered a 25 percent increase in the number of SHGs during 2018–19. The western region states of Maharashtra and Gujarat have had a similar growth rate of SHG numbers. Madhya Pradesh, Rajasthan, and Chhattisgarh are other states with an impressive increase in the number of SHGs during 2018–19. Some of the other priority states with substantial increases in SHG numbers during the year were Assam, Chhattisgarh, Rajasthan and Uttar Pradesh. Given these impressive increases there would appear to be not much more scope for the formation of new SHGs in the country.[5] However, there are still areas where NRLM has limited presence or intervention. Indeed, NABARD's Status of Microfinace Report 2018 has noted that there was need to map those pockets which lack in good SHPIs and that a large nodal NGO could train smaller local NGOs to orient them for SHG promotion in these areas.

*Savings:* Reviewing the performance for the year 2018–19, it is observed that *t*here has been a significant growth (19 percent) in the amount of savings of SHGs in banks from nearly Rs 196 billion at the end of the year March 2018, to over Rs 233 billion end-March 2019. However, the number of savings-linked groups also increased by 14.5 percent during the year. This compares with a growth in savings by 21.6 percent in the previous year (2017–18) while SHG numbers grew by less than 2 percent over the year. The uneven increase in number of SHGs could partly be explained by better reporting standards adopted by banks by including only operative SHG accounts, though the dips in SHG numbers in one year followed by high growth in the next in some states are hard to explain.[6] This erratic pattern is to be observed, though in a somewhat damped form, in total SHG savings as well. Average savings per SHG at the end of March 2017 were Rs 18,780. They jumped to Rs 22,405 at the end of March 2018 but were no more than Rs 23,301 at the end of March 2019—a relatively small increase. By comparison, the number of NRLM SHGs with savings in banks had increased by nearly 12 percent and the amount of bank savings by over 38 percent during 2017–18. However, NRLM SHG numbers increased by 1.42 million or 34 percent but the amount of their bank savings by a little over 23 percent during 2018–19. Thus, the average savings of NRLM SHGs that was Rs 24,960 at the end of March 2018 actually declined to Rs 22,979 at the end of March 2019.[7]

*Loan Disbursement:* The volume of fresh loans issued by banks to SHGs during 2018–19 showed a significant growth of over 23.5 percent over 2017–18 to reach over Rs 583 billion. This was matched by the increase in the number of SHGs receiving loans during the year, which rose by 19 percent to 2.69 million. This achievement represents a sustained increase in disbursements to SHGs since it comes on top of an increase of 21.6 percent in disbursements during 2017–18 over the previous year with a 19 percent increase in number of borrowing SHGs. Again it was the loan disbursement to NRLM SHGs that was principally responsible for the increase during 2018–19, with the growth in the number of SHGs receiving loans increasing by over 23 percent during the year and the loan amount increasing in excess of 33 percent. With more and more SHGs being brought under the NRLM, again there was a virtual stagnation during 2018–19 in the number of non-NRLM SHGs receiving loans and the total loan amount. A disquieting feature of the data is that only about 27 percent of the total number of SHGs saving with banks received loans during the year—similar to the position during the previous year. The figure was slightly higher at nearly 30 percent for the NRLM SHGs. The average loan size to SHGs by banks during 2018–19 was slightly higher than the previous year at Rs 216,800 while it was unchanged at about Rs 200,000 in the case of NRLM SHGs.

*Loan Outstanding:* The number of SHGs with outstanding bank loans was 5.07 million at the end of March 2019, which was less than 1 percent higher than the number a year earlier. This once again a represents a small increase as in the previous five years. The loan amount outstanding, however, increased by over 15 percent for all SHGs to Rs 870.98 billion as on 31 March 2019 mainly as a result of a nearly 28 percent increase for NRLM SHGs. The average loan outstanding per SHG at the end of March 2019 was nearly Rs 172,000 as against a little over Rs 150,000 a year earlier. The share of NRLM SHGs in the number of SHGs with total outstanding at the end of March 2019 increased to nearly 65 percent of total SHGs and in the case of loan amount outstanding it was a little over 63 percent.

## Longer-term SHG Growth Performance

Tables 6.2 and 6.3 provide a snapshot of the growth performance of SBLP in terms of the important physical and financial indicators over the past 13 years since 2006.

*Physical Performance:* For the four-year period 2006–10 the major indicators of physical progress of the SBLP (Table 6.2) show a massive increase in the Compound Annual Growth Rates (CAGR). The number of SHGs having savings accounts with banks increased at more than 25 percent per year, and the number of SHGs with loan outstanding by nearly 19 percent per year. However, in the subsequent four-year period since 2010, the year of

**Table 6.2: Progress of SHGs: Physical (Compound Annual Growth Rate)**

| Physical Performance of SHGs | CAGR 14-19 | CAGR 10-14 | CAGR 06-10 |
|---|---|---|---|
| Number of SHGs having savings accounts with banks | 6.1 | 1.7 | 27.5 |
| Number of SHGs receiving loans during the year | 14.4 | -3.7 | 26.4 |
| Number of SHGs receiving loans during the year under NRLM/Other govt. programmes | 50.6 | -4.1 | 12.8 |
| Number of SHGs with loan outstanding | 3.8 | -3.6 | 18.7* |
| Number of SHGs with loan outstanding under NRLM/govt. programmes | 21.7 | 1.2 | 21.9* |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai , IFI Report 2018
Note: *from 2007 to 2010

**Table 6.3: Progress of SHGs: Financial (Compound Annual Growth Rate)**

| Financial Performance of SHG | CAGR 14-19 | CAGR 10-14 | CAGR 06-10 |
|---|---|---|---|
| Savings of SHGs with banks | 18.7 | 12.4 | 26.9 |
| Volume of loans disbursed to SHGs during the year | 19.4 | 13.5 | 33.8 |
| of which under NRLM/other govt. programmes (%) | 60.3 | 12.2 | 16.3 |
| Bank loans outstanding with SHGs (Rs. billion) (a) | 15.2 | 11.2 | 31.3* |
| of which under NRLM/other govt. programmes (%) | 41.8 | 13.0 | 24.2* |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai , IFI Report 2018
Note: *from 2007 to 2010

the Andhra Pradesh crisis, there is an impression of stagnation and decline, with the number of SHGs having savings accounts with banks increasing by only 1.7 percent and the number of SHGs receiving loans during the year and number of SHGs with loan outstanding registering an annual decline of nearly 4 percent each per year during this period. This period also corresponds to the interregnum, covering the phase-out of the government Swarnajayanti Gram Swarozgar Yojana (SGSY) and the initial stages of its revamped successor, the NRLM, as also the rationalisation of SHG numbers by several major banks as they took stock of their active SHGs.[8] This period also coincided with the implementation of financial inclusion plans of banks based upon individual-centred banking through expansion of banking outreach and outsourcing of operations to BCs. However, despite the substantial social capital embodied in them, there was no clear role or strategy for SHGs within the financial inclusion discourse until the comparatively recent, but largely independent, take-off of the NRLM.[9]

In the final most recent five-year period, 2014–2019, which also coincides with the implementation of the PMJDY and related schemes for universal financial inclusion of households, the annual net growth in numbers of savings-linked SHGs has gone up to 6.1 percent and numbers of SHGs receiving loans to 14.4 percent annually. Responsible for this change and reversal of the declining trend has been the expansion of the scope and coverage of the NRLM in various states, as the programme has scaled up through promoting new SHGs as well as co-opting existing SHGs promoted by other SHPIs. Thus, there has been a spurt in the growth of numbers of savings-linked SHGs covered by NRLM at about 22 percent per year and the annual increase in numbers of SHGs receiving bank loans at over 50 percent.[10]

Similarly, the number of SHGs with loan outstanding, which grew at 21.9 percent during 2007 to 2010, declined to an annual growth rate of 1.2 percent during 2010–2014. However, during 2014-19 the number of SHGs with loan outstanding has grown annually by a slightly higher rate of 3.8 percent. This is despite a 21.7 percent annual increase in the loan outstanding with NRLM SHGs during this period.

*Financial Performance:* The financial performance data (Table 6.3) on the compound annual growth rate similarly replicate the V-shaped pattern observed in the case of SHG physical performance. Thus the compound annual growth rate of savings of SHGs with banks which had declined from 26.9 percent during 2006–10 to 12.4 percent during 2010-14 picked up to grow at nearly 19 percent annually during 2014-19. The volume of bank loans disbursed annually, which had declined from 33.8 percent per year during 2006 to 13.5 percent, rose again to 19.4 percent per year during the last five years with NRLM SHGs recording an annual growth of 60 percent. The same was the case with loan outstanding to SHGs with the sharp dip in growth rates from over 31 percent during 2007 to 2010 to 11 percent being followed by the reestablishment of a moderately higher growth rate of 15 percent during the latest period 2014–19. The loan amount outstanding to NRLM SHGs has increased annually by over 40 percent during this period. Thus, in each case the contribution of the NRLM SHGs has been the dominant factor. As only 5.07 million SHGs (or only about 50 percent) have outstanding loans with the banks as of March 2019 there is still scope for the balance of nearly 5 million savings-linked SHGs to be credit-linked as well. It is expected by NABARD that the digitisation of all the existing SHGs will help to mainstream them and with the required credit history pave the way for their credit linkage with banks.

## REGIONAL AND AGENCY-WISE ANALYSIS

### Regional Spread

Though the growth of SBLP has varied in recent years it is clear that there has been an impressive mobilisation of SHG savings, not merely the balances in SHG bank accounts but also the internal funds being rotated by them for lending to their members. However, there are the many variations across regions and states. The main SBLP growth areas were always the southern states, where SHGs operated in a favourable socio-cultural and economic environment. Though the eastern region has made great strides in recent years, the growth of the other regions, particularly the north, central and northeast, has been slow to pick up and a skewed pattern persists in respect of all indicators. A closer look at the state-level data shows further unevenness in the growth pattern. In recent years, there has been a streamlining of SHG data with banks providing more reliable figures.

### *Savings*

The number of SHGs savings with banks has gone up by nearly 2.6 million from 7.43 million as on 31 March 2014 to 10.01 million as on 31 March 2019 and the average SHG savings has gone up by about 75 percent over this period.[11] Thus, the SHGs are not only borrowers from banks but also contribute their savings to the banking system on a large scale. Indeed, total SHG savings with banks of Rs 233.24 billion as on 31 March 2019 was nearly 27 percent of the total loan outstanding to SHGs from banks, i.e. Rs 870.98 billion. This relationship between savings and borrowings of SHGs can partly be explained by the requirement of banks to retain SHGs savings as collateral for the loans given by them.

Fig. 6.1 gives the shares of the different regions in the number of SHGs saving with banks and the amount of their total savings deposits. Agency-wise State-level particulars are given in Annexure 6.1. The main contributor to this impressive savings record of SHGs continues to be the southern region which contributes nearly 3.84 million SHGs, or over 38 percent of

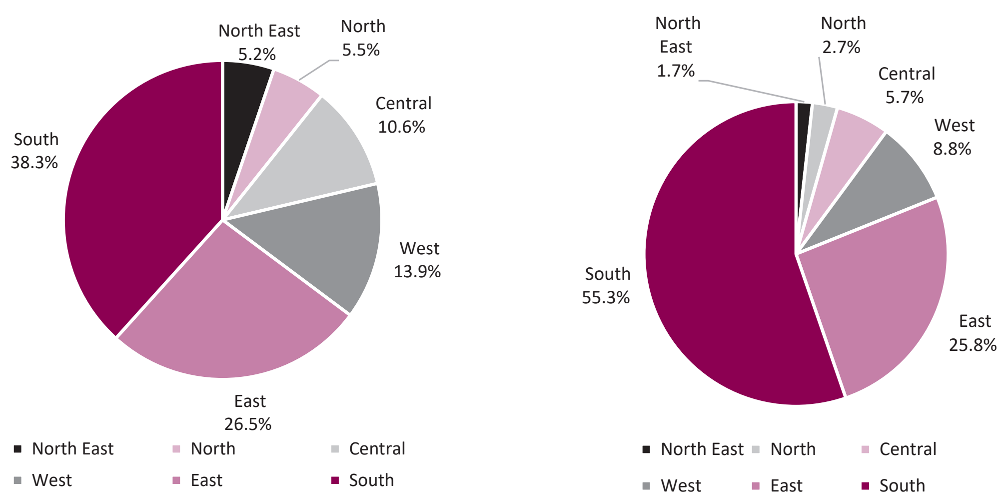



**Figure 6.1:** Regional Spread of SHG Savings with Banks (Accounts and Amount) as of 31 March 2019

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

the total SHGs, but over 55 percent of the total savings by SHGs as on 31 March 2019 at nearly Rs 129 billion. In fact, all other regions contribute a lower share to total savings than their share in SHG numbers. With the exception of the eastern region, which registers close to the national average, the average savings of all other regions would be much lower than for the SHGs in India as a whole. The average savings in the southern region were Rs 33,623 per SHGs as on 31 March 2019 and in the eastern region Rs 22,648 and as low as Rs 7719 per SHG in the Northeastern region. Among the states Maharashtra is the largest contributor to SHG numbers followed by Tamil Nadu and West Bengal with Karnataka and Andhra Pradesh close behind. Total savings as on 31 March 2019 were highest in state of Andhra Pradesh with over Rs 66 billion followed by Telengana and West Bengal each contributing less than half that amount. The performance of the Southern states can be explained by virtue of their having a large proportion of old and mature SHGs that contribute a higher amount of monthly savings leading to higher average savings rate. In the North Eastern States and the northern states, the average savings are comparatively low.

There have been only small changes in the relative shares of the various regions in the number of SHGs with savings in banks as on 31 March 2019 over the previous year. Both with regard to number of SHGs saving with banks and the savings amount there has been a small decrease in the share of the southern region which has been made up by the eastern and western regions.

### *Loans Disbursed*

The number of SHGs receiving loans annually has gone up from 1.37 million during 2013–14 to 2.69 million during 2018–19 and the average loan amount has gone up by nearly 24 percent to over Rs 216,000 per SHG over this period (Table 6.1). The loan amount disbursed to SHGs for India as a whole during the year 2018–19 was Rs 583.17 billion which was a substantial increase of over 23.5 percent in comparison with the previous year.

The shares of the different regions in the number of SHGs receiving loans from banks during 2018–19 and the total amount of loan received are shown in Fig. 6.2. Agency-wise State-level particulars are given in Annexure 6.2. Again it is the southern region that accounts for as much as 54.6 percent of the 2.69 million SHGs receiving loans during the year with the eastern region contributing an impressive 33.7 percent of total SHGs borrowing from banks. Thus these two regions accounted for over 88 percent of the number of SHGs receiving loans during the year. The share of the other regions was very small with the Western region being the next largest with only 5.4 percent of SHGs receiving loans during 2018–19. The share of the southern states in total loan amount of Rs 583.17 billion received by SHGs during 2018-19 is still higher at 73.5 percent. The eastern region with a share of 20.5 percent of total bank loan disbursement during the year to SHGs, however, does not match the average loan size received by the southern states. The geographically skewed nature of bank lending to SHGs is evident by the fact that apart from the southern and eastern region the remaining four regions of the country received

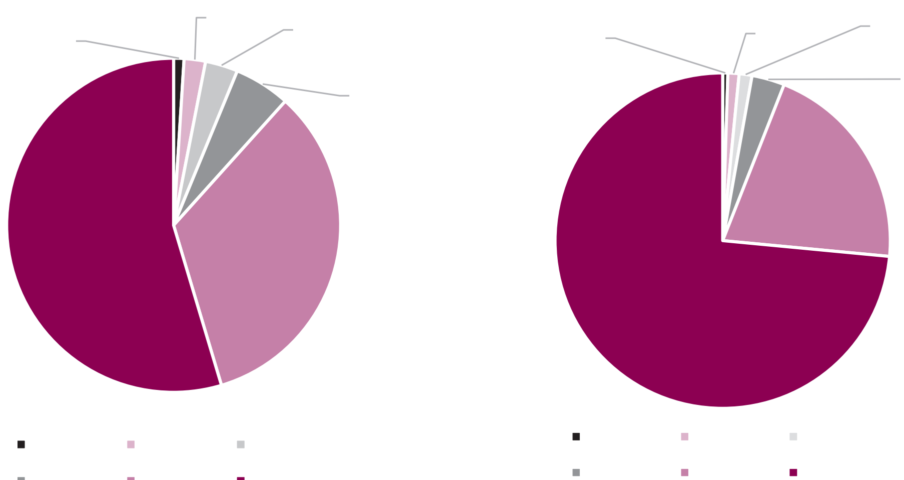


**Figure 6.2:** Regional Spread of Loans Disbursed to SHGs (Accounts and Amount), 2018–19

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

barely 4 percent of the loans disbursed by banks to SHGs during 2018–19.

Among the states, West Bengal received nearly 498,000 SHG loans during the year with Karnataka close behind, followed by Andhra Pradesh and Telengana. However, the loan amount was highest in the case of Andhra Pradesh, which received nearly Rs 153.65 billion in SHG loans from banks during 2018–19—being around 50 percent higher than the amount received by the state during 2017–18—followed by Telengana and Karnataka. Other states receiving substantial number of SHG loans were Bihar and Tamil Nadu. The number of SHGs availing bank loan in the Central region, which continues to be extremely low improved over the previous year. They recorded a small improvement due to an increase in disbursements in Chhattisgarh and to an extent in Madhya Pradesh after a poor performance in the previous year. Uttar Pradesh continues to languish with less than 20,000 SHGs receiving loans during 2018–19. A revealing statistic from NABARD data is that apart from the southern and eastern states, not even 9 percent of the savings-linked SHGs in 19 states and 4 Union Territories received loans during 2018–19.

There has been a very small decline during 2018–19 over previous years in the share of the southern region both in terms of number of loans and the share of the region in the total loans disbursed by banks to SHGs. The Eastern region has marginally increased its share both in terms of the number of SHGs receiving loans during the year and the loan amount received. The other regions have not registered any improvement in their position.

### *Loans Outstanding*

As per Table 6.1, the number of SHGs with loans outstanding registered an extremely small increase from 4.20 million to 5.07 million during the five-year period from 31 March 2014 to 31 March 2019. However, the total loan outstanding to SHGs more than doubled from Rs 429.28 billion to Rs 870.98 billion and the average loan outstanding has gone up by over 68 percent to nearly Rs 171,800 per SHG over this period.

The shares of the different regions in the number of SHGs with loans outstanding from banks as on 31 March 2019 and the total amount of loan outstanding are shown in Fig. 6.3. Agency-wise State-level particulars are given in Annexure 6.3. As in the case of other parameters, the southern region is predominantly, accounting for 50 percent of the number of SHGs with loans outstanding as on 31 March 2019 with the eastern region contributing 33.3 percent. The share of the central region, with over 324,000 SHGs having outstanding loans, is rather high given its share in loans received during 2017–18 and 2018–19.[12] (This is reflected, as discussed later, in the high non-performing assets in the SHG portfolio of banks for the region.) The share of the other regions is quite small with less than 20 percent of the savings-linked SHGs in the important western region having loans outstanding as of 31 March 2019.

The share of the southern states in total amount of bank loan outstanding to SHGs as of 31 March 2019 is still higher at nearly 74 percent. The eastern region's relatively lower share of 19 percent reflects in part the lower average loan received as compared to the southern states. The remaining four regions of the country, however, account for only 7.2 percent of the bank loan outstanding to SHGs as on 31 March 2019. Among the states, Andhra Pradesh and West Bengal had well over 700,000 SHGs with loans outstanding, while Bihar and Karnataka had over 600,000 SHGs with outstanding loans as on 31 March 2019 with

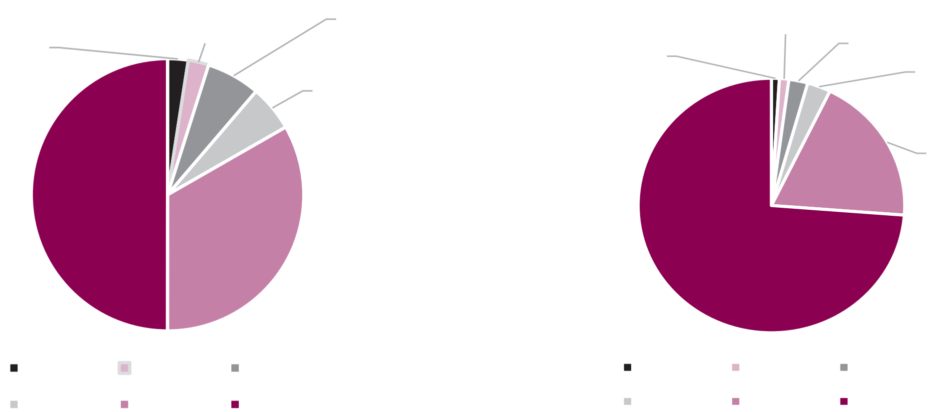


**Figure 6.3:** Regional Spread of Loan Outstanding to SHGs (Accounts and Amount) as of 31 March 2019

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

Telengana close behind. The SHG loan amount outstanding was highest in the case of Andhra Pradesh at Rs 242.2 billion, followed by Telengana and Karnataka. The loan amount outstanding in the eastern states of West Bengal and Bihar was relatively lower. However, the monopoly of the southern region has declined by a few percentage points with the increase in the share of the eastern region in loan outstanding to SHGs over the previous year.

### *Credit Multiplier*

The foregoing tables also provide the overall situation in respect of the extent to which the SHGs can leverage loans from the banking system. The credit multiplier, which provides the ratio between the loans outstanding of banks to SHGs and SHG savings in the banking system, represents the extent of the bankers' sense of comfort in lending to the SHGs. The credit multiplier for SHG lending has steadily declined for the country as a whole from 5.5 in 2012 to 4.66 in 2015 to 4.17 in 2016 and 3.82 in 2017. It was at a level of 3.86 as on 31 March 2018. However, the credit multiplier as on 31 March 2019 reached a low of 3.73. Some interesting changes are observed during the past year as observed from Fig. 6.3a.

The credit multipliers for the southern region and eastern region, which had been unchanged over 2017–18, rose from 4.74 to 4.98 and from 2.64 to 2.75 respectively for the two regions. However, the credit multiplier for the western region dipped to as low as 1.2 as on 31 March 2019. Indeed, for the region and the important state of Maharashtra, loans disbursed to SHGs during 2018–19 were lower than SHG savings as on 31 March 2019.

Increased bank savings of SHGs boosted by savings mobilisation within SHGs complemented by revolving funds provided to them under the NRLM would be factors responsible for inflating the denominator. However, it is becoming clear that the off-take of bank credit to SHGs has not kept up with their savings effort as banks are reluctant to lend except to SHGs promoted by leading SHPIs or the NRLM. In most regions SHGs are unable to leverage greater loans from the banking system merely on the strength of their corpus of savings. In states where NPAs are a problem, particularly in the Central region, the low level of fresh disbursements by banks would suggest problems with overdue accounts and constraints to repeat loans. Overall, credit to SHGs displays greater deepening in established areas with mature SHGs, while at the same time is inhibited in its growth in new areas with the exception of some of the eastern states where special efforts have been made by the state government and the state rural livelihood mission.

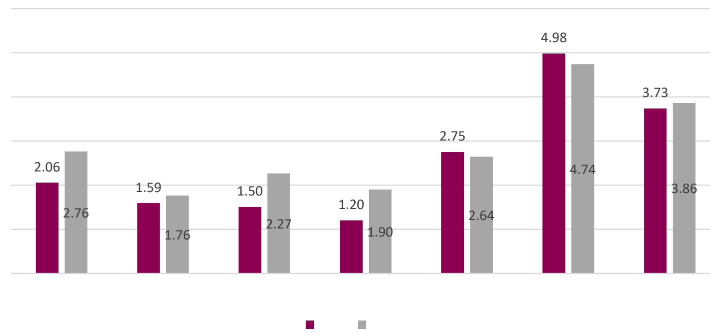



**Figure 6.3a:** Region-wise Credit Multipliers (Loan Outstanding/Saving)

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

### Performance of Banks in SBLP

Table 6.4 gives the performance of the various financing agencies in respect of the SHG Bank Linkage Programme.

**Table 6.4: Agency-wise Status of SHG-BLP in 2018-19 (Numbers in million Amount Rs billion)**

| Category of Agency | Total Savings of SHGs with Banks as on 31 March 2019 | | Loans disbursed to SHGs by Banks during 2018-19 | | Total Outstanding Bank Loans against SHGs as on 31 March 2019 | | NPAs | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Savings Amount | No. of SHGs | Loans disbursed | No. of SHGs | Loan Outstanding | Amount of Gross NPA | NPA (%) |
| Commercial Banks | 5.48 | 132.40 | 1.51 | 344.92 | 2.90 | 556.41 | 29 | 5.21 |
| % Share | 54.69 | 56.77 | 56.07 | 59.15 | 57.14 | 63.88 | 64.04 | |
| Regional Rural Banks | 3.08 | 76.92 | 0.94 | 195.53 | 1.70 | 261.96 | 13 | 4.87 |
| % Share | 30.74 | 32.98 | 34.87 | 33.53 | 33.39 | 30.08 | 28.18 | |
| Cooperative Banks | 1.46 | 23.92 | 0.24 | 42.73 | 0.48 | 52.61 | 4 | 6.69 |
| % Share | 14.57 | 10.26 | 9.07 | 7.33 | 9.47 | 6.04 | 7.78 | |
| Total | 10.01 | 233.24 | 2.70 | 583.18 | 5.08 | 870.98 | 45 | 5.19 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

### *Savings*

Nearly 55 percent of the SHGs in the country, i.e. about 5.48 million, maintain their savings account with the Commercial Banks as on 31 March 2019. During 2018–19, the share of Commercial Banks in terms of number of SHGs with savings linkage increased marginally. Commercial Banks accounted for nearly 57 per cent of the savings outstanding of SHGs with Rs 132.40 billion (Fig. 6.4). Though the total quantum of SHG savings with Commercial Banks increased by 13.5 percent over the previous year's figure, their share continues to decline from around 60 percent a year earlier and 63 per cent as on 31 March 2017. The number of SHGs maintaining their savings bank account with RRBs was nearly 3.1 million. During the year 2018–19 200,000 additional SHGs have been savings-linked with RRBs. SHGs of RRBs have savings outstanding of Rs 76.92 billion, i.e., about 33 percent of the total savings outstanding under SHG-BLP as on 31 March 2019. This also represents a 32 percent increase in SHG savings with RRBs as compared to a year earlier. The share of the Cooperative Banks was relatively limited with less than 15 percent of the number of SHGs saving with banks and about 10 percent of savings outstanding. The State Bank of India had the largest SHG savings deposits with Rs 27.81 billion, followed by Andhra Bank with Rs 21.09 billion and Andhra Pradesh Grameena Vikas Bank (APGVB), a State Bank of India-sponsored RRB, with Rs 17.98 billion of SHG deposits as on 31 March 2019 followed by Indian Bank with Rs 14.02 billion. These banks retained the lead positions they had achieved a year earlier. The presence of an RRB in this list is evidence both of the increasing share of RRBs in SHG savings as well as the leading position of the states of Andhra Pradesh and Telengana, where APGVB operates, in SHG savings mobilisation.

### *Loan Disbursement*

Commercial Banks had the major share in the credit flow to SHGs as well, with disbursement of Rs 344.92 billion, or 59 percent of total disbursement during 2018–19 to 1.51 million SHGs, i.e., 56 percent of total SHGs receiving loans during the year (Fig. 6.5). As compared to 2017–18, Commercial Banks disbursements were to 12 percent more SHGs and a 20 percent higher amount of loan disbursed. In the case of RRBs, loan disbursed during the 2018–19 was an impressive Rs 195.53 billion to approximately 940,000 SHGs—an increase of 20 percent in number of SHGs and 29 per cent in quantum of loan disbursement over the previous year. This followed a similar increase in number of SHGs covered and amount disbursed during 2017–18. The Cooperative Banks extended credit of Rs 42.73 billion to about 240,000 SHGs, i.e., to about 15 percent more SHGs as compared to the previous year. However, there was an impressive increase of 27 percent in the quantum of credit disbursed by Cooperatives during the year. In loan disbursements to SHGs during 2018–19 as well, it was the State Bank of India that led with Rs 50.32 billion, followed by Andhra Bank with Rs 48.46 billion, Andhra Pradesh Grameena Vikas Bank with 40.29 billion and Indian Bank close behind at 39.13 billion. All these banks registered modest increases in their disbursements to SHGs as compared to the year 2017–18.

### *Outstanding Loans*

The predominant share in the number of SHGs belonged to the Commercial Banks that accounted for over 57 percent of SHGs with outstanding loans as on 31 March 2019 with RRBs contributing about 10 percent and Cooperative Banks 33 percent. Commercial Banks also had a share of nearly 64 per

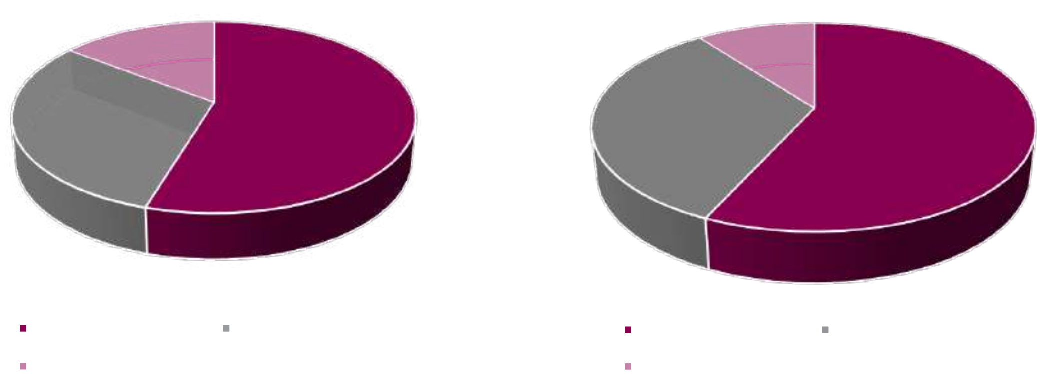


**Figure 6.4:** Percentage Share—SHG Savings by Financing Agency as of 31 March 2019 (Number of SHGs and Saving Amount)

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

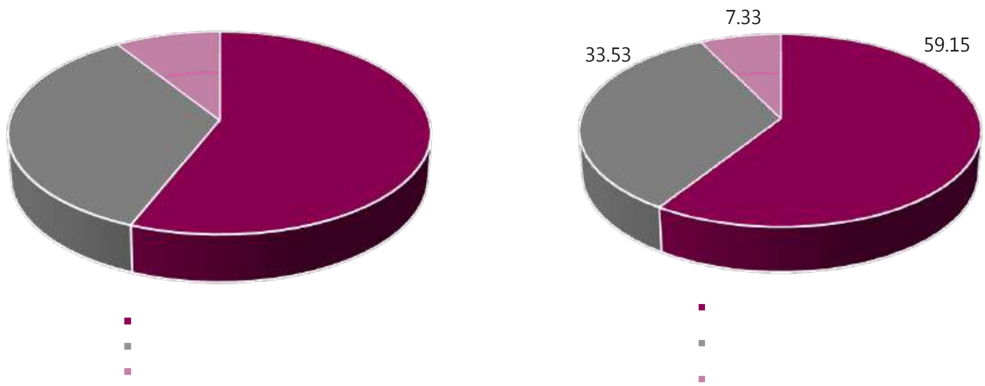



**Figure 6.5:** Share of Financing Agencies in Disbursement of Loans to SHGs, 2018–19 (Number of SHGs and Amount)

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumba

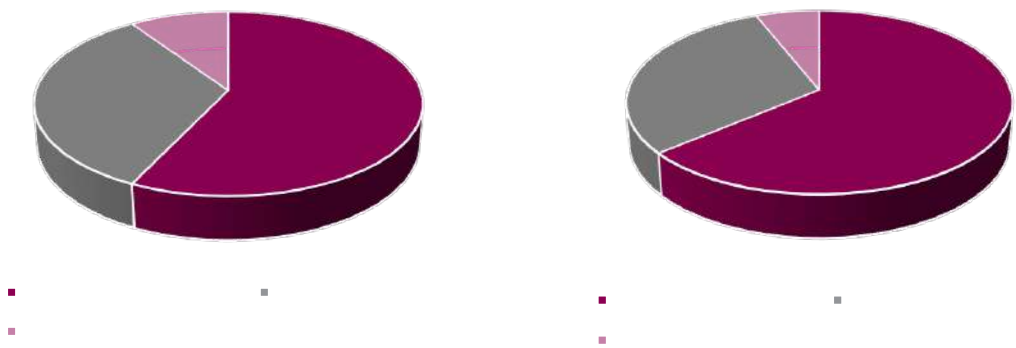


**Figure 6.6:** Percentage Share of Financing Agencies in Loan Outstanding to SHGs as of 31 March 2019 (Number of SHGs and Amount)

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

cent of total bank loan outstanding to SHGs as on 31 March 2019—amounting to Rs 556.42 billion to 2.9 million SHGs (Fig. 6.6). RRBs and Cooperative Banks had a share of 30 percent and 6 percent respectively in the amount of SHG loans outstanding. All financing agencies recorded a modest increase in the average loan outstanding as compared to 31 March 2018. There was no significant change in the relative share of the various types of banks as compared to a year earlier.

Table 6.5 shows the average saving, loan disbursement and loan outstanding data for the various agencies for 2018–19 as compared to the previous year.

Main highlights of the data are: (i) RRBs recorded a significant 20 percent improvement in their average savings outstanding per SHG as on 31 March 2019 over a year earlier. The average savings of SHGs in Commercial Banks declined slightly and in Cooperative Banks were relatively unchanged. (ii) The average loan disbursement per SHG by Commercial Banks remained the highest during 2018–19, representing a small increase over the previous year. RRBs recorded a slightly higher increase of about 7.5 percent in the average credit disbursement to SHGs during the year as compared to 2017–18. There was also a significant improvement of nearly 7 percent in the average credit disbursement of loans to SHGs by Cooperative Banks during the year. (iii) The average loan outstanding of the banking system was significantly higher at nearly 14 percent as on 31 March 2019 as compared to 31 March 2018. The average loan outstanding as on 31 March 2019 too remained the highest (in the case of the Commercial Banks) and least for the Cooperative Banks, even though the latter, at about 22 percent, registered a significantly greater increase in the their loan outstanding than the Commercial Banks and the RRBs.

**Table 6.5: Agency-wise Average Savings, Loan Disbursement during the year and Loan Outstanding (Rs per SHG)**

| | Average Savings of SHGs with Banks | | | Average Loans disbursed to SHGs by Banks | | | Average Outstanding Bank Loans against SHGs | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017-18 | 2018-19 | Change# | 2017-18 | 2018-19 | Change# | 2017-18 | 2018-19 | Change# |
| Commercial Banks | 25173 | 24175 | -3.96 | 225532 | 227988 | 1.09 | 167860 | 191785 | 14.25 |
| Regional Rural Banks | 20683 | 24986 | 20.80 | 193203 | 207826 | 7.57 | 137127 | 154499 | 12.67 |
| Cooperative Banks | 16275 | 16398 | 0.76 | 163306 | 174620 | 6.93 | 89766 | 109470 | 21.95 |
| Total | 22405 | 23291 | 3.95 | 208683 | 216119 | 3.56 | 150584 | 171543 | 13.92 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai
Note: # Percent raise or fall in 2018-19 over 2017-18.

**Table 6.6: Region and Agency-wise NPAs (Amount in Rs billion)**

| Sr. No. | Public Sector Commercial Banks | | Private Sector Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Region | Gross NPAs against SHGs | NPA as %age of Loan OS | Gross NPAs against SHGs | NPA as %age of Loan OS | Gross NPAs against SHGs | NPA as %age of Loan OS | Gross NPAs against SHGs | NPA as %age of Loan OS | Gross NPAs against SHGs | NPA as %age of Loan OS |
| CENTRAL REGION | 3.01 | 31.28 | 0.02 | 3.53 | 2.90 | 30.71 | 0.21 | 41.34 | 6.13 | 30.59 |
| EASTERN REGION | 4.18 | 5.70 | 0.02 | 6.85 | 3.58 | 4.48 | 0.80 | 6.75 | 8.58 | 5.19 |
| NORTH EASTERN REGION | 0.82 | 24.56 | 0.00 | 4.51 | 1.87 | 38.78 | 0.06 | 41.02 | 2.75 | 33.08 |
| NORTHERN REGION | 0.79 | 21.77 | 0.03 | 1.40 | 0.77 | 30.89 | 0.47 | 28.62 | 2.06 | 20.74 |
| SOUTHERN REGION | 16.97 | 4.06 | 0.99 | 3.64 | 3.02 | 1.87 | 1.67 | 4.67 | 22.66 | 3.53 |
| WESTERN REGION | 2.03 | 20.14 | 0.11 | 1.36 | 0.61 | 16.32 | 0.30 | 11.76 | 3.06 | 12.39 |
| Grand Total | 27.81 | 5.37 | 1.17 | 3.04 | 12.75 | 4.87 | 3.52 | 6.69 | 45.24 | 5.19 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

Regarding the portfolio quality of bank lending, as recorded in Table 6.6 the non-performing assets (NPAs) of the banks stood at 5.19 percent as on 31 March 2019, which represents a small decline from the previous year's figure of 6.12 percent. All the three banking agencies recorded an improvement in their NPA percentage. A fuller discussion of NPAs is carried out in the following section.

## ANALYSIS OF NPA LEVELS IN THE SBLP

As in the case of other components of the loan portfolio of various categories of banks, the SHG portfolio too has come in for critical comment. It is abundantly clear, however, the overall level of NPAs of SHGs for the banking system as a whole is no higher than for other entities and sub-sectors both in terms of the gross amount of NPAs and the NPA ratio, though certain states and geographical areas have a less satisfactory record than others. However, the question of SHG NPAs has been a factor in the limited enthusiasm of some banks and bankers towards lending to SHGs. The periodic promises and announcements of loan waivers and politicisation of the SHG movement, too could have contributed to the decline in repayment ethics among the SHG members. Past dues of SHGs incurred under the SGSY continue to be recorded in the books of banks. Since the NRLM has taken the leadership of SHG development the problem of legacy overdues should be resolved. The continued policy of interest rate subvention, which in the last budget speech has been extended to all SHGs, carries with it incentives for repayment as well as expectations of waiver of loans. Overall, there is the impression, confirmed by the relevant data, that states and regions where mature SHGs have taken firm roots and which have larger

SHG portfolios perform better than others where the SBLP has not been well-grounded through sustained promotional efforts and support.

A summary of the region-wise and agency-wise NPAs in bank lending to SHGs as on 31 March 2019 is provided in Table 6.6. More comprehensive State-wise and Bank-type-wise data provided by NABARD is at Annexure 6.4. As noted above, there has been a decline in the ratio of gross NPAs to total loan outstanding over the position as on 31 March 2018, i.e. from 6.12 percent to 5.19 percent. Though a positive development, the aggregate figure may not provide the true picture of variations across regions and institutions that would require further analysis. Nevertheless, despite the substantial increase in loan outstanding the gross NPAs of SHGs, which reached Rs 46.28 billion as on 31 March 2018, have actually registered a decline to Rs 45.24 billion as on 31 March 2019. Though a decline of a little over 2 percent in absolute terms this follows an increase of 15 percent of Gross NPAs over the year as on 31 March 2018 and a more than 25 percent increase of gross NPAs as on 31 March 2017 as compared to a year earlier. As such, this is a creditable achievement.

The share of the southern region, at Rs 22.66 billion, is over 50 percent of gross NPAs of SHGs (Fig. 6.7). However, this constitutes only 3.5 percent of their outstanding loans, a creditable performance lower than a figure of 4.5 percent for the previous year. The eastern region states together have an NPA ratio of 5.19 percent—the same as the national average. All other regions have NPA ratios in excess of the national average and in some regions the situation is quite alarming. The eastern region with an NPA percentage of 5.2 percent performs quite well, even as it has been able to bring down the percentage from 7.17 percent for the previous year, largely thanks to the contribution of West Bengal that has had a standout performance by restricting the NPA percentage to 2.78 percent as on 31 March 2019 down from an already low figure of 3.67 percent a year earlier. The Central region has the highest NPA percentage of 30.6 percent—which represents a further decline over the previous year's figure of 24.7 percent. In fact, with the exception of Chhattisgarh at 10.5 percent, all the central region states have NPAs in the region of 20 percent and over with Uttar Pradesh at an abysmal 44.5 percent NPA ratio accounting for over 71 percent of the gross NPAs of the region. (Similarly, Rajasthan accounts for nearly 50 percent of the NPAs of the northern region.) Overall, there is virtually a clear divide between the two distinct parts of the country—one, the southern and eastern regions—with larger SHG portfolios and larger NPAs and low NPA ratios and, another, the rest of the country with relatively lower gross NPAs because of comparative lower lending to SHGs but considerably higher NPA ratios.

As seen earlier, the southern region, and to an extent the eastern region, dominate bank lending to SHGs. Thus there is probably a deepening of credit flow to a limited number of SHGs in these regions with repeat lending on hold in certain regions. Banks clearly seem to lend to well-established SHGs in the leading states while holding back in other states and regions where SHG NPAs have built up. This is evidenced by the fact that SHG lending has not made enough headway in large states such as Uttar Pradesh and Madhay Pradesh, which, however, have a poor record of SHG NPAs. In states such as Bihar,

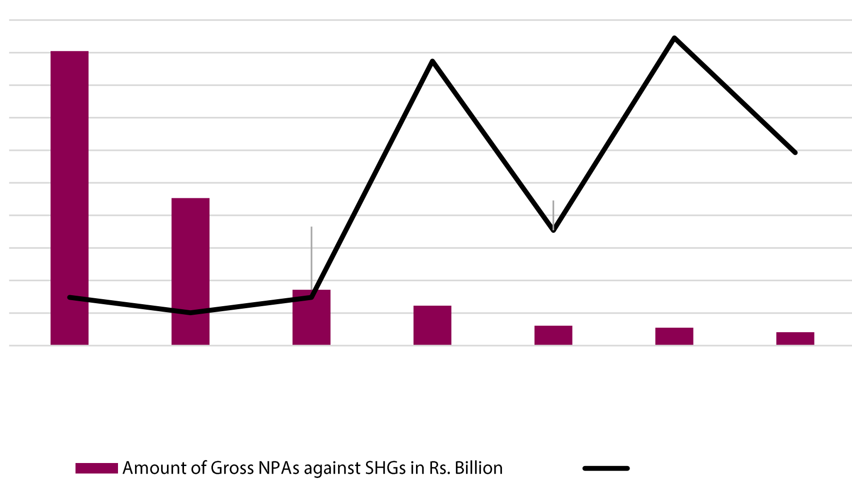



**Figure 6.7:** Region-wise NPAs (Gross NPAs in billion and NPA Percentage) as of 31 March 2018

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

Chhattisgarh and Rajasthan where NRLM has been active, disbursements have picked up slightly.

According to data put out by NABARD in the Status of Microfinance in India 2017–18, there did not appear to be much variation in the NPAs of SHGs covered by NRLM as compared to the overall SHG performance as on 31 March 2018.[13] Reviewing the same data for the position as on 31 March 2019 in the NABARD Report for 2018–19, there is a positive change in the performance of NRLM SHGs. Thus, NPAs of NRLM SHGs as on 31 March 2019 were Rs 24.39 billion yielding a NPA ratio of 4.49 percent against 5.19 percent for SHGs as a whole.[14]

The southern states contribute the highest level of gross NPAs even though the NPA percentage is among the lowest. Indeed, though there has been some slight improvement in SHG loan recoveries, the weak performance in the states of the central and the north-east region, where the NPA situation continues to deteriorate, are in need of urgent remedial action.

Annexure 6.4 gives the state-wise and bank-wise statement of NPAs as on 31 March 2019. The state-wise NPA levels are graphically set against the NPA percentage in Fig. 6.8. Tamil Nadu is seen to have the highest level of gross NPAs at over Rs 8.78 billion followed by Uttar Pradesh at Rs 4.36 billion and Telengana and Karnataka also at over Rs 4 billion and Andhra Pradesh at Rs 3.62 billion. Though the four states of the southern region above accounted for about 46 percent of gross NPAs for the country, their NPA ratios (barring Tamil Nadu) are comparatively much lower than other states with smaller SHG bank loan portfolios. Thus of the 11 states with gross NPAs of about Rs 1.5 billion and more, with the exception of Assam and Uttar Pradesh, all have NPA ratios less than 15 percent, and six states of the southern and eastern region have NPA ratios lower than the national average of 5.19 percent. This suggests that the overall NPA ratio is kept low down by some states with a large portfolio in SHG bank linkage, with the other states (including large states such as Uttar Pradesh and Madhya Pradesh) performing quite unsatisfactorily. This has served to limit their SHGs from receiving additional cycles of loans from the banking system in subsequent years.

Fig. 6.9 illustrates the gross NPA levels and the NPA rates of the SHG portfolio of different types of banks. As discussed earlier, the average figure of 5.19 percent as on 31 March 2019 conceals the relative performance of the SHG portfolio both in terms of NPAs across regions as also across bank types. While the Public Sector Banks had an NPA ratio of 5.37 percent (down from 6.5 percent as on 31 March 2018) it is the RRBs with 4.87 percent (a decline from 5.35 percent a year earlier) that have registered the best performance among the major

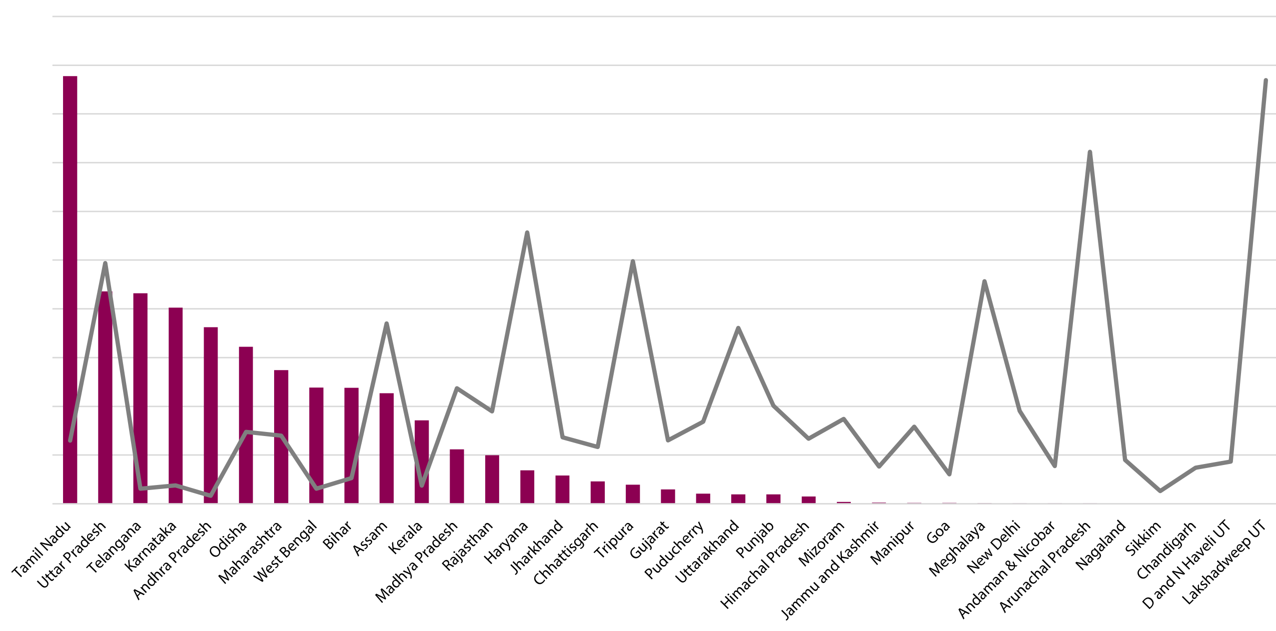



**Figure 6.8:** State-wise Gross NPAs (Gross in Rs billion and as Percentage of Loan Outstanding) as of 31 March 2019

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

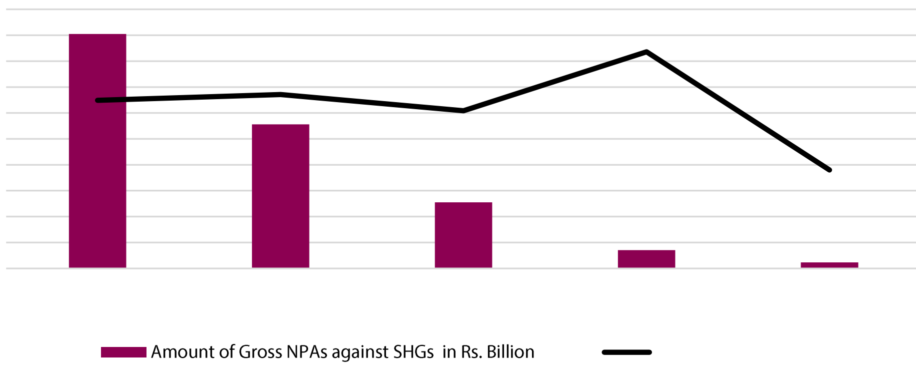



**Figure 6.9:** Agency-wise NPAs (Gross NPAs in Rs billion and NPA Percentage) as of 31 March 2019

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

**Box. 6.1: Bankers Institute of Rural Development (BIRD) Study on NPAs in SHGs—Findings and Recommendations**

A study was commissioned by NABARD in 2018 in 11 districts of 6 states viz. namely Rajasthan, Tamil Nadu, Bihar, Maharashtra, Uttar Pradesh and Assam to analyse the causes of NPAs and find solutions for containing them. It covered 45 bank branches of commercial banks, RRBs and co-operative banks, 207 SHGs and 584 SHG members. The study brought out wide-ranging deficiencies in the role played by SHPIs and banks and cited among others the major reasons for NPAs as financial indiscipline, lack of economic activity and regular income, poor handholding by promoters, poor monitoring and follow up by bankers and deterioration in group dynamics among others.

Some of the disquieting findings of the study were that the average time between the formation of SHGs and the opening of savings bank account for the sample was as long as 8 months, instead of the expected time period of one month. Further, the average time between account opening and credit linkage was as long as 22 months, thereby reducing the attractiveness of the SHG loan for members. Besides, it was observed that only 35 per cent of the groups had received a second loan, and only 10 per cent had received a third loan. Even though many SHGs were not conducting meetings regularly nor maintaining books of records, they were still provided loans by the banks. 73 per cent of the SHGs visited had not updated their books of accounts and 69 per cent had not carried out any rotation of their office bearers. Finally, only 24 per cent of SHGs were members of a federation and only 16 per cent had received financial support from the federation.

The average NPA level of sample branches was found to be 53.03 per cent, which was significantly higher than the then average all-India NPA level of 6.12 per cent as on 31 March 2018. For the sixteen commercial bank branches covered by the study, the average NPA level was 32.84 per cent. It was 61.87 per cent for the 13 RRB branches and as high as 82.80 per cent for the seven DCCB branches. For branches which were offering only cash-credit limits, NPAs in SHG lending were 49.49 per cent, while NPAs in SHG lending for branches offering only term loans were 72.39 per cent.

The study also found that SHG members had a different attitude towards repayment of bank loans as compared to internal loans. While 52 per cent of members availing bank loans had not repaid, only 22 per cent of members with internal loans had not done so. Further, out of the 123 members who had availed MFI loans, only 8.94 per cent had not repaid.

The study came up with recommendations for containing NPAs in SHGs. These included moving beyond group lending and offering individual loans through groups as done by MFIs. This would take care of group related problems like negative peer pressure and misappropriation of funds by office bearers. Further, it suggested the mentoring and training of groups for starting livelihoods activities and providing market linkages to enable income generation activity. In addition, it favoured to bundling of low-cost group health and life insurance with the loan to contain the impact of events like ill-health, death in the family etc. The study also stressed the need for longer-term hand-holding support to SHGs with grants from NABARD for their strengthening.

As the way forward, the study proposed the use by bankers of data generated in E-Shakti portal and employing technology and other mechanisms in bridging the gap between savings and credit linkage and a region-based policy given the socio-economic millieu. It recommended that SHG federations to take over the role of governance and financial intermediation for SHGs with the SHG Federations as BC model to be explored for underdeveloped states. Separate region based policy to be introduced considering the socio economic fabric of the area.

*Source:* 1. Bankers Institute of Rural Development (BIRD) – *Study on Non-Performing Assets of Self-Help Groups*, Lucknow, 2019.
2. NABARD, *Status of Microfinance in India 2018-19*, NABARD, Mumbai.

financing agencies with the Cooperative Banks having a somewhat higher ratio of 6.69 percent (also down from 7.6 percent the previous year).[15] Significantly all categories of banks have reduced their NPA ratios during 2018-19. Out of the total NPA amount of Rs 45.24 billion, the Commercial Banks (public sector and private) with Rs 28.97 billion (Annexure 6.4) accounted for two-thirds of gross NPAs of SHGs as on 31 March 2019, a decline of 6.6 percent in absolute terms over the previous year. RRBs registered a small rise of nearly 5 per cent in their gross NPA amount to reach Rs 12.75 billion as on 31 March 2019. Cooperative Banks, which had succeeded in marginally lowering the NPA amount of loans to SHGs during the previous year, registered the highest increase in their gross NPA levels—by about 13 percent—to Rs 3.52 billion as on 31 March 2019.

Finally, a recent study sponsored by NABARD conducted in six states presents a fairly bleak picture both on SHG processes and NPAs that goes beyond an analysis of the aggregate data (Box 6.1). Overall, though apparently at a relatively low level, the national averages in NPAs levels and ratios of the SHG portfolio of banks conceal great variations across regions and states. This is also reflected in the slow growth of the SBLP in some of the larger states of the northern and central region and the northeastern states. The NRLM, which has now expanded to cover most of the country, will need to address the underlying constraints to the expansion of credit facilities through the SHG infrastructure that has been well developed in most of the states of the country.

## NABARD SUPPORT FOR PROMOTION OF SHGS AND RELATED INITIATIVES[16]

NABARD has been extending 100 percent refinance to banks towards their lending to SHGs and MFIs to supplement their resources. During 2018–19, NABARD extended refinance to the extent of Rs 128.86 billion against their SHG lending forming 14.28 percent of the total refinance provided to banks for investment credit, as against Rs 69.81 billion disbursed during the previous year. Cumulative disbursement of refinance by NABARD for SHG lending now stands at Rs 631.61 billion.

### Support for SHG Promotion

NABARD's Financial Inclusion Fund and Women Self Help Group Development Fund were utilised during the year 2018–19 for various microfinance related activities such as formation and linkage of SHGs/JLGs through SHPIs/JLGPIs, training and capacity building of stakeholders, livelihood promotion, studies, documentation, awareness and innovations etc. A sum of Rs 229.91 million was sanctioned for promoting 24,595 SHGs to various SHPIs during 2018-19. This represents a small decline from Rs 273.7 million sanctioned during 2017–18 for promoting 28,745 SHGs. Releases of funds for SHG promotion during the year, however, were less than Rs 133 million, with 33,258 SHGs savings-linked. This represents a declining trend comparing with Rs 162.1 million, with 39,232 SHGs savings-linked during 2017-18. The cumulative sanctions up to 31 March 2019 have been Rs 4.11 billion covering 863,513 SHGs. Out of this, releases or utilisation has been only Rs 1.56 billion with 644,178 SHGs savings-linked. Though NABARD played a leading role in SHG promotion and bank-linkage, this represents a very modest level of coverage. In view of the fact that over 1o million SHGs had been savings linked by 31 March 2019, NABARD support has been provided for less than 6.5 percent of the SHGs. NGOs have been the leading SHPIs who have promoted 511,722 SHGs with NABARD support. Apart from this, RRBs and co-operative banks have been the main recipients of grant support from NABARD having 55,068 and 58,448 savings-linked SHGs respectively.

### Women SHG Scheme in Left-Wing Extremism (LWE) Affected and Backward Districts

NABARD in association with DFS, GoI continued to implement the scheme in 150 districts of 28 states. Anchor NGOs received Rs 143.1 million during 2018, with 6,348 SHGs savings-linked to banks, and a cumulative amount of Rs 1.06 billion covering 210,976 SHGs savings-linked to banks. As of 31 March 2019, 211,000 WSHGs had been promoted/savings-linked and 129,000 WSHGs credit-linked.

### Village Level Programmes

With a view to foster better rapport between banks, SHGs & SHPIs and to sort out issues like credit linkage, repayment, etc. at ground level, Village Level Programmes (VLPs) are being sponsored by NABARD and conducted with the support of banks and NRLM. VLPs have led to increased credit flow and appreciation of mutual requirements by the various parties involved in SBLP. During 2018–19, NABARD supported more than 16,000 village level programmes with a sum of Rs 53.44 million covering 277,581 beneficiaries.

### Joint Liability Groups (JLG)

The JLG scheme, is an offshoot of the SBLP targeted at mid-segment clients among the poor. It too leverages on social collateral offered by members. However, it is not mainly aimed at women's groups but to other groups such as tenant farmers who cannot easily access bank credit. Hundred percent refinance is provided to banks under this scheme. During 2018–19, the scheme recorded an exceptionally high growth. 1.60 million JLGs were promoted during 2018–19 as against 1.02 million promoted during 2017–18. The cumulative number of JLGs promoted and financed by banks reached 5.08 million by the end of March 2019. Loans disbursed to JLGs during 2018–19 were Rs 309.47 billion, which was more than double the figure of loans disbursed during 2017–18 at Rs 139.55 billion. NABARD has developed a business model for taking fee-based help of BCs/JLG promoters as BFs for JLG lending by banks. NABARD has entered into 52 MoUs in 20 states, mainly with the Regional Rural Banks but also with the State Bank of India in 7 states, as also with the State Co-operative Banks in Jharkhand and Odisha, which is expected to give further impetus to this programme.

### Livelihood Interventions for SHGs

NABARD has been supporting skill and entrepreneurship training of SHG members through its micro-enterprise development programme (MEDP) since March 2006. Around 26,452 SHG members were trained through 870 MEDPs during 2018–19 to enable them to set up micro-enterprises. Cumulatively around 494,000 SHG members have received training through 17,276 MEDPs.

The Livelihood Enterprise Development Programme (LEDP) was mainstreamed by NABARD to help create sustainable livelihoods for SHG members and create impact through skill upgradation. LEDP is implemented in SHG clusters in contiguous villages involved in farm and off farm activities and supports intensive skill-building, refresher training, backward-forward linkages, value-chain management, end-to-end solutions, handholding and escort services over two credit cycles. During 2018_19, 22,972 SHG members were provided skill and entrepreneurship training for setting up livelihoods units through 201 LED programmes. Cumulatively, 61,033 SHG members have been supported through 532 LED programmes with grant sanction of Rs 228.39 million from NABARD up to 31 March 2019.

### Implementation of NRLM Scheme for Interest Subvention to Women SHGs

NABARD is implementing the interest subvention scheme for RRBs and co-operative banks in Category 1 districts under the NRLM. Regional offices of NABARD are also co-ordinating with State Rural Livelihoods Missions (SRLMs) to train all rural bank managers. For this, state level sensitisation programmes on SBLP have also been organised with the objective of increasing SHG credit-linkages. SRLMs are also involved as implementing agencies for NABARD's EShakti digitisation project (discussed in a subsequent section) in several states.

### Other Initiatives

To further take the SLBP movement forward, NABARD has been active in the conduct of conferences, meets and seminars for policy makers, implementers and facilitators. During 2018–19, a total of 3,233 seminars and meets were supported by NABARD covering 190,000 participants through an expenditure of Rs. 11.30 million. In addition, the Centre for Research on Financial Inclusion and Microfinance (CRFIM) has been set up by NABARD within the Bankers Institute of Rural Development (BIRD) to take up research activities in microfinance and financial inclusion. It also publishes a half-yearly journal and organises a national level seminar on financial inclusion to facilitate policy initiatives and improved delivery systems in this space.

Finally, NABARD prioritises mapping the potential for SHG promotion in underserved areas of central, eastern and northeastern regions of India and to encourage SHGs to graduate as members of Producers' Organisations for farm and non-farm activities. It also supports the scaling up of alternative delivery channels for SHGs such as NABFINS which has been operating successfully towards providing low-cost credit to SHGs in several states.

## DIGITISATION OF SHGs—SCOPE AND CHALLENGES

One of the aspects of SHG development that has emerged as a current issue both for NABARD and the NRLM is the mainstreaming of SHGs into the domain of digital banking and to deploy technology and information systems in smoothening the access to financial services of these entities in the streamlining and integration of data at SHG and member level. The Reserve Bank of India in 2016 set out the structure of credit information to be collected in respect of SHG members and reported by banks to Credit Information Companies (CICs).[17] CICs were required to share the credit information relating to SHGs or SHG members, on an aggregate basis with the Government agencies, NABARD, banks and MFIs for the purpose of credit planning and research and also with other parties for the benefit of the SHG segment.

In March 2015 NABARD, launched a pilot project for digitisation of the social and financial data of SHGs titled EShakti to bring SHGs to the technology platform, facilitate wider access to financial services and to enable online monitoring of SHGs. Digitisation of Self Help Groups was conceptualised to build credible credit histories of SHGs and their members and bring them into the fold of financial inclusion and mainstream banking system.

Further, the objective of convergence of the SHG BLP with the Financial Inclusion initiatives of the Government and RBI would be met through these credit histories and related information of all SHG members and ensure credit discipline. The project is expected to increase credit linkage as well as credit deepening for the deserving SHGs in rural areas as also help banks in building up their SHG business portfolio. The potential 'one-click availability of social and financial related information" of tens of millions of rural families across India on a single platform could help to make available financial and public welfare schemes to the rural poor, owing to its pan-rural India reach and impact.

As on 31 March 2019, the EShakti pilot project had onboarded 434,000 SHGs involving 4.79 million rural households in 100 districts across 22 States and 1 UT covering the entire length and breadth of the country. In order to leverage the huge digitized data available on the platform, a massive effort was initiated in January 2019 to link the SHG members under EShakti to the Financial Inclusion and Social Security Schemes of Government of India in all the 100 districts where the pilot is operational. Awareness about the Social Security Schemes was created among the SHG members to enroll them under PMJDY, PMSBY, PMJJBY and APY. As on 31 March 2019, 64,000 Jan Dhan accounts were opened and 253,000 PMSBY insurance policies, 48,000 PMJJBY insurance policies and 8,000 APY pension policies were enrolled across the country.

**Table 6.7: Progress of digitisation in 100 identified districts under NABARD's EShakti**

| Particulars | As on 15 June 2018 | As on 31 August 2019 |
|---|---|---|
| No. of SHPIs involved | 306 | 300 |
| SHG Digitised | 388,925 | 441,554 |
| Cumulative Savings by SHGs (in Rs billion) | 16.35 | 23.54 |
| Villages Covered | 58,006 | 61,872 |
| Total SHG Members | 4,391,847 | 4,884,245 |
| Bank Branches Involved | 10,642 | 11,828 |

*Source:* NABARD (2019) *Status of Microfinance in* India 2017-18 and *2018-19*, NABARD. Mumbai & *EShakti: NABARD's pilot for Digitisation of Self Help Groups*, NABARD, September 2019.

The EShakti project has a dedicated website https://eshakti.nabard.org, in which information of all the SHGs is uploaded through an 'app' on Android Mobiles. Data authenticity is ensured through sample audits and SMS alerts to members. MIS reports of groups are generated and progress is tracked on a real time basis. Overall, the whole ecosystem is designed to address the complex issues related to poor bookkeeping and patchy financial records of SHGs.

Credit linkage is facilitated through various reports including lists of non-credit linked SHGs, system generated SHG loan applications and month-wise recovery performance of SHGs. Real time SMS alerts have brought transparency to operations/transactions and boosted confidence among the SHG members. Real-time grading of SHGs through nuanced parameters also generates reports for both NRLM and non-NRLM groups and for new and matured SHGs. About 32 MIS reports related to SHG Meetings, Savings, Credit linkage, Repayment and Demand Collection and Balance can be generated in the Bank branch itself. Loan processing can be carried out more easily using EShakti system generated, prefilled application forms with information on SHG groups and members.

Details of EShakti are given in Table 6.7. As of 31 August 2019 441,554 SHGs had been digitised covering 4,884,245 members in 61,872 villages.

Progress during the past year, however, continues to be relatively slow. Despite the impressive total numbers, at present, after four years of expanding operations, EShakti covers less than 10 percent of villages and 5 percent of the SHGs in the country saving with banks as per NABARD records. Hence, the scaling up the project to cover the remaining districts remains a challenge and a distant dream. The interest of the banks in this exercise, could, however, also be limited, as for the banks this is additional work. Unofficially bankers are not owning the data, they are happy to view but not taking up the task of uploading the same to their system and in turn to Credit Bureaus. Many banks are understood to be sceptical and not using the EShakti software. Also a concern is that the software is limited to SHG transactions, and not looking at federations as a sustainable entity in the long run.

While the initial funding of the pilot was being met by NABARD, there will be a huge fund requirement for scaling this pilot from the present level to the 10 million SHGs across the country. SHG do not see much benefit in digitizing and some government body would need to bear the cost, which would be a substantial. It is understood that NRLM want to undertake this exercise on their own and not join hands with NABARD, which poses a challenge for resolution of the issue of mapping. Besides NRLM are understood to be facing teething troubles on the technical side. SRLMs have also been involved as implementing agencies for EShakti in several states and they are supporting the digitisation project in many states. However, the MIS of NRLM is not aligned to the EShakti framework.

NRLM monitors all the SHG bank linkage data through a MIS transaction sheet. NRLM has deployed a Transaction Based Digital Accounting System (TBDAS), which enables tracking of member level savings, inter-lending, borrowings and repayment, etc. The TBDAS has been deployed in about 2,084 blocks across 26 states. The infrastructure for this is being created in the villages, with a desktop and internet connection at the federations and with trained data entry operators. NRLM vouches for the data of all their SHGs. Further, individual account details of 12.9 million SHG members and Aadhaar details of 20.5 million SHG members have been uploaded on the NRLM-MIS portal.

Overall, In view of the differences between the data generated by NABARD and NRLM it is desirable

**Box 6.2: Findings of IWWAGE- IFMR Lead Study on Digitisation of SHGs**

The National Rural Livelihoods Mission (NRLM) and its state chapters, prominent stakeholders in the ecosystem, have made significant headway in digitising processes for SHGs. A rapid landscaping assessment undertaken by IWWAGE (Initiative for What Works to Advance Women and Girls in the Economy) and IFMR-LEAD (Institute for Financial Management and Research—Leveraging Evidence for Access and Development) aims to serve as a roadmap for State Rural Livelihoods Mission (SRLM)-backed programmes in successful digitisation of all processes associated with SHGs. This March 2019 report highlights the current initiatives undertaken within the technology space and maps the trajectory of digitisation that various promoting agencies have followed and the key gaps that exist. The report further identifies programmes within the ecosystem that have successfully bridged these gaps; it also highlights key focus areas that remain to be addressed within the ecosystem.

At the mission level, the report identifies, among others, human resource shortages in terms of availability of staff for training, monitoring and data entry in hindering programme effectiveness. Information Technology (IT) capabilities for effective troubleshooting and capacity building of resource persons who support SHGs need significant scaling up. At the SHG level, there is limited clarity on the benefits of digitisation, leading to a lack of community ownership.

The primary focus of programmes in the digitisation trajectory has been on the development of digital Management Information Systems (MISs). Most integrated MISs reviewed featured a basic range of functionalities and there was hardly any innovation that was taking place. Further, usage of MIS data by stakeholders other than SRLMs and banks remains limited; currently, SHGs and their members do not have direct access to data, neither do they receive direct information from generated data.

In terms of building linkages, the emphasis of SRLM programmes has been on Business Correspondent (BC)-based initiatives to strengthen financial linkages within communities and drive digital inclusion of community members. However, scalable solutions for livelihood and market-based linkages continue to receive lower priority. Current innovations are small in scale and in terms of replicability. Though having significant potential there is heavy dependent on the local context and the focus of the program. There is also a need for horizontal integration of the major SRLM programmes with associated programmes related to livelihood promotion and healthcare.

Intensive use of technology for digital communication and learning is almost negligible. Various SRLMs have taken preliminary steps towards introducing technology into this space.

Innovations in the technology solution space and Centralised MIS solutions developed by NRLM are currently rudimentary. However, flexible partnerships such as those between Andhra Pradesh's Society for Elimination of Rural Poverty (SERP) and Jharkhand State Livelihood Promotion Society (JSLPS) with their respective TSPs provide a template for programme partnerships in the future.

The key focus areas identified that require redress are:

*Convergence* in the approach to digitisation among stakeholders including within NRLM structures and *cross-learning* among stakeholders both at a macro level as well as between SRLM programmes; and

*Sustainability* in terms of implementation and financing of the current digitisation initiatives in the absence of external grant-based support. The SHG ecosystem's approach to these focus areas will determine the success of digitisation initiatives and their long run sustainability.

*Source: Digitisation of Self-help Groups in India: Roadmap for State Rural Livelihoods Mission-Led Initiatives*, March 2019, IWWAGE-IFMR Lead, New Delhi-Chennai.
(https://iwwage.org/wp-content/uploads/2019/08/IWWAGE-SHG-Digitization-June-25.pdf, accessed on October 4, 2019)

that bankers, NRLM and NABARD join hands and synergise their operations. In this connection, the findings on an Initiative for What Works to Advance Women and Girls in the Economy (IWWAGE) and IFMR-LEAD (Institute for Financial Management and Research—Leveraging Evidence for Access and Development) summarised (Box 6.2) identifies the areas requiring attention and the way forward.

## SHGs AND SHG-BASED INSTITUTIONS—THE NRLM AGENDA TAKES SHAPE[18]

Making the poor the preferred clients of the banking system is core to the NRLM financial inclusion strategy. SHG development and the SHG bank-linkage programme are central to the implementation of the NRLM. Apart from mobilising bank credit to meet SHG investment needs, the NRLM has undertaken SHG-based initiatives to better integrate their women members both in mainstream banking through digital channels as well as to ensure their entrepreneurial development and their livelihood options. A host of strategic initiatives have been taken for this purpose. These are discussed in a subsequent section.

The progress in the coverage of SHGs under the NRLM umbrella, along with the divergence from NABARD data, is discussed below followed by some of the initiatives undertaken under the programme and a discussion of the future direction of the programme.

## SHG DEVELOPMENT UNDER NRLM

The NRLM provides comprehensive data on the SHGs in the 5822 development blocks covered by the programme throughout the country. In fact, the NRLM has effectively become the custodian of all women's SHGs in the country, even as it approaches universal coverage. There are, however, some variations in the data on NRLM SHGs as put out by NABARD in Table 6.1 and the NRLM official data, which covers 352,587 villages in intensive blocks throughout the country.

According to the NABARD data in Table 6.1, the total number of NRLM/SGSY SHGs as on 31 March 2019 was 5.60 million, representing an increase of 33.37 per cent over the previous year's figure of 4.18 million. The total number of savings-linked women's groups as on 31 March 2019 was 8.50 million. Thus nearly 66 percent of all women's groups reported by NABARD were NRLM groups. According to their monthly progress reports by the end of September 2019, NRLM had covered 5822 blocks in 646 districts of 34 states and union territories through intensive implementation, with 5.7 million SHGs promoted and 61.7 million households mobilised into SHGs.[19] SHG-bank linkage data reported by NRLM relates to all women SHGs recorded with banks. Thus, there appears to be a considerable mismatch of women SHG numbers between the NABARD figures of 8.50 million savings-linked SHGs for 31 March 2019 and the broad NRLM estimates of less than 7 million for all-women SHGs as of 30 September 2019.

Table 6.8 on the progress of the SHG programme under NRLM further distinguishes between the cumulative number of new SHGs promoted by SRLMs and the other existing SHGs brought into the NRLM fold. As of end-March 2019, 2.58 million new SHGs had been promoted by SRLM and 2.28 million existing SHGs had been revived or strengthened—making a total of 4.86 million reporting SHGs with as many as 54.59 million households mobilised into SHGs by that date. Thus, nearly half of the total NRLM SHGs reported by NRLM would belong to the latter category. These pre-existing SHGs also known in different states as 'home-grown SHGs' or 'co-opted SHGs' have been subjected to re-organisation and re-structuring to adapt to the modus operandi of the NRLM.[20]

As also reported in the Inclusive Finance India Report 2018, there continue to be differences in SHG numbers and other data as provided in the Annual NABARD Report and the overall progress reports of the NRLM. A note has been made of the differences in the number of reporting SHGs. Further, Table 6.8 shows the cumulative savings mobilisation of NRLM SHGs at about Rs 200.47 billion by 5.04 million SHGs as of August 2019 or Rs 182.82 billion by 4.86 million SHGs as of 31 March 2019. This compares with NABARD-reported savings of Rs 128.68 billion by 5.60 million SHGs as of 31 March 2019 (Table 6.1). Though the difference between the numbers of NRLM SHGs in the two reports is not extremely large, there is a relatively larger difference in the amount of savings mobilised by the NRLM SHGs. This is possibly explained by the fact that NRLM data could include grant funds received by SHGs in the form of RF and CIF while the NABARD data pertains only to SHG savings in the banking system.

Similarly in the case of data on credit-linkage, there is a gap between the two data sources. According to the SBLP data provided by NRLM, 3.13 million SHGs had been disbursed loans during financial year 2018–19 and an amount of Rs 848.11 billion outstanding as on 31 March 2019. This was separately confirmed as related to about 5.3 million SHGs. On the other hand, the NABARD data for loan outstanding to NRLM/SGSY groups indicates a figure of Rs. 543.2 billion outstanding to 3.28 million SHGs as on 31 March 2019. Even if we consider the data for all women's groups reported by NABARD it

**Table 6.8: Details of Progress of SHG Programme under NRLM, till August 2019**

| Indicators | FY 17-18 | FY 18-19 | Current Year Targets | Cumulative Performance till August 2019 |
|---|---|---|---|---|
| Progress of Implementations in Intensive blocks (Planned/Targeted vs Covered) | | | | |
| Number of Gram Panchayats in which intensive strategy initiated | 105001 | 131355 | 16440 | 137528 |
| Number of villages in which intensive strategy initiated | 275771 | 352587 | 30667 | 368580 |
| Promotion of New SHGs, Revival of Dormant/Defunct SHGs and Strengthening of SHGs through training | | | | |
| Number of New SHGs promoted by SRLM | 1982456 | 2578723 | 316498 | 2683710 |
| Number of other existing SHGs brought into the NRLM fold (after revival/ strengthening) | 1903556 | 2278717 | 30701 | 2353050 |
| Total number of SHGs under NRLM fold in Intensive blocks | 3886012 | 4857440 | 347199 | 5036760 |
| Number of Predominantly SC-SHGs (SC member >= 50%) | 788202 | 1009203 | 93068 | 1058681 |
| Number of Predominantly ST-SHGs (ST member >= 50%) | 518320 | 671704 | 51529 | 693072 |
| Number of Predominantly Minority-SHGs (Minority member >= 50%) | 262658 | 395693 | 42359 | 413468 |
| Number of Other-SHGs | 2316832 | 2780840 | 160243 | 2871539 |
| Number of Predominantly SHGs with PWDs member (PWD member >= 50%) | 57163 | 68606 | 1785 | 70046 |
| Number of elderly-SHGs promoted by SRLM | 16458 | 20,141 | 13 | 21,706 |
| Number of SHG become Defunct/Dormant | 89372 | 197610 | 0 | 207429 |
| Number of SHGs in which standard bookeeping practices introduced | 3347570 | 4054626 | 264791 | 4426163 |
| Number of SHGs following Pancha Sutras | 3572689 | 4347693 | 315257 | 11828319 |
| Number of trained SHG bookkeepers deployed | 1464525 | 2021566 | 217175 | 2322103 |
| Total Amount of Saving Mobilized in all SHG's (Rs billion) | 151.87 | 182.82 | 0.63 | 200.47 |
| Total Households Mobilized into all SHGs | 43968541 | 54588971 | 3769005 | 56612083 |
| Financial Inclusion | | | | |
| Number of SHG members having own savings account | 8555003 | 17444855 | 948274 | 18360011 |
| Members covered under Life insurance schemes | 5835524 | 9061550 | 3086637 | 10239372 |
| Number of SHGs covered under Financial Literacy training | 21546 | 502510 | 250000 | 503369 |
| RF support provided to SHG's | | | | |
| Number of Total SHG's provided with RF | 2888043 | 3372251 | 225365 | 3439437 |
| Amount of RF provided to all SHGs (Rs billion) | 19.29 | 26.40 | 2.41 | 27.29 |
| CIF/VRF Support provided to SHG's | | | | |
| Total Number of all SHGs provided CIF | 843255 | 1082094 | 125566 | 1089496 |
| Amount of CIF provided to SHGs (Rs billion) | 42.50 | 55.57 | 9.01 | 55.94 |
| Promotion and functioning of primary and secondary level federations | | | | |
| Number of VOs formed | 210384 | 271634 | 22294 | 281440 |
| Number of SHGs holding membership in the VOs | 2776469 | 3402695 | 162673 | 3482390 |
| Number of VOs provided CIF | 30750 | 46649 | 4195 | 46956 |
| Amount of CIF provided to VOs (Rs billion) | 8.59 | 12.96 | 2.83 | 13.05 |
| Number of CLFs formed | 17825 | 24996 | 1439 | 26643 |
| Number of CLFs provided CIF | 7483 | 11995 | 622 | 12135 |
| Amount of CIF provided to CLFs (Rs billion) | 5.64 | 7.32 | 1.50 | 7.40 |

*Source:* Month-wise progress report under NRLM https://nrlm.gov.in/MonthWiseProgressUnderNRLMAction.do?methodName=showDetail&reqtrack=to1k8s0bK9PifRTsCaUyDbe94

pertains to 4.46 million SHGs with loan outstanding of Rs 792.31 billion as on 31 March 2019. Clearly the NRLM data for loan outstanding to women SHGs exceeds any comparable estimates of NABARD. The large gap between NRLM and NABARD data on SBLP need to be ironed out soon, if we are to have a well-informed analysis of the outreach and performance of bank linkage. NRLM and NABARD are aware of the variations in data and attempts are being made to reconcile them.

One of the main areas where NRLM data diverges from NABARD relates to the non-performing assets. While NABARD data too shows that the NRLM SHGs display better than average performance at the all-India Level, the figures for 31 March 2019 reported in an NRLM presentation at a meeting with RRBs on 11 June 2019 reports an overall NPA figure for SHG loans of 2.18 percent.[21]

At the same time, the above NRLM presentation identifies the underperformance of public sector banks and RRBs in terms of the off-take of credit to SHGs. Thus, as per NRLM data, out of Rs 907.95 billion sanctioned as Cash Credit (CC) limit by public sector banks only 48 percent was outstanding to SHGs as on 31 March 2019. Similarly, only 41 percent out of the Rs. 404.46 billion CC limit sanctioned by RRBs was outstanding to SHGs on the same date. It was emphasized that banks and SRLMs must work together to ensure full utilisation of the sanctioned limits to the SHGs, which has been identified as an area of underperformance in financial inclusion.

Other useful data from the NRLM shows that the number of SHG members having their own savings bank accounts as per monthly progress reports was 18.36 million as of end-August 2019 (Table 6.8), or less than one-third of SHG membership. In terms of the important area of institutional support for SHGs and the Village Organisations (VOs), 3.44 million SHGs, or over 68 percent of the SHGs, had been provided with revolving funds (RF) while 1.09 million SHGs (about 20 percent) had been provided with Community Investment Fund (CIF) by the above date. The number of VOs of SHGs (or the 1st level SHG federations) that had been formed was 281,440 with a membership of over 3.48 million SHGs or nearly 70 percent of the total number of SHGs under NRLM. In addition, 26,643 CLFs (or secondary level institutions) had been formed. These represent an impressive achievement in broadbasing and strengthening the SHG framework both for financial intermediation as well as wider entrepreneurial and livelihood development structures. Nevertheless, though further institutional arrangements are on the anvil it would appear that the task of enabling SHGs with operating funds and of federating SHGs for financial intermediation is still far from complete.

## SHGs AND INCLUSION: RECENT NRLM INITIATIVES

According to the Annual Report of the Ministry of Rural Development for 2018–19, the NRLM adopts a strategy of promoting and strengthening community institutions, which are in turn expected to mediate the livelihoods of the rural poor. The mandate of the mission is to impact significantly 70–80 million poor households spread across more than 647 districts and 640,000 villages across 29 states and 5 union territories by 2022–23. The Mission has a clear exit strategy. It is expected that after 10 years in a block women SHG federations will be able to manage their own development agenda. Cumulatively, 235,000 Community Resource Persons and about 60,000 Master Trainers have been identified and deployed for NRLM activities. This includes 36,600 livelihoods CRPs (Krishi Sakhis and Pashu Sakhis).

With the support of DFS, RBI and IBA, the Mission has vigorously promoted, among others:

1. BC Model with SHG members as BCs.
2. Setting up SHG Centred-Co-operative Banks along the lines of StreeNidhi of Andhra Pradesh.[22]
3. Enhancing the number of Bank Sakhis to service the SHGs.
4. An online application system for filing SHG-Bank loan applications.

### National Rural Economic Transformation Project (NRETP)

The National Rural Livelihoods Project (NRLP) implemented from July 2011 to June 2018 successfully established NRLM's 'proof of concept' in 13 high-poverty states, and helped the state missions in setting up implementation systems, capacity building and credit linkage of community institutions. In the next phase, the NRETP is being implemented in the same states. Some of the activities proposed under NRETP are as follows:

1. Establishing 600 model CLFs.
2. Promotion of 40 large-scale farmer producer enterprises, with an average membership of 10,000–12,000 households, and 12,000 farmer producer groups covering an additional 500,000 farmers.
3. Supporting 47,250 individual and 5250 group-non farm enterprises.
4. Promotion of 40 clusters of rural artisans/enterprises.
5. Expanding BCs in financial services by deploying 50,000 additional BC agents.

6. Extending social protection to 2.4 million SHG members under life and accident insurance cover, 2 million SHG member households under the health insurance scheme, 400,000 SHG members under pension scheme, and 600,000 SHG members under insurance cover for assets financed through credit.

The NRETP was declared effective on 24 April 2019, and is scheduled to close on 30 June 2023. Out of the total project outlay of US$ 500 million, US$ 250 million is loan assistance from the World Bank and the remaining is counter-part financing provided by Government of India.

NRETP focuses on enterprise development and financing of community-based institutions above the SHG level i.e. federations for which scoping work is still going on. Financing to enterprises is planned through banks (Mudra loans) and through SHG federations. Work is also under way on the preparation of guidelines on roles and responsibilities of the primary and secondary federations (see below).

## *Institution Building: Deepening of the NRLM Strategy*

During the financial year 2018–19, the following initiatives were taken for strengthening of SHGs and their primary and secondary level federations promoted under NRLM:

1. Development of Standard Operating Procedure (SoP) for Primary and Secondary Level Federations. 42 National Resource Persons have been identified, oriented and trained to provide training at all levels to mission staff and community leaders. Four states missions have completed the process of customisation and initiated staff training.
2. Model Cluster Level Federation (CLF) development—since SHG federations are a key element in the multi-dimensional strategy adopted, it was decided to develop selected CLFs as model CLFs in 15 SRLMs, to act as demonstration sites and support training and building up of internal social capital.
3. Staff of 13 states have been oriented in the model CLF strategy and about 100 CLFs selected for implementation in FY 2018–19.

The development of National Resource Persons (NRPs) and Promotion of National Community Resource Persons (NCRPs) has also been taken up. 42 NRPs have been allotted to state missions and 70 N-CRPs have been selected through a rigorous selection process to support and strengthen the implementation of the model CLF strategy. In addition, more than 203,000 Community Resource Persons (CRPs) have been trained on multiple interventions.

## *Innovations in Financial Inclusion*

**Business Correspondent (BC) Model**

The involvement of SHG members as BC agents has been a key element of the NRLM strategy to bring about women's involvement and leadership in the financial inclusion space. Under a dedicated fund for Financial Inclusion, eight SRLMs were sanctioned projects to train and place women SHG members as BC agents. Known as BC sakhis about 3974 correspondents were providing financial services as on 31 March 2019 to SHGs and their members through micro-ATMs/ laptops enabled with biometric identification of customers.[23] Apart from bank linkage, the BC model is to be upscaled. BC agents will be trained and provided IIBF certification. Following an intensive time-bound process 50,000 bank sakhis are expected to be in place by December 2020.[24]

A performance comparison of BC Sakhis and conventional BC agents through a study commissioned by NRLM has highlighted many positive features of the participation of BC sakhis but also some shortcomings. It has indicated that the former are better in terms of reducing dormancy in accounts, minimising zero-balance accounts, enhancing active accounts and promoting savings. The integration of BC sakhis into the banking system enabled them to serve the community sustainably. By serving the whole community in addition to the SHGs they were able to overcome social and cultural barriers in the communities. Box 6.3 illustrates the experience of a BC sakhi from Jharkhand.

1. 50 percent of BC sakhis worked in low financially included regions
2. 47 percent were graduates or had higher qualifications
3. BC sakhis have invested an average of Rs 80,000 for equipment and other accessories for their BC work. A few have even borrowed from SHGs and banks
4. 62 percent of BCs work with kiosks/laptop, 35 percent with PoS machine/micro ATM and 3 percent with android device
5. An average of 475 customers were served by the BC sakhi—57 percent female; 43 percent male, with an average of 182 transactions per month. The average commission of a BC sakhi was Rs 2564 per month.
6. The key challenges faced by BC sakhis were:
   i. Technical issues, including poor connectivity
   ii. Insufficient overdraft limit

**Box 6.3: Banker Didi from Jharkhand**

Amrita Devi is a symbol of the silent revolution that is sweeping across the state of Jharkhand. From a housewife who did a little bit of agriculture for a living to a go-getter who has been honoured by the Prime Minister for her skills it has been a journey of great success for the 23-year-old from Badajiayatu village of Ghaghara block in Gumla district.

The innovation of Business Correspondent Sakhi (BCS) is run under the guidance of the Jharkhand State Livelihood Promotion Society (JSLPS). Sakhi Mandal (SHG) members who are working as bookkeepers are selected to be the BCs and are trained for the specialised role.

Once trained, she provides basic support services such as customer identification, collection of information/applications, credit appraisal, marketing, account opening, cash withdrawal, deposit, transfer, doing Aadhaar seeding, distributing pension to the elderly, people with disability, scholarships to school children, wage payment under MGNREGA, fund withdrawal under Pradhan Mantri Awas Yojana and activates Rupay debit card.

In March 2017, Amrita was selected to work as a BCS. JSLPS imparted her training, both at the state as well as at the block level. Amrita commenced rendering BCS services to her community people and others in nearby villages on behalf of the Jharkhand Gramin Bank. Gradually, with commissions from average monthly transactions of up to Rs 2 million and the honorarium received from the JSLPS, Amrita managed to earn between Rs 14,000 to Rs 15,000 per month.

As time progressed, Amrita decided to branch out and increase her area of work. With the support of her husband, she opened a shop in the main market of Ghaghara. The shop provided photocopy and photography services. She charged Rs 2 for photocopying a page, and with an average of 200 to 250 photocopies every day the couple could manage to earn around Rs. 20,000 to Rs 25,000 per month. Today, Amrita has made a mark for herself as Banker didi.

*Source:* http://jslps.org/unsung/the-banker-didi/ accessed on 2 October 2019

iii. Use of dual authentication facility is still low due to inadequacy of account mapping
iv. There were instances of lack of support from corporate BC/Bank

**Community Based Repayment Mechanism**

The SHG programme is now a top driven program regulated entirely by the state and the NRLM. The Ministry of Rural Development (MoRD) and the SRLMs have been pro-active in ensuring prompt repayment by SHGs through the Community-Based Repayment Mechanism (CBRM). Some of the SRLMs have taken the services of their NGO partners. Over 14,977 bank sakhis[25] have been positioned with bank branches to facilitate credit linkage of SHGs and to monitor repayment. The CBRM has been institutionalised in more than 21,500 bank branches, and over 36,316 bankers have been oriented on the programme. As part of the movement towards an increasingly less cash economy, NRLM is focused on introducing people who are still excluded to new age banking tools. Efforts on familiarising and training SHG members on cashless modes of transactions has picked up. PSBs are given targets for lending by the NRLM which is being monitored through the CBS.

**Dual Authentication**

SHG members incur a lot of time, energy and expenses in commuting to bank branches for transactions. To ease the process, NRLM has taken up the issue of dual authentication with banks to allow SHGs to make transactions at the BC level. Twelve public sector banks have already enabled dual authentication in respect of SHG accounts and State Bank of India is likely to do so shortly. One of the outstanding issues affecting this is interoperability, as SHGs cannot obtain access through BCs of other banks. It is understood that NPCI has developed the required enabling product and the AEPS has released protocols to banks for its introduction in January 2020.

**Online Submission of Loan Applications**

In order to reduce the drudgery involved in submitting loan application by SHG members, a portal is being developed for online submission of applications. A module of an online loan application-marketplace has been prepared. SHGs, supported by a grassroots level facilitation system, would be able put up a loan application on a portal and any bank can download it for lending. Pilot testing and training of the facility by Punjab National Bank has gone live recently. Efforts are also being made to digitise the bank account and Aadhaar number of all SHG members.

**Financial Literacy**

NRLM is keen to work with banks and the Financial Literacy and Counselling Centre (FLCC) to strengthen the financial literacy delivery architecture. NRLM has prepared a well-defined strategy and implementation plan to carry out financial literacy of SHG households on a large scale. The process involves training master trainers at the National Academy of RUDSETI (NAR), Bengaluru followed by training of FL-CRPs at Rural Self Employment Training Institutes (RSETI) level and then field-level training of SHGs at the villages. FL-CRP is provided with a training-cum-facilitation kit, and the district-wise list of FL-CRPs is shared with the banks. The delivery channel involves 4 master trainers per district training 8–10 field level trainers per block, who in turn train SHGs and villagers, at 2–3 touch-points per village. A total of 1013 master trainers have been deployed covering 1968 blocks. About 14,500 financial literacy-CRPs (FL-CRPs) have been trained in 325 districts who in turn have trained 570,000 SHGs during 2018–19. Training toolkits have been provided in the vernacular language to each FL-CRP.

Some of the related steps to be taken going forward are:

1. Enabling SHG group account mapping for transactions at the BC point with a nodal officer at regional office for the implementation of dual authentication.
2. MoRD with SRLMs will prepare a pool of 125,000 trained and IIBF certified women SHG members as Bank sakhis.[26]
3. FLCCs to take on board trained FL-CRPs to organise financial literacy camps at village level.

**Building Safety Nets for the Poor**

NRLM has designed systematic interventions to address various risks through facilitating access to appropriate insurance and pension schemes and products. 12 million SHG members have been covered under these schemes during 2018–19.

The target for access to financial services—India at 75—by 2022 includes: (a) Rs. 2,000 billion bank loans by SHGs; (b) 40 million SHG members covered by life and accident insurance; (c) 125,000 women-managed banking outlets; (d) Financial literacy provided to 3 million SHGs.

## SHG FEDERATIONS—EMERGING ROLE UNDER NRLM

Annexure 6.6 provides data on the first level and second level federations of SHGs promoted in the different states as of September 2019. The total number of first level federations i.e. VOs was 224,247 covering 2,766,228 SHGs. CLFs numbered 17,120 covering 1,424,275 SHGs. The maximum number of SHGs covered by federations was in Andhra Pradesh, numbering nearly 500,000, closely followed by West Bengal with over 483,000. Telangana had 17,389 VOs covering over 384,000 SHGs. Thus, over half the SHGs covered by NRLM had been federated into voluntary organisations and a little over a quarter into CLFs.

As financial intermediaries VOs and CLFs do not generally overcome the SHG weakness of low degree of capitalisation and low mobilisation of external funds, while at the same time they do not generally have the required capacity apart from being susceptible to political influences. As such federations also cannot be considered substitutes for direct SHG-bank linkage but only a supplementary source of loans and other services for the SHGs. Nevertheless the NRLM has stayed with the federation structure and seeks to build on it.

VOs generally work with a corpus of around Rs 20 million or so are not intended merely as a fund-sourcing unit but are converging with different departments and schemes. While a large number are rotating and building up internal funds effectively, Cluster Level Federations have not yet moved towards bulk borrowing and lending. This would require a higher level of capacity and management. There is a focus on revenue generating business for the federation as in the case of the Custom Hiring Centres of Bihar. Self-sustainability of these community-based institutions is still far from being achieved. However, CLFs from an early stage receive inputs and training on wide-ranging issues covering agriculture, animal husbandry, enterprise management, livelihoods activities, marketing, gender relations and legal support apart from the financial intermediation. Different federations have successfully taken up work on important social and development issues like women's rights, health and enterprises (see Box 6.4).

An independent assessment of the NRLM undertaken in 2017[27] had, among others, pointed to some areas that needed attention in the functioning of SHG federations.

It noted that though there had been a significant growth in the number of SHGs during the last four years of the Mission, the process of federating the SHGs into VOs and VOs into CLFs was in need of being augmented. Besides, there was the need to provide a statutory basis to the VOs and CLFs such that they could become self-reliant institutions. This continues to be an operational necessity to be addressed by the respective SRLMs. Registration of SHG federations is also an operational issue, as registrars don't have capacity to do it on large scale. Also, there is confusion around which legal forms to take (cooperative, society, company). The SRLMs are going by state laws and registering the federations in various formats, mostly cooperatives.

**Box. 6.4: Health Interventions through SHGs—The Parivartan Program of Bihar**

Health interventions implemented with self-help groups (SHGs) enhance the relevance and acceptability of the health services. A study estimated the cost and cost-effectiveness of a health behaviour change program with SHGs in Bihar. Cost analysis was conducted from a provider's perspective. The Parivartan program was implemented in eight districts of Bihar with women's self-help groups to increase adoption of maternal and newborn health behaviors through layering health behaviour change communication.

The unit cost for delivering health interventions through the Parivartan program was US$ 148 per group and US$ 11 per woman reached. During an 18 months period, Parivartan program reached around 17,120 SHGs and an estimated 20,544 pregnant women resulting in an estimated prevention of 23 neonatal deaths at a cost of US$ 3,825 per life year saved.

The study concluded that SHGs could be an effective platform to increase uptake of women's health interventions and follow-up care, and also to broaden their utility beyond microfinance, particularly when they operate at a larger scale.

*Source:* Chandrashekar S, Saha S, Varghese B, Mohan L, Shetty G, Porwal A, et al. (2019) Cost and cost-effectiveness of health behaviour change interventions implemented with self-help groups in Bihar, India. PLoS ONE 14(3): e0213723. https:// doi.org/10.1371/journal.pone.0213723

The objectives of the NRETP include both financial intermediation and other social development activities. Federations have their own capital base through the Community Investment Fund (CIF) and SHG/VO contributions. At present the CLF/VO role may be limited to the use of this capital for credit. Later on, the vision is that federation would take bulk finance from banks and work as a financial intermediary. However, that would need a lot of effort, in terms of auditing books of accounts and rating tools to being developed for federation capacity, management of CIF, etc.

The report also felt that it was imperative that NRLM now focuses on strengthening and diversifying the livelihood portfolio. There was a need to orient the federation entities for sustainable enterprise creation and management. It is expected that DAY-NRLM interventions would transform the SHGs/VOs/CLFs into business driven entities by leveraging their strength. Such transformation needed the identification of value chains with proper clustering supported by principal firms, network development agents; and identification of supply chain network partners. These are some of the challenges that the NRLM is addressing in the next phase of its implementation where it seeks to expand the SHG involvement into product value chains through both small producer companies and larger product enterprises.

NRLM have already promoted 131 Farmer Producer Organisations in different parts of the country some of which have very good turnover. They are now viable but quite a few FPOs are still struggling and need some more investment maybe for another one year or two years before they actually break even. The Rural Development Ministry has set up a separate organisation in partnership with Tata Trusts called Foundation for the Development of Rural Value Chains (FDRVC) with initial funding from Tata Trusts and operational costs met by the ministry to give technical input on value chain development, on marketing, technical support like branding, and various requirements of both the farm sector and the non-farm sector. As a part of this initiative in next three to four years, it intends to promote about 40 very large scale form of producer companies with a minimum turnover of over Rs 500 million.

## BUDGET 2019–20 ANNOUNCEMENTS RELATED TO SHGs

In her Budget speech in July this year, Finance Minister Nirmala Sitharaman offered several benefits for SHG members.[28] She had proposed that for every verified woman SHG member having a Jan Dhan Bank Account, an overdraft of Rs 5,000 shall be allowed. One woman in every SHG would be eligible for a loan of up to Rs 100,000 under the MUDRA Scheme. Further, to promote women's enterprises the women SHG interest subvention programme was to be extended to all districts.

While RBI notification for extension of the interest subvention scheme is awaited, the programme for the overdraft facility is under preparation and protocols are likely to be released soon. NRLM will validate SHG members and will pass on the information to banks. Some criteria would be applied, e.g., members not having availed of the overdraft scheme, no delinquency in SHG they are member of, etc. Banks are generally receptive to this overdraft scheme as the group is responsible for repayment and in case of delinquency the group would be denied credit.

**Box 6.5: Scaling up of Enterprises of Successful SHGs**

A recent newspaper report (Nair, 2019 below), states that in order to boost entrepreneurship among rural women, the Ministry of Rural Development (MoRD) is set to focus on 3–5 lakh women Self Help Groups (SHGs) selected to be formalized with a view to convert their "nano enterprises into micro enterprises" through availing higher loans to scale up their enterprises.

According to ministry officials, a stocktaking exercise of the total 5.2 million women SHGs under NRLM was carried out to find out how many have used at least Rs 700,000 by way of loans so far. About 3 to 5 lakh SHGs fell into this category, and these had also demonstrated a potential to have a larger markets for their products.

A ministry official said that initial loans taken by women SHGs are mostly used to retire their debts, for consumption, or children's education. Once these are taken care of, they then move on to economic activity. Many of the SHGs have gotten into higher order activities, but their credit linkage is for very basic level activities. The target for the first 100 days of the government is to bring more NRLM nano enterprises of women SHGs into micro and small enterprises through higher-order bank linkages, bank loans and registration on government e-market portals and similar e-commerce portals such as Amazon.

*Source:* Shalini Nair, "Rural Ministry to focus on 3-5 lakh women SHGs to scale up enterprises", https://indianexpress.com/article/india/rural-ministry-to-focus-on-3-5-lakh-women-shgs-to-scale-up-enterprises-5859211/ dated 29 July 2019 (accessed on October 2, 2019).

The scheme for one SHG member being covered with a MUDRA loan of up to Rs 100,000 is understood to be slow to take off. Already SHG members are free to, and encouraged to, apply for MUDRA loans, though with limited success.

An interesting and promising initiative seeks to identify SHG members who have taken several cycles of loans and enable them to obtain higher loans to upgrade their enterprises. Loans would be made available to them through varied channels. Meanwhile, It is felt that loans can be a conduit not only for entrepreneurship, but also for housing, education, and a range of other purposes. This represents an important practical step to the 'graduation' of SHGs to individual loans for enterprise that has been a talking point for long but has defied solution (see Box 6.5).

## FUTURE DIRECTION: WOMEN'S ECONOMIC EMPOWERMENT

As noted above, for over 25 years, one of the challenges for the development of SHGs has been the graduation of SHG members to nano and micro enterprise and to access loans on an individual basis from financing agencies. Similarly, the federations of SHGs that have evolved have been handicapped in their ability to provide a wide range of services to the SHG members on account of various capacity related and funding related challenges. Besides for long, the SHG channel has been confined to providing low levels of access to credit, initially for emergencies and immediate needs, but which has over the years become inadequate for larger enterprise an livelihoods requirements. The NRLM with its wide-ranging remit and activities covering areas such as training and skill development, financial inclusion, financial literacy, women's empowerment, federation strengthening and building seeks to provide a cohesive and coherent model by which women-led development through finance and enterprise would be facilitated.

As emerging from the foregoing discussion, in the future, the NRLM project will be going beyond SHG mobilisation to next generation activities in the financial inclusion space, e.g. digital financial inclusion and institutional development—Also there is a major thrust on women's microenterprises, in form of the graduation to individual enterprise of SHG members who have taken two or three cycles of loans and, have a running livelihood activity. NRLP are looking at partnerships with SIDBI, under MUDRA, on bringing the SHG cohort into the reckoning. The emphasis will be on the nano element, the Shishu and Kishore components of the Mudra portfolio, i.e., loans of, say, Rs 150,000 for which bank financing is not easy to get. Under NRTEP no grants, or subsidies are envisaged, instead there would be demand-side support for enterprises to help upscale them. Besides, financing is also available from the project through the federations.

Indeed, the idea of women-led enterprises, women-led institutions and women-led development has emerged as focal point for a range of stakeholders, seeking to find the way to boost women's economic empowerment (see Box 6.6). The NRLM with its reach and resources and the SHG network is well placed to give a new thrust to this ambitious agenda.

**Box 6.6: Empowering Women Economically through Collectives**

In order to explore the nuances of challenges around Women's Economic Empowerment (WEE) and collective approaches to women-owned enterprise development, Sattva Consulting, supported by Bill and Melinda Gates Foundation, launched a dialogue series, Empowering Women Economically through Collectives, at a round table on 3 May 2019.

Key solutions and enablers were discussed in order to understand both the current and potential solutions space around WEE; this ranged from providing simple and easy digital solutions like business management apps in local languages, to providing doorstep services such as rural banking correspondents, and programmes focused on building greater acceptance of women entrepreneurs within households and communities. There was also discussion around the roles that the Government can play in enabling women's enterprises as a regulator, a marketplace (procurement), or a skills and capability builder.

It was felt that women entrepreneurs might not be equipped to integrate into value chains through digital platforms and deal with the associated market forces. For this, it is also important to adopt a more holistic view of functional literacy, including basic business concepts, digital literacy and vocational training. However, many did focus on the benefits of digital platforms for women entrepreneurs, such as addressing information asymmetry issues, generating insights to enable better production choices, helping achieve visibility and discoverability and creating markets for niche products.

Policy challenges identified related to design of credit access programmes to mitigate the risk perceived by lenders, the inadequately of working capital, and implementation challenges to ensure implementing staff is both gender sensitive and better awareness of business concepts.

Sattva's research has shown that different collective models have been effective at addressing different aspects of these barriers to WEE: JLGs (joint liability groups) have been used for driving access to credit; SHGs (self help groups) and SHG federations for delivering access to entitlements, addressing gender norms and increasing awareness of finance; and co-ops and FPOs to provide market access. It was felt that most approaches to women's economic empowerment with potential for scale have been driven by government schemes and policies, such as NRLM driving livelihoods, NABARD's bank linkage programme for SHGs, or the MUDRA scheme to provide financing for both existing enterprises and aspiring entrepreneurs.

*Source:* "Economically Empowering Women Through Collectives: Furthering the Conversation", Sattva Consulting (2019), www.sattva.co.

## CONCLUDING REMARKS

The SHG Bank Linkage registered modest growth during the year. Though SHG numbers reached 10 million according to NABARD estimates, the outreach of the NRLM was considerably lower. The focus was on strengthening the infrastructure for SHGs and SHG-based community organisations along with a new thrust on women's microenterprise.

The number of SHGs savings-linked and loans disbursed to SHGs during 2018–19 grew at a moderate pace, there has been stagnation in the number of SHGs with loans outstanding and a decline over the years in the percentage of SHGs receiving loans from the banking system. SHG borrowing is largely to the southern states and to an increasing extent the states of the eastern region through credit deepening, even as repeat bank linkages in some of the other regions are constrained by past overdues. A positive development during the year has been in respect the NPAs of bank loans to SHGs that declined in absolute terms during the year to stand at 5.19 percent of total bank loan outstanding as on 31 March 2019. This was mainly on account of the impressive performance registered by NRLM SHGs which reported NPAs of only 2.18 percent for the women' groups tracked by them.

With the NRLM bringing nearly one million new and existing SHGs into the fold during 2018–19 to cover about 5 million in all by March 2019, it has become the dominant player in SHG development. Two-thirds of NRLM SHGs have been provided with revolving fund to supplement their savings. A similar proportion of SHGs have been federated into over 270,000 Village Organisations and about 25,000 CLFs as of 31 March 2019 for scaling up financial and non-financial intermediation. The NRLM is directly engaging with banks to promote bank linkage and increase the off take of credit to the groups. With NRLM maintaining its own SHG database there are some differences with NABARD-reported figures. However, these are in the process of being reconciled as both strengthen their MIS towards digitised operations and monitoring.

Several initiatives are expected to give a boost to bank linkage and financial inclusion through SHGs. The BC sakhi project has enabled convergence through 3974 SHG members mainstreamed as Business Correspondents (BCs) by 31 March 2019. This figure is to be increased to 50,000 by December

2020. The dual authentication facility has allowed BCs to help operate bank account of SHGs at their doorstep. Digital transactions and sanctions for lending through online applications is expected to open up new avenues to branchless banking for SHGs. Finally, though saturation limits are being reached for SHG promotion in many states, both at NRLM, through the newly sanctioned National Rural Economic Transformation Project (NRETP), and NABARD's own support funds, women's microenterprise and livelihoods development and financial literacy are emerging as the focus areas for SHGs. A wide range of financial service delivery channels and products are being developed to enable flourishing of women-led enterprises, institutions and development.

**ANNEXURE 6.1: Savings of SHGs with Banks—Region-wise/State-wise/Agency-wise Position as of 31 March 2019 (in Rs million)**

| Region/State | Commercial Banks | | RRBs | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount |
| CENTRAL REGION | | | | | | | | |
| Chhattisgarh | 99,601 | 1,644 | 109,767 | 1,029 | 22,508 | 207 | 231,876 | 2,880 |
| Madhya Pradesh | 170,812 | 2,577 | 150,140 | 2,345 | 11,560 | 103 | 332,512 | 5,026 |
| Uttarakhand | 23,428 | 326 | 23,309 | 407 | 7,316 | 145 | 54,053 | 878 |
| Uttar Pradesh | 173,273 | 2,869 | 261,656 | 1,597 | 9,389 | 73 | 444,318 | 4,540 |
| Total | 467,114 | 7,416 | 544,872 | 5,379 | 50,773 | 528 | 1,062,759 | 13,323 |
| EASTERN REGION | | | | | | | | |
| Andaman & Nicobar | 851 | 10 | 0 | 0 | 5005 | 107 | 5856 | 117 |
| Bihar | 332,242 | 7,218 | 437,924 | 7,868 | 29 | 0 | 770,195 | 15,086 |
| Jharkhand | 137,712 | 1,888 | 99,920 | 1,079 | 936 | 6 | 238,568 | 2,972 |
| Odisha | 378,900 | 7,545 | 198,913 | 5,430 | 85,568 | 776 | 663,381 | 13,750 |
| West Bengal | 483,534 | 9,530 | 277,982 | 12,638 | 214,842 | 6,022 | 976,358 | 28,190 |
| Total | 1,333,239 | 26,190 | 1,014,739 | 27,015 | 306,380 | 6,911 | 2,654,358 | 60,115 |
| NORTH EASTERN REGION | | | | | | | | |
| Arunachal Pradesh | 2,463 | 125 | 2,767 | 36 | 0 | 0 | 5,230 | 161 |
| Assam | 116,021 | 875 | 268,174 | 1,653 | 26,286 | 30 | 410,481 | 2,558 |
| Manipur | 5,210 | 32 | 11,389 | 27 | 1,103 | 2 | 17,702 | 60 |
| Meghalaya | 4,043 | 28 | 11,988 | 156 | 4,714 | 56 | 20,745 | 240 |
| Mizoram | 519 | 5 | 10,437 | 136 | 941 | 8 | 11,897 | 149 |
| Nagaland | 4,831 | 42 | 1,202 | 14 | 0 | 0 | 6,033 | 56 |
| Sikkim | 5,813 | 146 | 0 | 0 | 24 | 0 | 5,837 | 147 |
| Tripura | 12,618 | 198 | 32,926 | 471 | 0 | 0 | 45,544 | 669 |
| Total | 151,518 | 1,452 | 338,883 | 2,493 | 33,068 | 96 | 523,469 | 4,041 |
| NORTHERN REGION | | | | | | | | |
| Chandigarh | 484 | 5 | 0 | 0 | 45 | 1 | 529 | 6 |
| Haryana | 33,076 | 412 | 17,732 | 157 | 3,855 | 39 | 54,663 | 608 |
| Himachal Pradesh | 19,234 | 250 | 9,656 | 161 | 25,189 | 256 | 54,079 | 667 |
| Jammu and Kashmir | 2,191 | 24 | 1,956 | 45 | 1,066 | 3 | 5,213 | 73 |
| New Delhi | 4,731 | 204 | 0 | 0 | 279 | 7 | 5,010 | 210 |
| Punjab | 26,195 | 270 | 11,637 | 85 | 6,565 | 74 | 44,397 | 429 |
| Rajasthan | 177,750 | 2,367 | 114,212 | 1,306 | 92,771 | 581 | 384,733 | 4,253 |
| Total | 263,661 | 3,532 | 155,193 | 1,754 | 129,770 | 959 | 548,624 | 6,245 |
| SOUTHERN REGION | | | | | | | | |
| Andhra Pradesh | 676,699 | 50,407 | 198,226 | 14,307 | 14,634 | 1,346 | 889,559 | 66,060 |
| Karnataka | 463,037 | 5,144 | 198,597 | 1,629 | 245,757 | 4,777 | 907,391 | 11,549 |
| Kerala | 271,894 | 5,260 | 65,225 | 1,272 | 52,095 | 1,222 | 389,214 | 7,754 |
| Lakshadweep | 173 | 2 | 0 | 0 | 0 | 0 | 173 | 2 |
| Puducherry | 13,938 | 251 | 6,459 | 100 | 1,031 | 30 | 21,428 | 381 |

| Region/State | Commercial Banks | | RRBs | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount |
| Tamil Nadu | 792,505 | 9,638 | 95,087 | 975 | 172,305 | 2,196 | 1,059,897 | 12,809 |
| Telangana | 279,107 | 10,280 | 279,009 | 19,946 | 10,640 | 212 | 568,756 | 30,438 |
| Total | 2,497,353 | 80,981 | 842,603 | 38,228 | 496,462 | 9,783 | 3,836,418 | 128,993 |
| WESTERN REGION | | | | | | | | |
| Daman & Diu | 104 | 2 | 0 | 0 | 0 | 0 | 104 | 2 |
| Dadra & Nagar Haveli | 685 | 20 | 0 | 0 | 0 | 0 | 685 | 20 |
| Goa | 5,594 | 147 | 0 | 0 | 3,812 | 90 | 9,406 | 237 |
| Gujarat | 202,431 | 2,657 | 57,288 | 719 | 34,890 | 277 | 294,609 | 3,653 |
| Maharashtra | 555,215 | 10,005 | 124,895 | 1,332 | 403,701 | 5,278 | 1,083,811 | 16,615 |
| Total | 764,029 | 12,831 | 182,183 | 2,051 | 442,403 | 5,645 | 1,388,615 | 20,528 |
| Grand Total | 5,476,914 | 132,402 | 3,078,473 | 76,920 | 1,458,856 | 23,922 | 10,014,243 | 233,245 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

**ANNEXURE 6.2: Progress under SHG-Bank Linkage Programme—Bank Loans Disbursed during the Year 2018– by State/Region and Financing Agency (Amount in Rs. Million)**

| Region/State | Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount |
| CENTRAL REGION | | | | | | | | |
| Chhattisgarh | 17,975 | 1,537 | 12,584 | 1,516 | 1,668 | 153 | 32,227 | 3,207 |
| Madhya Pradesh | 19,336 | 1,520 | 8,172 | 782 | 55 | 4 | 27,563 | 2,306 |
| Uttarakhand | 1,712 | 93 | 2,547 | 136 | 1,094 | 69 | 5,353 | 298 |
| Uttar Pradesh | 13,320 | 927 | 6,362 | 475 | 310 | 8 | 19,992 | 1,410 |
| Total | 52,343 | 4,077 | 29,665 | 2,910 | 3,127 | 233 | 85,135 | 7,220 |
| EASTERN REGION | | | | | | | | |
| Andaman & Nicobar | 35 | 10 | 0 | 0 | 334 | 75 | 369 | 84 |
| Bihar | 127,043 | 12,411 | 100,933 | 18,147 | 0 | 0 | 227,976 | 30,558 |
| Jharkhand | 27,004 | 1,900 | 5,994 | 842 | 139 | 19 | 33,137 | 2,761 |
| Odisha | 56,897 | 7,580 | 83,872 | 8,088 | 9,293 | 1,079 | 150,062 | 16,747 |
| West Bengal | 158,209 | 22,355 | 242,087 | 37,340 | 97,535 | 9,863 | 497,831 | 69,558 |
| Total | 369,188 | 44,256 | 432,886 | 64,417 | 107,301 | 11,035 | 909,375 | 119,708 |
| NORTH EASTERN REGION | | | | | | | | |
| Arunachal Pradesh | 20 | 1 | 20 | 3 | 0 | 0 | 40 | 4 |
| Assam | 10,822 | 1,101 | 8,687 | 1,190 | 386 | 32 | 19,895 | 2,324 |
| Manipur | 208 | 12 | 595 | 60 | 235 | 17 | 1,038 | 89 |
| Meghalaya | 48 | 5 | 0 | 0 | 184 | 9 | 232 | 14 |
| Mizoram | 36 | 4 | 847 | 124 | 29 | 4 | 912 | 132 |
| Nagaland | 221 | 23 | 42 | 18 | 0 | 0 | 263 | 42 |
| Sikkim | 670 | 72 | 0 | 0 | 96 | 9 | 766 | 81 |
| Tripura | 2,117 | 39 | 1,823 | 176 | 0 | 0 | 3,940 | 215 |
| Total | 14,142 | 1,259 | 12,014 | 1,571 | 930 | 71 | 27,086 | 2,900 |
| NORTHERN REGION | | | | | | | | |
| Chandigarh | 44 | 7 | 0 | 0 | 0 | 0 | 44 | 7 |
| Haryana | 4,207 | 367 | 1,625 | 210 | 65 | 4 | 5,897 | 581 |
| Himachal Pradesh | 2,042 | 248 | 707 | 126 | 2,349 | 390 | 5,098 | 764 |
| Jammu and Kashmir | 803 | 108 | 1,134 | 221 | 0 | 0 | 1,937 | 330 |
| New Delhi | 131 | 16 | 0 | 0 | 2 | 0 | 133 | 16 |
| Punjab | 1,410 | 136 | 797 | 41 | 71 | 10 | 2,278 | 186 |
| Rajasthan | 24,348 | 3,366 | 14,570 | 856 | 1,617 | 160 | 40,535 | 4,382 |
| Total | 32,985 | 4,249 | 18,833 | 1,454 | 4,104 | 564 | 55,922 | 6,266 |
| SOUTHERN REGION | | | | | | | | |
| Andhra Pradesh | 271,865 | 101,457 | 110,766 | 49,574 | 5,132 | 2,615 | 387,763 | 153,646 |
| Karnataka | 360,590 | 64,268 | 85,463 | 11,205 | 32,437 | 8,985 | 478,490 | 84,459 |
| Kerala | 83,179 | 26,540 | 8,441 | 3,380 | 7,179 | 4,090 | 98,799 | 34,009 |
| Lakshadweep | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Region/State | Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount | No. of SHGs | Disbursement Amount |
| Puducherry | 1,489 | 461 | 776 | 287 | 65 | 34 | 2,330 | 782 |
| Tamil Nadu | 120,506 | 44,093 | 13,912 | 5,624 | 35,768 | 10,454 | 170,186 | 60,171 |
| Telangana | 119,228 | 40,867 | 214,165 | 53,241 | 3,247 | 1,450 | 336,640 | 95,558 |
| Total | 956,857 | 277,687 | 433,523 | 123,311 | 83,828 | 27,627 | 1,474,208 | 428,626 |
| WESTERN REGION | | | | | | | | |
| Dadra & Nagar Haveli | 60 | 3 | 0 | 0 | 0 | 0 | 60 | 3 |
| Goa | 586 | 172 | 0 | 0 | 92 | 32 | 678 | 204 |
| Gujarat | 13,450 | 1,195 | 4,115 | 509 | 775 | 135 | 18,340 | 1,839 |
| Maharashtra | 73,296 | 12,027 | 9,782 | 1,356 | 44,518 | 3,027 | 127,596 | 16,410 |
| Total | 87,392 | 13,398 | 13,897 | 1,864 | 45,385 | 3,194 | 146,674 | 18,456 |
| Grand Total | 1,512,907 | 344,925 | 940,818 | 195,526 | 244,675 | 42,725 | 2,698,400 | 583,176 |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

**ANNEXURE 6.3: Progress under SHG-Bank Linkage Programme: Bank Loans Outstanding by State/ Region and Financing Agency as of 31 March 2019 (Amount in Rs million)**

| Region/State | Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount |
| CENTRAL REGION | | | | | | | | |
| Chhattisgarh | 30,735 | 2,386 | 25,099 | 1,865 | 3,429 | 152 | 59,263 | 4,403 |
| Madhya Pradesh | 53,721 | 3,214 | 37,744 | 2,005 | 396 | 18 | 91,861 | 5,237 |
| Uttarakhand | 3,794 | 209 | 5,405 | 177 | 4,050 | 212 | 13,249 | 598 |
| Uttar Pradesh | 44,545 | 4,299 | 109,349 | 5,379 | 5,875 | 129 | 159,769 | 9,807 |
| Total | 132,795 | 10,107 | 177,597 | 9,426 | 13,750 | 511 | 324,142 | 20,044 |
| EASTERN REGION | | | | | | | | |
| Andaman & Nicobar | 181 | 37 | 0 | 0 | 1030 | 100 | 1211 | 136 |
| Bihar | 248,002 | 24,020 | 354,087 | 26,248 | 0 | 0 | 602,089 | 50,268 |
| Jharkhand | 55,396 | 3,126 | 35,100 | 1,598 | 115 | 24 | 90,611 | 4,747 |
| Odisha | 123,833 | 10,721 | 110,063 | 11,619 | 28,430 | 1,909 | 262,326 | 24,250 |
| West Bengal | 335,176 | 35,583 | 254,403 | 40,399 | 144,699 | 9,871 | 734,278 | 85,852 |
| Total | 762,588 | 73,486 | 753,653 | 79,865 | 174,274 | 11,904 | 1,690,515 | 165,254 |
| NORTH EASTERN REGION | | | | | | | | |
| Arunachal Pradesh | 241 | 11 | 20 | 2 | 0 | 0 | 261 | 13 |
| Assam | 29,669 | 2,823 | 57,464 | 3,894 | 3,085 | 86 | 90,218 | 6,803 |
| Manipur | 386 | 30 | 1,329 | 93 | 281 | 17 | 1,996 | 140 |
| Meghalaya | 150 | 10 | 0 | 0 | 486 | 21 | 636 | 31 |
| Mizoram | 117 | 9 | 1,906 | 242 | 56 | 9 | 2,079 | 260 |
| Nagaland | 566 | 48 | 115 | 34 | 0 | 0 | 681 | 82 |
| Sikkim | 1,327 | 104 | 0 | 0 | 97 | 7 | 1,424 | 111 |
| Tripura | 3,473 | 314 | 22,786 | 560 | 0 | 0 | 26,259 | 874 |
| Total | 35,929 | 3,349 | 83,620 | 4,825 | 4,005 | 140 | 123,554 | 8,313 |
| NORTHERN REGION | | | | | | | | |
| Chandigarh | 64 | 8 | 0 | 0 | 0 | 0 | 64 | 8 |
| Haryana | 7,546 | 558 | 6,471 | 724 | 1,012 | 86 | 15,029 | 1,368 |
| Himachal Pradesh | 4,271 | 442 | 2,763 | 310 | 4,909 | 499 | 11,943 | 1,251 |
| Jammu and Kashmir | 1,268 | 121 | 1,715 | 209 | 199 | 6 | 3,182 | 336 |
| New Delhi | 294 | 58 | 0 | 0 | 3 | 0 | 297 | 58 |
| Punjab | 3,049 | 848 | 2,584 | 137 | 1,566 | 77 | 7,199 | 1,062 |
| Rajasthan | 47,826 | 3,775 | 20,190 | 1,108 | 18,400 | 972 | 86,416 | 5,854 |
| Total | 64,318 | 5,810 | 33,723 | 2,489 | 26,089 | 1,639 | 124,130 | 9,937 |
| SOUTHERN REGION | | | | | | | | |
| Andhra Pradesh | 572,594 | 185,438 | 178,624 | 53,757 | 13,208 | 3,054 | 764,426 | 242,249 |
| Karnataka | 428,357 | 87,643 | 109,786 | 19,702 | 74,599 | 11,482 | 612,742 | 118,828 |
| Kerala | 164,792 | 41,302 | 17,450 | 3,995 | 14,912 | 5,773 | 197,154 | 51,071 |
| Lakshadweep | 2 | 0 | 0 | 0 | 0 | 0 | 2 | 0 |
| Puducherry | 4,345 | 816 | 2,035 | 372 | 777 | 178 | 7,157 | 1,366 |
| Tamil Nadu | 267,986 | 56,209 | 29,251 | 5,977 | 88,461 | 12,980 | 385,698 | 75,166 |
| Telangana | 289,687 | 73,869 | 271,242 | 77,818 | 9,982 | 2,385 | 570,911 | 154,072 |

| Region/State | Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount | No. of SHGs | Savings Amount |
| Total | 1,727,763 | 445,278 | 608,388 | 161,622 | 201,939 | 35,852 | 2,538,090 | 642,752 |
| WESTERN REGION | | | | | | | | |
| Dadra & Nagar Haveli | 149 | 5 | 0 | 0 | 0 | 0 | 149 | 5 |
| Goa | 1,199 | 258 | 0 | 0 | 376 | 60 | 1,575 | 318 |
| Gujarat | 30,825 | 1,760 | 10,647 | 614 | 6,010 | 156 | 47,482 | 2,530 |
| Maharashtra | 145,643 | 16,358 | 27,906 | 3,120 | 54,146 | 2,349 | 227,695 | 21,828 |
| Total | 177,816 | 18,381 | 38,553 | 3,734 | 60,532 | 2,565 | 276,901 | 24,680 |
| Grand Total | 2,901,209 | 556,411 | 1,695,534 | 261,960 | 480,589 | 52,611 | 5,077,332 | 870,982 |

Source: Status of Microfinance in India 2018-19, NABARD, Mumbai

**ANNEXURE 6.4: NPA Levels of SHGs by State/Region and Financing Agency as of 31 March 2019 (NPA amount in Rs million)**

| Region / State | Public Sector Commercial Banks | | Private Sector Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS |
| CENTRAL REGION | | | | | | | | | | |
| Chhattisgarh | 248 | 10.46 | 0 | 2.85 | 199 | 10.69 | 14 | 9.19 | 462 | 10.5 |
| Madhya Pradesh | 763 | 27.89 | 16 | 3.38 | 330 | 16.48 | 6 | 36.09 | 1,116 | 21.32 |
| Uttarakhand | 86 | 42.2 | 1 | 13.07 | 27 | 15.17 | 80 | 38.01 | 194 | 32.47 |
| Uttar Pradesh | 1,910 | 44.44 | 0 | 37.39 | 2,338 | 43.47 | 110 | 85.5 | 4,359 | 44.45 |
| Total | 3,008 | 31.28 | 17 | 3.53 | 2,895 | 30.71 | 211 | 41.34 | 6,132 | 30.59 |
| EASTERN REGION | | | | | | | | | | |
| Andaman & Nicobar | 1 | 2 | 0 | 0 | 0 | 0 | 9 | 8.8 | 10 | 6.98 |
| Bihar | 1,283 | 5.36 | 0 | 0 | 1,097 | 4.18 | 0 | 0 | 2,380 | 4.74 |
| Jharkhand | 379 | 12.12 | 0 | 0 | 201 | 12.6 | 2 | 6.98 | 582 | 12.26 |
| Odisha | 1,629 | 15.42 | 2 | 1.35 | 1,375 | 11.83 | 215 | 11.24 | 3,221 | 13.28 |
| West Bengal | 886 | 2.49 | 16 | 94.94 | 905 | 2.24 | 579 | 5.87 | 2,386 | 2.78 |
| Total | 4,177 | 5.7 | 18 | 6.85 | 3,579 | 4.48 | 804 | 6.75 | 8,579 | 5.19 |
| NORTH EASTERN REGION | | | | | | | | | | |
| Arunachal Pradesh | 8 | 71.17 | 0 | 0 | 1 | 32.31 | 0 | 0 | 8 | 65 |
| Assam | 749 | 26.57 | 0 | 4.21 | 1470 | 37.77 | 48 | 55.67 | 2,267 | 33.33 |
| Manipur | 4 | 14 | 0 | 0 | 16 | 16.85 | 0 | 0 | 20 | 14.23 |
| Meghalaya | 4 | 37.18 | 0 | 0 | 0 | 0 | 9 | 42.96 | 13 | 41.11 |
| Mizoram | 3 | 28.77 | 0 | 0 | 38 | 15.67 | 0 | 2.93 | 41 | 15.67 |
| Nagaland | 5 | 9.87 | 0 | 100 | 2 | 5.51 | 0 | 0 | 7 | 8.12 |
| Sikkim | 3 | 2.52 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 2.37 |
| Tripura | 47 | 14.98 | 0 | 0 | 345 | 61.53 | 0 | 0 | 392 | 44.81 |
| Total | 821 | 24.56 | 0 | 4.51 | 1871 | 38.78 | 57 | 41.02 | 2,750 | 33.08 |
| NORTHERN REGION | | | | | | | | | | |
| Chandigarh | 1 | 6.66 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 6.66 |
| Haryana | 200 | 35.93 | 1 | 26.86 | 412 | 56.86 | 73 | 85.79 | 686 | 50.12 |
| Himachal Pradesh | 48 | 10.96 | 0 | 0 | 26 | 8.5 | 76 | 15.18 | 151 | 12.03 |
| Jammu and Kashmir | 6 | 5.29 | 0 | 0 | 12 | 5.59 | 5 | 82.57 | 23 | 6.88 |
| New Delhi | 10 | 17.17 | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 17.15 |
| Punjab | 140 | 16.53 | 0 | 0 | 22 | 16.02 | 30 | 39.24 | 192 | 18.11 |
| Rajasthan | 387 | 24.09 | 30 | 1.38 | 297 | 26.8 | 285 | 29.31 | 999 | 17.06 |
| Total | 792 | 21.77 | 30 | 1.4 | 769 | 30.89 | 469 | 28.62 | 2,061 | 20.74 |

| Region / State | Public Sector Commercial Banks | | Private Sector Commercial Banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS | Amount of Gross NPAs against SHGs | NPA as %age to Loan OS |
| SOUTHERN REGION | | | | | | | | | | |
| Andhra Pradesh | 2,775 | 1.5 | 2 | 1.8 | 745 | 1.39 | 99 | 3.24 | 3,621 | 1.49 |
| Karnataka | 2,415 | 2.94 | 323 | 5.88 | 1,054 | 5.35 | 232 | 2.02 | 4,023 | 3.39 |
| Kerala | 1,353 | 3.87 | 41 | 0.65 | 75 | 1.88 | 245 | 4.24 | 1,714 | 3.36 |
| Lakshadweep UT | 0 | 78.26 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 78.26 |
| Puducherry | 139 | 18.01 | 0 | 0.29 | 29 | 7.79 | 39 | 22.04 | 207 | 15.15 |
| Tamil Nadu | 6,811 | 16.36 | 619 | 4.25 | 400 | 6.69 | 947 | 7.3 | 8,777 | 11.68 |
| Telangana | 3,482 | 4.75 | 1 | 0.21 | 722 | 0.93 | 113 | 4.72 | 4,319 | 2.8 |
| Total | 16,975 | 4.06 | 987 | 3.64 | 3,025 | 1.87 | 1,675 | 4.67 | 22,662 | 3.53 |
| WESTERN REGION | | | | | | | | | | |
| Dadra & Nagar Haveli UT | 0 | 7.8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7.8 |
| Goa | 13 | 7.1 | 1 | 0.68 | 0 | 0 | 4 | 6.22 | 17 | 5.43 |
| Gujarat | 153 | 11.49 | 35 | 8.28 | 65 | 10.62 | 42 | 27.02 | 296 | 11.7 |
| Maharashtra | 1,867 | 21.77 | 77 | 0.99 | 544 | 17.44 | 256 | 10.88 | 2,744 | 12.57 |
| Total | 2033 | 20.14 | 113 | 1.36 | 609 | 16.32 | 302 | 11.76 | 3057 | 12.39 |
| Grand Total: | 27,807 | 5.37 | 1167 | **3.04** | 12748 | **4.87** | 3518 | **6.69** | 45,240 | **5.19** |

*Source:* Status of Microfinance in India 2018-19, NABARD, Mumbai

## ANNEXURE 6.5 NRLM – Statewise Achievement in SHG Bank Linkage 2018-19

| NATIONAL RURAL LIVELIHOODS MISSSION BANK LINKAGE | | | | |
|---|---|---|---|---|
| Geographic Wise Achievement 2018-2019 Amount Rupees in Lakhs | | | | |
| **No.** | **State** | **Total SHGs** | **Total Disbursement Amt.** | **Total Outstanding Amt.** |
| 1 | Andaman & Nicobar Islands | 90 | 327 | 392 |
| 2 | Andhra Pradesh | 6,22,816 | 18,06,324 | 274,131 |
| 3 | Arunachal Pradesh | 23 | 23 | 316 |
| 4 | Assam | 19,799 | 17,048 | 38,477 |
| 5 | Bihar | 4,04,938 | 2,95,991 | 4,85,931 |
| 6 | Chandigarh | 6 | 20 | 112 |
| 7 | Chattisgarh | 44,615 | 37,280 | 44,610 |
| 8 | Dadra & Nagar Haveli | 149 | 129 | 45 |
| 9 | Delhi | 24 | 64 | 349 |
| 10 | Goa | 758 | 2,042 | 2,879 |
| 11 | Gujarat | 27,999 | 23,473 | 26,958 |
| 12 | Haryana | 6,159 | 5,006 | 14,285 |
| 13 | Himachal Pradesh | 4,505 | 5778 | 11,888 |
| 14 | Jammu & Kashmir | 7,585 | 12145 | 11,431 |
| 15 | Jharkhand | 46,584 | 24,378 | 45,983 |
| 16 | Karnataka | 4,89,420 | 11,14,563 | 12,10,850 |
| 17 | Kerala | 87,225 | 3,09,991 | 4,28,362 |
| 18 | Lakshadweep | 0 | 0 | 2 |
| 19 | Madhya Pradesh | 32,284 | 17,581 | 38,054 |
| 20 | Maharashtra | 1,00,568 | 1,52,287 | 1,97,135 |
| 21 | Manipur | 403 | 340 | 745 |
| 22 | Meghalaya | 1,744 | 1,117 | 1,442 |
| 23 | Mizoram | 1,009 | 1,478 | 2,596 |
| 24 | Nagaland | 757 | 1,377 | 4,328 |
| 25 | Odisha | 1,63,371 | 1,79,147 | 2,48,859 |
| 26 | Puducherry | 4,366 | 13,381 | 14,241 |
| 27 | Punjab | 3,474 | 1,593 | 4,228 |
| 28 | Rajasthan | 42,180 | 43,458 | 53,237 |
| 29 | Sikkim | 1,270 | 1,185 | 1,199 |
| 30 | Tamil Nadu | 1,46,222 | 5,07,481 | 6,97,271 |
| 31 | Telangana | 3,36,212 | 7,61,377 | 12,54,787 |
| 32 | Tripura | 4,186 | 2,811 | 7,895 |
| 33 | Uttarakhand | 3,130 | 1,752 | 3,840 |
| 34 | Uttar Pradesh | 23,586 | 11,506 | 70,079 |
| 35 | West Bengal | 4,76,094 | 7,05,321 | 7,76,614 |
| 36 | Unmatched SHGs | 28,835 | 51,743 | 57,598 |
| | Total | 31,32,386 | 61,09,515 | 84,81,146 |

*Source* : DAY NRLM data from https://daynrlmbl.aajeevika.gov.in/UI/Achievement/ProjectWiseAchievement_New.aspx accessed on 09 Sept. 2019

**ANNEXURE 6.6: State-wise Achievement in SHG Federations as of September 2019**

| Promotion of SHG Federation till September (2019-2020) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **S. No** | **State** | **1st Level Federations (VO)** | | **2nd Level Federations (CLF)** | | **Total Federations** | |
| | | **No** | **SHG** | **No** | **SHG** | **No** | **SHG** |
| | NRLP STATES | | | | | | |
| 1 | Andhra Pradesh | 21,302 | 497,695 | 0 | 0 | 21,302 | 497,695 |
| 2 | Assam | 13,789 | 196,118 | 350 | 112,325 | 14,139 | 196,118 |
| 3 | Chhattisgarh | 8,003 | 81,709 | 353 | 48,787 | 8,356 | 81,709 |
| 4 | Gujarat | 4,844 | 43,645 | 107 | 10,417 | 4,951 | 43,645 |
| 5 | Jharkhand | 842 | 6,032 | 0 | 0 | 842 | 6,032 |
| 6 | Karnataka | 17,611 | 127,026 | 3,479 | 124,903 | 21,090 | 127,026 |
| 7 | Kerala | 15,476 | 180,204 | 916 | 176,101 | 16,392 | 180,204 |
| 8 | Madhya Pradesh | 24,401 | 178,901 | 721 | 135,441 | 25,122 | 178,901 |
| 9 | Maharashtra | 15,422 | 181,346 | 547 | 91,536 | 15,969 | 181,346 |
| 10 | Odisha | 21,810 | 165,719 | 2,971 | 153,232 | 24,781 | 165,719 |
| 11 | Tamil Nadu | 5,942 | 75,057 | 3,619 | 45,799 | 9,561 | 75,057 |
| 12 | Telangana | 17,389 | 384,544 | 0 | 0 | 17,389 | 384,544 |
| 13 | Uttar Pradesh | 10,468 | 71,809 | 372 | 31,412 | 10,840 | 71,809 |
| 14 | West Bengal | 36,546 | 483,251 | 3,261 | 451,149 | 39,807 | 483,251 |
| | Sub Total | 213,845 | 2,673,056 | 16,696 | 1,381,102 | 230,541 | 2,673,056 |
| | NORTH WEST STATES | | | | | | |
| 1 | Haryana | 1,678 | 15,779 | 62 | 7,766 | 1,740 | 15,779 |
| 2 | Himachal Pradesh | 274 | 2,685 | 3 | 762 | 277 | 2,685 |
| 3 | Jammu And Kashmir | 3,569 | 33,058 | 246 | 22,818 | 3,815 | 33,058 |
| 4 | Punjab | 724 | 5,237 | 23 | 2,742 | 747 | 5237 |
| 5 | Uttarakhand | 1,410 | 1,0581 | 52 | 3,054 | 1,462 | 10,581 |
| | Sub Total | 7,655 | 67,340 | 386 | 37,142 | 8,041 | 67,340 |
| | NORTH EAST STATES | | | | | | |
| 1 | Arunachal Pradesh | 188 | 1,337 | 0 | 0 | 188 | 1,337 |
| 2 | Manipur | 124 | 1,225 | 0 | 0 | 124 | 1,225 |
| 3 | Meghalaya | 707 | 5,240 | 0 | 0 | 707 | 5,240 |
| 4 | Mizoram | 358 | 4,182 | 0 | 0 | 358 | 4,182 |
| 5 | Nagaland | 404 | 4,031 | 16 | 2,012 | 420 | 4,031 |
| 6 | Sikkim | 347 | 1,670 | 0 | 0 | 347 | 1,670 |
| 7 | Tripura | 514 | 6,284 | 19 | 2,329 | 533 | 6,284 |
| | Sub Total | 2642 | 23,969 | 35 | 4,341 | 2,677 | 23,969 |
| | UNION TERRITORIES | | | | | | |
| 1 | Andaman And Nicobar Islands | 10 | 87 | 0 | 0 | 10 | 87 |
| 2 | Goa | 1 | 9 | 0 | 0 | 1 | 9 |
| 3 | Puducherry | 94 | 1,767 | 3 | 1,690 | 97 | 3,457 |
| | Sub Total | 105 | 1,863 | 3 | 1,690 | 108 | 3,553 |
| | Grand Total | 224,247 | 2,766,228 | 17,120 | 1,424,275 | 241,367 | 2,767,918 |

*Source:* NRLM data accessed from https://www.nrlm.gov.in/PromotionOfSHGFederationsAction.do?methodName=showPromotionOfSHGFederationsPage&encd=n on 09 Sept. 2019

## NOTES AND REFERENCES

1 One of the core objectives of the mission is to make rural people, particularly women, a new category of clients and take them beyond financial inclusion to achieve economic inclusion and enable them to participate and benefit from mainstream economic benefits. It aims to cover all the rural districts in the country intensively, in phases (NABARD, 2019, *Status of Microfinance in India 2018-19*, Mumbai).

2 As will be discussed later NRLM numbers for the subset of women SHGs are not consistent with those as reported by NABARD.

3 Internal SHG savings have been assumed by NABARD over the years to be 70% of total SHG savings (i.e. total of SHG corpus held within the group and in bank accounts). SHG savings retained and rotated with the groups as on 31 March 2019 would thus be estimated at Rs. 544.23 billion.

4 These and other data below are from *Status of Microfinance in India* 2018-19, NABARD, Mumbai, 2019. (https://www.nabard.org/auth/writereaddata/tender/1207192354SMFI%202018-19.pdf accessed on 29 September 2019.)

5 A 2016 NABARD report had estimated the potential for forming new SHGs in the country at 3.7 million when SHG numbers were 7.9 million, i.e., a total of 11.6 million SHGs.

6 The banks had reported an addition of 630,000 savings-linked SHGs in 25 States and UTs while there was a decline of 463,000 savings bank accounts in the other 9 States and UTs during 2017-18. Bihar, Odisha, Tamil Nadu and Andhra Pradesh together had put up 469,000 fresh savings-linked SHGs during 2017-18. On the other hand, Karnataka, Kerala, West Bengal and Maharashtra together had reported 446,000 lesser number of SHGs as compared to the previous year (NABARD, Status of Microfinance in India, NABARD, Mumbai, 2018). In 2017-18, Bengal and Maharashtra had registered a decline by 97,787 and 37,129 savings-linked SHGs respectively. However, these states have in 2018-19 registered a substantial increase of 129,089 and 260,090 SHGs over the previous year's figure! A similar situation prevailed in Gujarat where SHG numbers reduced by 6,725 in 2017-18 but increased by 54,412 in 2018-19.

7 NABARD data on SBLP does not match data on bank linkage for the same period that has been provided at the NRLM website. NRLM data on SBLP relates to all women SHGs rather than only the SHGs in development blocks covered by NRLM. The variations and the possible reasons for the same are discussed in a later section.

8 Other reasons for the slow down in the addition to SHG numbers suggested by NABARD have been the saturation in the potential areas for formation of new SHGs and restricted operations by self-help promoting agencies (SHPAs) forming SHGs.

9 As discussed in the Inclusive Finance India Report 2018.

10 SHG numbers reported by NRLM cover both SHGs promoted under the programme as well as 'home-grown" SHGs promoted earlier by NGOs and other and other SHPAs that have subsequently been "co-opted" into the programme. This results in a rapidly increasing share of NRLM SHGs in total SHGs. Also, the break between the termination of the SGSY programme and the build up of the NRLM coverage possibly serves to distort the relative growth rates of this programme.

11 From about Rs. 133,000 to Rs. 233,000 as computed from data in table 6.1.

12 The number of SHGs receiving bank loans in two large states of Uttar Pradesh and Madhya Pradesh during 2017-18 and 2018-19 were 43,000 and 47,000 respectively or less than 2% of loans disbursed. However, the number of SHGs with loan outstanding as on 31 March 2019 for these two states taken together were over 250,000.

13 In fact, in the NABARD Report for 2017-18 the NRLM/SGSY SHGs were computed as having an overall NPA ratio of 6.6% as against 6.12% for SHGs as a whole. However, this figure was subsequently contested by NRLM officials.

14 However, according to NRLM officials NPAs of banks lending to women SHGs as on 31 March 2019 were 2.18%. This excludes legacy NPAs of SGSY loans to SHGs.

15 The private banks had Rs. 1.17 billion gross NPAs or a little over 3% of their outstanding loan portfolio to SHGs of Rs. 38.4 billion as on 31 March 2019 had the best performance.

16 This section draws largely from the *Status of Microfinance in India, NABARD, 2018-19*, NABARD, Mumbai, 2019.

17 Vide RBI Circular no. RBI/2015-16/291DBR.CID.BC.No.73/20.16.56/2015-16 dated 14 January 2016. (https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10227&Mode=0 accessed on 29 September 2018).

18 The author is grateful to Amit Arora and team members of the NRLM Financial Inclusion team, Ministry of Rural Development for their valuable inputs.

19 This figure represents the number of women SHGs in blocks covered by NRLM - which is steadily rising over time as more SHGs are formed and more blocks are covered. It is estimated by NRLM staff that another 20% of women SHGs exist that are outside the fold of the NRLM. This yields an estimated figure of *6.84 million women's SHGs as of end-September 2019*.

20 Co-opting an SHG into the NRLM fold entitles the SHG to receive funds from NRLM and in turn they have to comply with the five principles of good SHGs or the Panch Sutra (viz., regular meetings, regular savings, regular inter-loaning, timely repayment and up-to-date books of accounts) and follow NRLM book keeping norms.

21 SHG Bank Linkage 2018-19: Key Highlights, NRLM document, June 2019.

22 Details of these initiatives are presently not available in the public domain.

23 This excludes data from Telengana which would account for another 1,500 BC sakhis.

[24] Given the fact that there are over one million BCs of various kinds, this would still represent a limited coverage.

[25] These are better described as business facilitators (BFs) rather than BCs of the banks. Unlike BCs they do not undertake functions that involve handling cash. Based on their experience with NRLM certain banks are encouraging their branches to obtain the services of a bank sakhi (where NRLM is not present) with the banks paying the honorarium to them.

[26] SHGs themselves probably have the best qualifications to act as BCs or subagents. However, they still do not figure on the list of eligible entities.

[27] *Independent Assessment of Design Strategies and Impacts of DAY-NRLM*, Institute of Rural Management, Anand (IRMA), Anand, 2017.

[28] See, for example, "Sitharaman showers incentives on women self-help groups" *The Hindu Business Line*, (https://www.thehindubusinessline.com/economy/sitharaman-showers-incentives-on-women-self-help-groups/article28297779.ece accessed on 4 October 2019).

# Digital Finance: Need to Broadbase

7

## OVERVIEW

Over the last few years, technology, be it in the form of big data or machine learning or e-KYC or Fintech, has dominated the development discourse and financial inclusion space is no exception to it. It is argued that digitisation of records and use of technology to make the data sets interoperable will drive down the cost of data and increase the power of predictive analysis and evidence-based policymaking. The advancements in digital technology for use in financial inclusion be it payments or credit or other financial services, is based on the digital rails built by the government. India has put in place almost all of the supply-side factors that should make low-cost financial services available for all. The JAM Trinity—comprising a unique Jan Dhan basic account, Aadhaar ID linked to biometric data, and Mobile connectivity—is in place for most of the country, even for those using feature phones.[1] Despite the temporary slump after the Supreme Court verdict on Aadhaar in 2018, the push for seeding of bank accounts and mobile phone accounts with Aadhaar has reached high levels. As per the figures reported by Department of Financial Services, 86.70 percent of 120.56 crore bank accounts have been seeded with Aadhaar by the end of July 2019. Similar figures for mobile phones stand at 80.48 percent out of 126.26 crore mobile phone accounts. The advances in an open, interoperable payment system in the form of Unified Payments Interface (UPI) which can be availed by anybody having a smartphone and a bank account has revolutionised the payments system.

The establishment of digital rails has been backed by strong government push through its Digital India programme, which is an umbrella programme to lead India towards a knowledge-based economy. Digital India has three vision areas and nine pillars.

Based on the Digital India vision, there has been a significant thrust on digital delivery of government services especially transfer of benefits like wages under Mahatma Gandhi National Rural Employment and Guarantee Scheme (MGNREGS), food subsidy, etc., to Aadhaar-linked bank accounts as well as on expanding digital infrastructure. National Optical Fibre Network (NOFN) under Bharat Net was envisaged as an information super-highway through the creation of a robust middle-mile infrastructure for reaching broadband connectivity to gram panchayats and assuring them digital access. Over 3 lakh km optical fibre cable has been laid till March 2019 connecting 1.21 lakh gram panchayats.[2]

Based on this public creation of infrastructure and policy push, players like banks, MFIs, and NBFCs are increasingly moving towards digital offering to their customers.

While the other chapters on banks and SHG-Bank linkage programme have covered the digital aspect as relevant to the chapter, this chapter is more about the recent developments in policy and

| Digital Infrastructure as a Utility to Every Citizen | Governance & Services on Demand | Digital Empowerment of Citizens |
|---|---|---|

3 Vision Areas and 9 Pillars of Digital India

1. Broadband Highways 2. Universal Access to Mobile Connectivity 3. Public Internet Access Programme 4. e-Governance–Reforming Government through Technology e-Kranti - Electronic Delivery of Services 6. Information for All 7. Electronics Manufacturing – Target net zero imports 8. IT for Jobs 9. Early Harvest Programmes

operational issues furthering the digital journey, tracking and analysing the progress at the pan India level, especially in case of payments, presenting the variety of fintechs, discussing a few institutional initiatives and analysing the constraints or barriers to progress. The description of constraints and issues being faced at present is aimed at tempering the expectations of a Digital India vision to practical realities and avoid converting the digital "nudge" to "push". The digital journey in a country with high number of poor as also high share of informal economy needs to be gradual and based on a delicate balance between incentives and push. While the issues arising out of digital-based financial inclusion are summarised in the concluding notes to the chapter, they are also discussed along with the narration of various aspects in the chapter.

## DEVELOPMENTS DURING LAST YEAR—THE DIGITAL PUSH ACCELERATES

The focus on digital channels was evident in ample measure during the current year. In order to accelerate the journey, new developments in the form of policy and operational tweaks were almost a monthly feature and the year also saw major policy guidelines shaping the digital landscape of India. The description here starts with minor changes and announcement of digital targets and then goes onto major changes in policy or recommendations. The developments in Aadhaar are covered separately.

### Operational Changes and Targets

For the past few years, Ministry of Electronics and Information Technology (MeitY) has been setting annual targets for digital transactions. For 2019–20, it has set a target of 40 billion[3] transactions, which is an increase of 33 percent over last year's target of 30 billion, which was missed. The Reports indicate that the targets have also been assigned to the various players. The largest bank—State Bank of India has been given a target of 7.7 billion transactions, while Paytm payments bank has a target of 5 billion digital transactions. As such, the targets cover both public and private sector players. Aspirational targets in a country with high numbers are welcome but these have to be tempered with ground realities. Also, as acknowledged by the government in its Economic Survey for 2019–20, "A majority of the poor have no digital footprint" and "data needs to cover a critical mass of individuals/firms so that comparisons and correlations can be assessed to generate useful policy insights"[4] these aspects need to be built in digital transactions target. It would have been useful to track these transactions based on geography, size of transactions, etc., to see whether the digital drive is reaching the poor and rural areas.

> Aggregate targets and numbers do not reveal much on wider adoption of digital transactions

Reserve Bank of India (RBI) Governor in his meeting with CEOs of Public Sector Banks (PSB) in July, 2019 stressed that banks will identify one district in each state to make it 100 percent digitally enabled within a time frame of one year in close coordination and collaboration with all stakeholders, including State Level Bankers Committee (SLBC), state governments, regional offices of RBI, etc. It was also indicated that to the extent feasible, such districts may be converged with the 'Transformation of Aspirational Districts' programme of the Government of India. The press release issued by the RBI[5] in this regard indicates that it has been agreed to follow the idea, though there have not been any guidelines or allocation of district to a specific bank so far. While the idea looks promising to deliver 29 digital districts in one year, it also has weaknesses. The policy directive to PSBs and allocation of districts reminds one of social banking phase of 1970s and the Lead Bank Scheme. Forcing PSBs and leaving private sector banks is another flaw and will exacerbate the existing situation wherein PSBs have to shoulder the social mandate, while private banks continue to focus on high networth individuals and corporates. On one hand, PSBs are being asked to focus on profitability and given greater autonomy, while on the other, the ambitious schemes of the government, be it PMJDY or the proposed digital districts, continue to be with the PSBs.

Moving away from targets, the thrust on making digital transactions affordable also received further boost during the year. National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS) are the oldest and most widely used digital payments gateway maintained by the RBI. With effect from July 1, 2019, RBI decided to do away with charges levied by it on banks for using NEFT and RTGS and banks were asked to pass on the benefits to customers.[6] Banks currently levy charges based on the amount and mode of transaction—internet based or branch based.

> Digital Districts target to PSBs seems paradoxical in the liberalised era.

In the Union Budget for 2019–20, the issue of Merchant Discount Rate (MDR) charges was addressed by waiving MDR on businesses with a turnover of over Rs 50 crore or their customers. Those in this bracket will not be charged any fee on accepting payments through digital means like "BHIM UPI, UPI-QR Code, Aadhaar Pay, certain debit cards, NEFT, RTGS." The charge will be borne by the banks and the RBI. Interestingly, the announcement said that credit cards are not covered and only certain type of debit cards are covered. It is assumed that Rupay Cards will be preferred over Visa and Master card. Merchants using mobile payment apps like Paytm, Google Pay or BHIM will have business as usual as these companies even now do not pass on charges to merchants on their platforms. Further, there is no charge on UPI payments on transactions of up to Rs 2,000 till January 1, 2020 as per government directions. This move will affect the card-based payments, wherein a merchant has to pay 1–3 percent of the transaction value as MDR to the issuing bank. As now both merchants and customers do not have to pay the MDR, the cost will have to be borne by the acquirer bank, which also provides the Point of Sale (POS) machine. Industry experts feel that this will disincentivise acquiring banks to expand POS infrastructure as the cost has to be internalised. It can also be seen as a move to move away from costly POS infrastructure-based solutions to cheaper solutions like QR code or UPI. Smaller merchants have also started accepting digital payments through QR codes (Fig. 7.1) especially in urban areas.

Currently, customers can have limited free debit card transactions per month at issuing bank ATMs as well as other bank ATMs. Based on customer feedback, RBI directed banks in August, 2019 that transactions which fail on account of technical reasons like hardware, software, communication issues; non-availability of currency notes in the ATM; and other declines ascribable directly/wholly to the bank/service provider; invalid PIN/validations; etc., shall not be counted as valid ATM transactions for the customer. Consequently, no charges, therefore, shall be levied.

With the rise in digital transactions, incidences of fraud are also emerging. A global survey conducted by FIS, a financial services technology firm in 2018,[7] brought out that Indians are among the most frequent victims of online banking frauds with 18 percent of the surveyed customers reporting a fraud in the preceding year. In a recent submission by the Minister of State for Finance in Rajya Sabha

> Incentivising customers for digital payments is good but should not erode the viability of providers.

it was reported that with regard to ATM/Debit card, Credit card and Internet banking transactions of over Rs 1 lakh, there were 1,367 frauds reported in FY 2016-17, 2,127 in FY 2017–18 and 1,477 in FY 2018–19. Digital payments frauds make up for


**Figure 7.1:** Vendor in Gurugram taking Digital Payments

*Source:* Picture taken by author with consent

a significant portion—up to half—of all bank fraud cases. While these are figures reported by customers, a lot of frauds or wrong debits in case of small value transactions go unreported because of two reasons. First, the trade-off between amount involved and time spent in pursuing complaint is not favourable and second, many customers do not know the process of filing complaints.

It is heartening to note that the RBI is cognizant of the emerging risks and in its August 2019 Statement on Developmental and Regulatory Policies, it signalled the initiative to create a Central Fraud Registry to strengthen customer confidence in digital payments. The statement said,

> At present, there is a mechanism in place for banks to report all banking frauds to the Central Fraud Monitoring Cell of the Reserve Bank. With the digital payment ecosystem making substantial progress in terms of growth of payment infrastructure as well as volume and value of digital payment transactions, fraud risk monitoring and management by the stakeholders have assumed importance. It has always been the endeavour of the Reserve Bank to improve the confidence of customers in the payment systems. The Payment System Vision 2021 also envisages a framework for collecting data on frauds in the payment systems. In order to carry forward these efforts and ensure quick and systemic responses, it is proposed to facilitate the creation of a Central Payment Fraud Registry that will track these frauds. Payment system participants will be provided access to this registry for near-real time fraud monitoring. The aggregated fraud data will

be published to educate customers on emerging risks. A detailed framework in this regard will be put in place by the end of October 2019.[8]

It is a welcome step but the regulator also needs to ask banks and other digital finance pillars to do more on customer education and set up grievance redressal centres. The field realities show that IVRS-based complaint system does not work well with poor customers, who prefer a physical mode.

Another important development relates to RBI's decision to set up a Public Credit Registry (PCR) based on the recommendations of Report of the High Level Task Force on Public Credit Registry for India headed by Y.M. Deosthali. The proposed PCR is supposed to integrate data about an individual/corporate from various sources at one place. It will facilitate linkages with related ancillary information systems outside the banking system including corporate filings, tax systems (including the Goods and Services Network or GSTN), and utility payments. The PCR will have to be backed and governed by a comprehensive PCR Act to be brought in consultation with the government. The argument for establishing PCR relates to its ability to hold data which may not be commercially viable for private credit bureaus and provide a 360-degree view by linking datasets available across different regulators. It is reported that RBI has shortlisted six IT companies for setting up the PCR. Newspaper reports indicate that the US administration has objected to the RBI move to create a new public credit registry (PCR), on the grounds that the non-profit credit information company will be anti-competitive for private credit bureaus (PCBs). Author's discussion with the private credit bureaus also brought out the fact that they are not clear about its scope and their own role after PCR. From the angle of financial inclusion, inclusion of property records and utility payments might help micro and small enterprises covered by the formal sector lenders.

## Major Developments

The year also saw major developments in digital space, which will significantly improve and accelerate the ecosystem for digital finance. The RBI in May 2019 released the "Payment and Settlement Systems in India: Vision 2019–2021." The Payment Systems Vision 2021 with its core theme of "Empowering Exceptional (E)payment Experience" aims at empowering every Indian with access to a bouquet of e-payment options that is safe, secure, convenient, quick and affordable. In May 2019, the High Level Committee on Deepening of Digital Payments headed by Nandan Nilekani submitted its report to the RBI. In August 2019, the RBI released the guidelines on enabling framework for regulatory sandbox. All the three policy documents have one common thrust, accelerating the pace of digital finance adoption in the country.

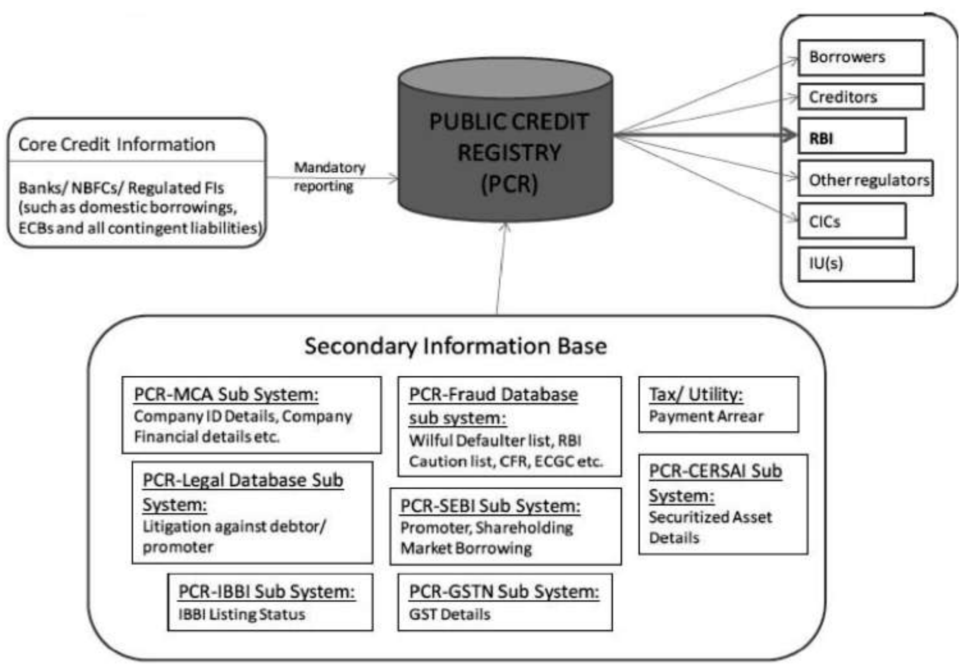



**Figure 7.2:** Public Credit Registry Structure

*Source:* Report of the High-Level Task Force on Public Credit Registry for India, 2018

## High Level Committee on the Deepening of Digital Payments

The Nandan Nilekani report[9] is a comprehensive and future looking document. It covers a wide gamut of digital landscape like status of digital payments including government payments, enablers to digitisation, financial inclusion, increasing consumer confidence and regulatory issues. It ends with outlining a medium-term strategy for deepening digital payments with recommendations for the RBI, industry, government, Department of Telecommunications and Telecom Regulatory Authority of India (TRAI). These recommendations are given in Annexure 1 of the chapter. Considering the focus of this report on inclusive finance, the following narration details the recommendations related to it and not the wider set of recommendations.

The report rightly highlights the fact that while the issuance or supply side has now a variety of payment services, the acceptance side continues to lag behind due to high cost structures and interchange fee, making cash the dominant mode of transaction. The development of payment services backed by government benefit transfers and salaries in the formal sector, the "digital credits" has gone up substantially but the scenario on "Digital debits" is depressed and the recommendations are geared towards bridging the gap between digital credits and debits. It is heartening that the committee adopts a holistic definition of Digital Transactions by differing with the RBI definition, which "means a payment transaction in a seamless system effected without the need for cash at least in one of the two legs, if not in both." The Committee broadens it to cash-less in both legs. For example, if a person receives his/her salary in bank account but withdraws cash and spends cash, it is an example of one legged digital transaction.

The wide-ranging recommendations made by the committee are indeed important but the other

**Box 7.1: Key Recommendations/Observations of Nandan Nilekani Report related to Financial Inclusion**

- RBI to provide data on digital transactions by block/pin code to identify areas that show high cash preference.
- ATM networks are important to ensure that people are comfortable that they can access cash when needed. ATMs need to be reimagined to integrate other services.
- MDR and interchange fees should be determined by the market. The RBI may set up an Acceptance Development Fund to develop new merchants.
- Legacy Kisan Credit Cards, which are not in the form of RuPay cards but continue to be passbook based to be upgraded to RuPay cards on priority.
- For high frequency, low value transaction users can be catered to by creating a limited wallet with no KYC. Maximum value in wallet can be capped at Rs 2,000.
- BHIM UPI QR must be actively promoted as low cost acceptance infrastructure. QR Code generation to be made easier through multiple channels like branch, USSD or mobile phone. BHIM UPI should include support for repeat payments, in the control of the user.
- Payments system in general and BHIM UPI should move towards using a machine driven, online dispute resolution system to handle complaints expeditiously.
- Users not having a smart phone should be provided other options like BHIM Aadhaar Pay to make digital payments.
- Regional Rural Banks (RRBs) and Cooperative banks participation in mobile banking be accelerated through NABARD Financial Inclusion Fund.
- Citizen to government payment should be free of charges like convenience fee.
- Need to map all financial institutions including POS devices, banking correspondents (BC) and ensure that no user is more than 5 km away from a banking access point. In gap areas, local vendor can be made a BC.
- PIN code-based data on digital transactions to include fraction of women owned accounts, accounts with one digital transaction per month and accounts which have enabled mobile/internet banking.
- Promote digital transactions at rural farmers market.
- Basic Savings Bank Deposit Accounts (BSBDA) to be upgraded to exclude DBT payments from the limits on total credits and maximum balance.
- BCs being an important part of last mile digital transactions must serve customers of all banks and be fairly compensated.
- Digital footprints be used to provide credit to small businesses.

contribution relates to listing out the challenges in deepening digital payments. The report acknowledges that for a two-legged digital ecosystem, a lot needs to be done on improving connectivity, reducing transaction failures, ramping up acceptance infrastructure, digital literacy and a robust grievance redressal system. It is heartening to note that the committee recognised the special needs of the bottom of pyramid section. It is exemplified in its various recommendations and observations like (a) people must have cash points till the digital system is well penetrated, (b) the grievance redressal system must have physical contact points, (c) non-smart phone-based transactions were promoted, (d) assisted transactions were needed to strengthen the BC network and (e) value wallet without KYC was to be low.

## Payment and Settlement System in India—2019–21: Vision Document[10]

The RBI released the vision document in May 2019. Vision 2021 document focussed on a two-pronged approach: (a) exceptional customer experience; and (b) an enabling eco-system favouring customer experience. Keeping these two aspects at the centre, the Vision aims towards:

- enhancing the experience of customers;
- empowering payment system operators and service providers;
- enabling the eco-system and infrastructure;
- putting in place a forward-looking regulation;
- supported by a risk-focussed supervision.

**Table 7.1: Key Targets**

| Nandan Nilekani Report | Vision Document of RBI |
|---|---|
| Per Capita Digital Transactions to increase to 220 by March 2022 | Number of digital transactions is expected to increase more than four times from 2069 crore in December 2018 to 8707 crore in December 2021. |
| Value of Digital Transactions to GDP to go up from 769 percent to 1500 percent in 2021-22 | |
| 300 million active Digital Transaction users in next 3 years – from current level of 100 million | Debit card transactions at PoS for purchase of goods and services to increase by 35 percent by 2021 |
| Currency in Circulation to grow lower than GDP growth + Inflation and should move towards the global average of 7 percent | 5 million active PoS by end 2021; digital PoS (QR code) is also expected to increase substantially; and the total card acceptance infrastructure will be upscaled to six times present levels by end 2021 |
| | Decrease in Technical Declines reported across various payment systems by 10 percent year-on-year |
| | Mobile-based transactions to increase by 50 percent during the vision period |

For achieving the Vision, four goal posts (4Cs) are envisaged—competition, cost, convenience and confidence. For enhancement of competition in the payment systems landscape, specific thrust areas like creating regulatory sandbox, authorising new players, etc., have been incorporated; this along with the presence of multiple players in the market is expected to achieve optimal cost for the customers; freer access with availability of multiple payment system options anytime-anywhere should cater to the requirement of convenience; the "no-compromise" approach towards safety of payment systems should address security vulnerabilities to retain customer confidence.

The Vision document and the Nandan Nilekani Report have quite a bit of similarity in focus. Both documents focus on:

- improving acceptance
- augmenting usage
- increasing redress
- setting targets

It is heartening to note that both documents have addressed the key issues of expanding low cost acceptance infrastructure, reducing failures, technical as well as business, and tightening the grievance redressal mechanism.

Table 7.1 lists the key targets indicated in Nandan Nilekani Report and Vision document of the RBI.

The Vision document aims to achieve these milestones through 36 specific action points across four points—Competition, Cost, Convenience and Confidence (details in Annexure 7.2). From financial inclusion perspective, two areas stand out—increasing the coverage of feature phone-based payment services and grievance redressal. With regard to grievance redress, the document enumerates four action points.

- **Defined Turnaround Time**: Need for harmonising the turnaround time (TAT) of customer complaints and such time lines should be reasonable. Recourse to technology-driven dispute redressal mechanisms that are rule-based, transparent, customer friendly and involve minimum (or no) manual intervention will be advocated/encouraged/appreciated.
- **24X7 Helpline**: Enhanced consumer experience with a general centralised helpline for addressing customer queries in respect of various digital payment products, security aspects, recourse mechanism, etc. to build trust and confidence.
- **Self-Regulatory Organisation (SRO) to take the lead**: Payment service industry level Self-Regulatory Organisation (SRO) proposed in the Vision can facilitate the setting up of an

industry wide 24x7 helpline and the large-scale use of technology for customer assistance and complaint redressal.

- **Customer Awareness Surveys by the RBI:** To gauge awareness and usage of various payment services, including digital payment systems amongst various stakeholders and individuals to be undertaken by the RBI and feed into policy formulation.
- **Internal Ombudsman by Payment System Operators (PSO):** Though PSOs have set up their own mechanism for addressing customer complaints, there is a need to formalise an internal ombudsman in the PSOs so that there is an avenue for swift and cost-effective complaint redressal mechanism within the organisation.

## Regulatory Sandbox

With the rise of Fintech, the regulatory sandbox approach has been gaining traction in several countries. Use of technology and APIs has enabled interconnectedness among various players in the financial sector, often traversing different regulatory jurisdictions. In last year's report,[11] this issue was highlighted by saying that interconnectedness leads to modularisation of services and regulatory challenges. The Reserve Bank's Working Group Report on FinTech and Digital Banking recommended developing a framework for regulatory sandboxes to spur innovation and the vision document discussed above also talked about sandbox approach.

> In a sandbox approach, the regulator, innovators, financial service providers and the customers (as final users) conduct field tests of pilots on new financial innovations to collect evidence on the benefits and risks. It provides a structured avenue for the regulator to engage with the ecosystem and to develop innovation-enabling or innovation-responsive regulations that facilitate delivery of relevant, low-cost financial products.

The RBI-released Regulatory Sandbox guidelines in August 2019[12] to pave the way for innovations in a technology-driven world. The sandbox approach has several potential benefits as it allows for innovation in a controlled environment. Foremost, is the ability of regulation to evolve with learnings from the pilot rather than adopting an ex ante approach to regulation hampering innovation. Second, the risks are minimised as financial service providers do it on a limited scale and are under close watch of the regulator. Finally, it allows the innovators to test the viability of the offering before roll out and making necessary modifications based on the pilot. Sandbox approach takes away rigidities and allows for a dynamic environment of feedback between regulators, innovators and clients.

RBI in its sandbox guidelines has indicated list of products/technology to be covered under the sandbox as well as the excluded list (Table 7.2). Financial inclusion products find a mention in the list of eligible products.

To foster innovation, RBI has proposed relaxations under liquidity, capital and governance norms for the entrants but for getting the regulatory nod, entrants need to specify the gap their offerings will fulfil, target customers as well as the start and end date. In line with its focus on customer protection, guidelines prescribe that before closing the service, all outstanding obligations of customers have to be met. Customers have also to be informed of the potential risks and available compensation.

The global appeal of a flexible approach by way of sandbox, innovation hub or accelerator comes across vividly in a CGAP and the World Bank Group joint survey[13] between February and April 2019 on regulatory innovation facilitators, including accelerators, sandboxes and innovation hubs. It collected 31 responses from regulatory agencies in 28 countries, including jurisdictions in Africa, the Americas, Asia and Europe.

**Table 7.2: Sandbox Coverage**

| Allowed Products/technology | Excluded products/technology |
|---|---|
| PRODUCTS | |
| • Retail payments<br>• Money transfer services<br>• Marketplace lending<br>• Digital KYC<br>• Financial advisory services<br>• Wealth management services<br>• Digital identification services<br>• Smart contracts<br>• Financial inclusion products<br>• Cyber security products | • Credit registry<br>• Credit information<br>• Crypto currency/Crypto assets services<br>• Trading/investing/settling in crypto assets<br>• Initial Coin Offerings, etc.<br>• Chain marketing services<br>• Any product/services which have been banned by the regulators/ Government of India. |
| TECHNOLOGY | |
| • Mobile technology applications (payments, digital identity, etc.)<br>• Data Analytics<br>• Application Program Interface (APIs) services<br>• Applications under block chain technologies<br>• Artificial Intelligence and Machine Learning applications | |

Twenty-five countries out of 28 had regulatory sandbox either as active/launched/under development phase, which shows the growing popularity of the approach to foster innovation (Fig. 7.3).

The section shows the persistent thrust being placed in the country on digital transactions. While the major developments have been covered, it is not an exhaustive list as the purpose was to highlight the focus. These policy initiatives and documents though having a common focus are not entirely free from differences. To cite an example, the issue of MDR has been contentious and has limited the expansion of PoS devices. Nilekani Report on the lines of earlier Ratan Watal Committee suggests a market-driven approach for MDR albeit with some changes like reduction in interchange fee on cards by 15 basis points and creation of an Acceptance Development Fund (ADF) to subsidise merchants in PoS deficient areas. Vision document also talks about ADF and allowing NBFCs and RRBs to become acquirers of cards. While there is a universal acceptance of the fact to expand acceptance infrastructure, there is lack of clarity on the way to go for it, market driven or subsidised or passing on the cost to PoS providers. There needs to be a clear policy on critical areas—acceptance infrastructure, reducing transaction failures, digital literacy and grievance redressal.

Now, we turn to developments under Aadhaar-the bedrock of digital transactions. The policy has seen so many changes during last one year, that it is difficult for a lay person to understand the complexities.

## Aadhaar: A Rocky Journey and Technicalities Galore[14]

Aadhaar is a random 12-digit unique identification number issued to all residents of India. The Aadhaar (Targeted Delivery of Financial & Other Subsidies, Benefits and Services) Act, 2016 provides the legislative framework for linking of Aadhaar for government benefits. Aadhaar was initially envisaged as a tool to enable effective delivery of government welfare schemes and other services by establishing identity of a person and eliminating duplicate and fake identities. The first project of March 2006, related to Aadhaar was titled 'Unique Identification of Below Poverty Line Families'. Subsequently, Aadhaar programme was expanded to target coverage of other services and government notification made Aadhaar mandatory for holding a bank account, operating a cell phone, having a valid PAN (Tax number), holding mutual funds, securing admission to school, taking a board examination, etc. The use cases of Aadhaar 'spread like wildfire'.

### *Legal Challenges*

Seeding of Aadhaar in distinct databases gave rise to the possibility of profiling the individual. Widespread use of Aadhaar gave rise to concerns about the invasion into the right to privacy of the individual, the possibility of a totalitarian state based on surveillance of residents by creating their profile, tracking their movement and usage of Aadhaar. The constitutional permissibility of the Aadhaar Act itself was challenged. Those in favour of Aadhaar pointed out the benefits in terms of good governance, financial inclusion, advancing socio-economic rights and economic prosperity.

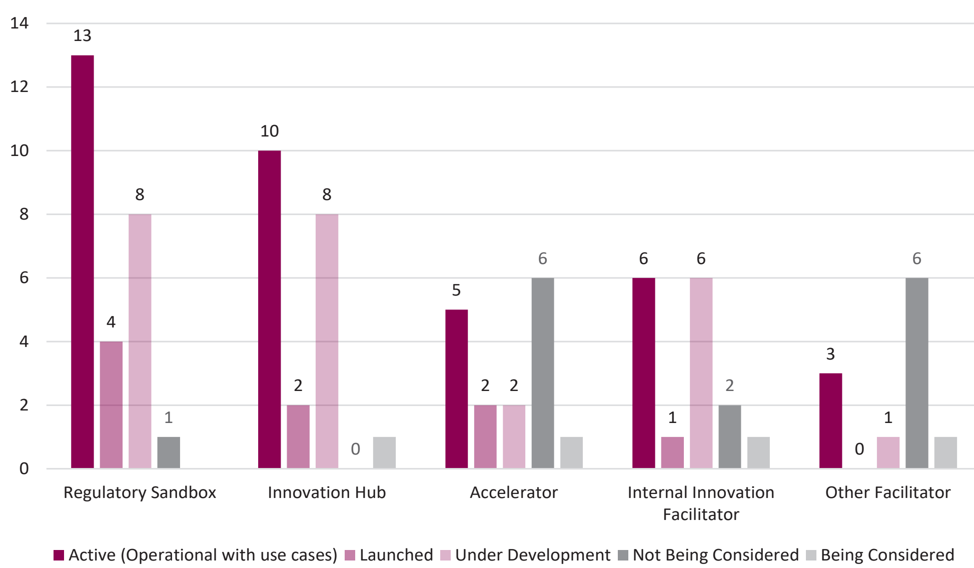



**Figure 7.3:** Stage of Innovation Facilitators across 28 Countries

*Source*: https://www.cgap.org/blog/running-sandbox-may-cost-over-1m-survey-shows

Numerous writ petitions were filed which were clubbed together by the Supreme Court and the judgement was passed in September 2018. The SC ruled that

- Aadhaar does not violate a person's privacy when his biometric data is collected
- Aadhaar is compulsory for allotment of a PAN number and filing Income Tax Returns
- Aadhaar is not required to open a bank account or to get a SIM card
- Section 57 of the Aadhaar Act is struck down. As a result, no private entity can seek Aadhaar data from an individual
- Aadhaar is mandatory to avail welfare schemes and subsidies of the government

### *e-KYC: A Boon for Financial Services Companies*

The Aadhaar data is ideally suited to fulfil the Know Your Customer (KYC) requirements mandated by RBI. Aadhaar e-KYC is a paperless KYC process wherein the identity and the address of the subscriber are verified electronically through Aadhaar authentication. As per Regulation 3 of Authentication Regulations, UIDAI provides two types of authentication facilities, namely,

- Yes/No authentication facility: UIDAI provides the response as Yes or No along with relevant error codes, if any
- e-KYC authentication facility: UIDAI provides the demographic data along with photograph and in case of mismatch/error, the relevant error codes

A physical paper-based KYC verification costs Rs 200 (approx.)/transaction. For Aadhaar e-KYC private companies have to pay Rs 20 (inclusive of taxes)/verification and Rs 0.50/authentication.[15]

e-KYC was a boon for Fintech and financial services companies operating with minimal physical infrastructure and manpower. e-KYC was widely adopted, while banks, mutual funds, online loan providers used it for onboarding of customers in real time at much reduced costs; insurance companies used it to curb frauds. Microfinance institutions started using the e-kYC for customer identification and Aadhaar became a distinct identifier for credit bureau records. The sudden withdrawal of e-KYC facility to private entities following the SC judgement impacted these firms adversely and led to a lot of confusion and turmoil.

### *Aadhaar Amendment Bill*

The Aadhaar and Other Laws (Amendment) Bill, 2019 was promulgated as an ordinance in March 2019 and was passed by the Parliament as a law in July 2019. The KYC rules were accordingly modified by the RBI for the Regulated Entities (REs).

- Aadhaar was added to the list of Officially Valid Documents (OVD) used for identification.
- Sharing of Aadhaar details by an individual was made voluntary as opposed to mandatory earlier.
- It was made mandatory for the REs to inform the customer about all the OVDs that can be used and to seek informed consent from the individual before taking details of his Aadhaar.
- Services cannot be denied to an individual who refuses to undergo authentication.
- A differentiation was made between banks and REs. Banks were allowed to carry out Aadhaar authentication/offline-verification of an individual for identification purpose.
- REs were required to ensure that the customers Aadhaar number is redacted or blacked out while submitting a document for due diligence. A non-bank RE can use Aadhaar offline paper e-KYC to establish the identity of a customer[16] but cannot use biometrics for authentication. If it wishes to do e-KYC authentication, the RE can apply to the RBI for permission to be allowed to do so. The offline e-KYC process seems to have suffered from high failure rates.[17]

***Fintechs and Microfinance Institutions*** have been adversely affected by these changes. In the current scenario, while they can use Aadhaar for identification on voluntary basis, the number has to be redacted or blacked out. Offline KYC verification is a complex process and not suitable to financial inclusion clients plus suffers from high failure rates. Further, the number cannot be transmitted to credit bureaus, hence, Aadhaar-based credit history is no longer available. Now, credit bureaus will have to switch to other parameters like name, age, location, voter card, etc., based on multiple matching logic, which is not foolproof.

### *Twist Continues: A Developing Story*

The Ministry of Finance (Department of Revenue) introduced digital KYC by amending the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 on August 19, 2019. As specified in the gazette, "digitial KYC" means capturing live photo of the client and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the reporting entity as per the provisions contained in the Act.

Point (M) of the process specifies that "On Successful verification, the CAF shall be digitally signed by authorised representative of the Reporting Entity who will take a print of CAF, get signatures/ thumb-impression of customer at appropriate place, then scan and upload the same in system. Original hard copy may be returned to the customer." Finance minister announced on August 23, 2019[18] that NBFCs would be allowed to use the Aadhaar authenticated bank KYC to avoid repeated processes. Guidelines on how it will be done are still awaited.

In summary, it can be said that the critics of Aadhaar and the various legal challenges to its use have reduced Aadhaar usage to a web of complexities. Author's discussions with practitioners also elicited varied responses, which clearly indicates that there are wide gaps in understanding and rightly so, as multiple directives have been issued by UIDAI and RBI. These technicalities—the maze of identity, authentication, online KYC, Offline KYC, digital KYC, PMLA are anyway beyond the average consumer. However, at ground level financial inclusion efforts through Fintech and MFIs have taken a hit.

## PROGRESS IN DIGITAL PAYMENTS

### The Payments Landscape—100 Million Digital Users

The policy nudge towards digital ecosystem starting from demonetisation in 2016 coupled with the launch of mobile phone-based payments gateway Unified Payments Interface (UPI) has revolutionised the payments landscape in India. While the stated policy continues to move towards a less cash economy and it has achieved quite significant success in last few years, as pointed out by the Nandan Nilekani Report, the requirement now is to broad base it. The current section analyses the trends across various retail payment systems; wherever data is available it compares the Indian situation with the global one and also points at issues in India's cashless journey.

The progress on digital payments from financial inclusion perspective needs to analyse the changes in infrastructure, as well as retail payments. The payments landscape in India as of now consists of both retail payments and systematically important financial market infrastructure (SIFMI), which has more to do with government securities market, foreign exchange and Real Time Gross Settlement (RTGS). Though RTGS is a part of SIFMI, as it relates to transactions value over Rs 2 lakh, customer transactions are also part of it, and reported by the RBI separately. In our analysis of retail payments, we have included customer transactions under RTGS, as they account for nearly 95 percent of RTGS volume. For a picture of retail digital transactions, the ecosystem considered here is payment instruments/ gateways managed by the RBI [RTGS, National Electronic Fund Transfer (NEFT), Electronic Clearing System (ECS)) and National Payments Corporation of India (NPCI)—[Immediate Payment Service (IMPS), UPI, National Automated Clearing House (NACH)] and Prepaid Instruments (PPI), Credit and Debit Cards. SIFMIs being large amount transactions, if included, distort the analysis in respect of value. In last year's report, the same classification was used to discuss the trends and the grouping also corresponds with the definition given by the Nandan Nilekani Report;[19] Government to People (G2P) transactions in the form of Direct Benefit Transfer (DBT) are an integral part of the digital story, hence, analysed separately. Similarly, Aadhaar Enabled Payment Service (AEPS), which is mainly used by DBT beneficiaries for making transactions using biometric is also discussed separately.

As mentioned earlier, the government has been setting targets for digital transactions. For 2017–18, the target was 25 billion, which went up to 33 billion for 2018–19 and for the current year the target is 45 billion. Nandan Nilekani Report has placed another target of reaching 220 per capita digital transactions by 2022 and increasing the user base from current 100 million to 300 million. It is noteworthy that the Nandan Nilekani Committee estimated the digital users at 100 million active users who used digital transactions at least once in a month.

### The Infrastructure—ATMs Stagnant, PoS Increase But Still Way below Global Average

Digital payments ride on the transaction infrastructure in terms of Automated Teller Machines (ATMs), Point of Sale (PoS) devices, debit and credit cards, and the associated transactions.

The policy intent is clearly visible in the touch points, with a number of ATMs remaining stagnant over the last few years, while the number of PoS machines is increasing rapidly (Fig. 7.4). This, combined with news reports of non-functioning ATMs or dry ATMs, adds up to the digital push, as ATM transactions are done to withdraw cash, which goes against the digital ecosystem being built.[20] Various reasons have been attributed for the stagnant growth in ATMs. Experts say that low interchange fee makes banks pay the fee to other banks rather than expanding their own network plus the mounting cost of software and equipment upgrades. This at a time when ATM

**Table 7.3: Data on Technology enabled Touch-points and Transactions over the Years**

| Detail | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| ***Infrastructure in ('000s)*** | | | | | | | |
| Onsite ATMS | 56 | 83 | 89 | 102 | 110 | 107 | 106 |
| Offsite ATMS | 58 | 77 | 92 | 97 | 99 | 100 | 96 |
| Online PoS | 841 | 1,050 | 1,126 | 1,385 | 2,526 | 3,083 | 3,722 |
| Total touch points | 968 | 1,226 | 1,308 | 1,585 | 2,737 | 3,290 | 3,924 |
| ***Credit Cards (Nos in million)*** | | | | | | | |
| Outstanding Credit Cards | 19.54 | 19.18 | 21.11 | 24.51 | 29.84 | 37.48 | 47.09 |
| Transactions at ATMS | 2.52 | 2.96 | 4.29 | 6.00 | 6.37 | 7.81 | 9.77 |
| Transactions at PoS | 396.61 | 509.08 | 615.12 | 785.67 | 1,087.13 | 1,405.16 | 1,762.59 |
| Amounts Rs. billion at ATM | 14.42 | 16.87 | 23.47 | 30.41 | 28.39 | 36.68 | 45.33 |
| Amounts Rs. billion at PoS | 1,229.51 | 1,539.85 | 1,899.16 | 2,406.62 | 3,283.82 | 4,589.65 | 6,033.48 |
| ***Debit Cards (Nos in million)*** | | | | | | | |
| Outstanding Debit Cards | 331.2 | 394.42 | 553.45 | 661.82 | 854.87 | 861.08 | 924.63 |
| Transactions at ATMS | 5,530.16 | 6,088.02 | 6,996.48 | 8,073.39 | 8,563.06 | 8,602.26 | 9,859.61 |
| Transactions at PoS | 469.05 | 619.08 | 808.09 | 1,173.61 | 2,399.30 | 3,343.39 | 4,414.28 |
| Amounts Rs. billion at ATM | 16,650.1 | 19,648.4 | 22,279.2 | 25,371.4 | 23,602.7 | 28,987.6 | 33,107.89 |
| Amounts Rs. billion at PoS | 743.39 | 954.51 | 1,213.49 | 1,589.27 | 3,299.07 | 4,600.70 | 5,934.75 |
| Number of ATM txs per Debit card (Annual) | 16.70 | 15.44 | 12.64 | 12.20 | 10.02 | 9.99 | 10.66 |
| Number of PoS Txs per Debit card ( Annual) | 1.42 | 1.57 | 1.46 | 1.77 | 2.81 | 3.88 | 4.77 |

*Source:* ATM/POS/Card Statistics at https://rbi.org.in/scripts/ATMView.aspx?atmid=97 and payment systerm indicators at https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=18395, accessed on July 23, 2019.

*Notes:*

1. The above numbers for 2017 pertain to the ATMs of 56 SCBs and for 2018 for 49 SCB in the following ownership category—foreign Banks, public sector banks (including IDBI Bank), old and new private sector banks. However, some foreign banks, RRBs, SFBs and all the co-operative banks (both rural and urban) were left out. Total reported ATMs are 222.2 thousand numbers for 2019 pertains to 49 SCB, 7 Payment Banks and 10 Small Finance Banks.
2. Apart from these ATMs of banks, there were 14,451 white label ATM in 2017 which increased to 15,195 in March 2018 and to 19,507 in March 2019

penetration per 100,000 people in India remains abysmally low as compared to BRICS nations (Fig. 7.5). While the spread of ATMs might not be congruent with the logic of digital push as most ATM transactions are for cash withdrawal, it is necessary that people have the comfort that they have access to cash when needed. Nandan Nilekani Committee in its report also echoes similar statement by saying "ATM networks are important to ensure that people are comfortable that they can access cash when required" and goes on to say "However, there is a need to work out a viable model for ATMs in a cash less world".[21] This has to be seen with the growth of cards (debit/credit) in the country. During 2018–19, the outstanding number of debit cards grew by 7

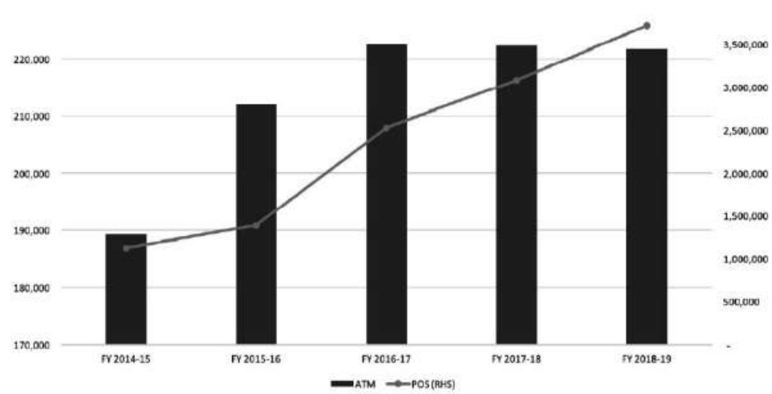



**Figure 7.4:** ATM & PoS Numbers over Last 5 Years

*Source:* High-Level Committee on Deepening of Digital Payments

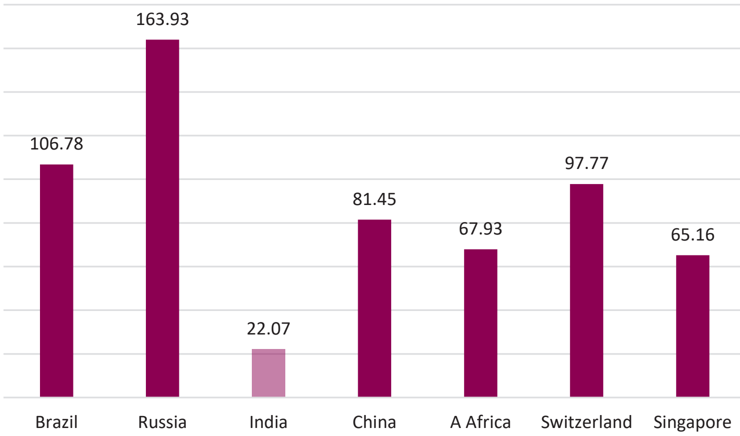



**Figure 7.5:** ATMs per 100,000 People in 2017

*Source:* http://wdi.worldbank.org/table/5.5

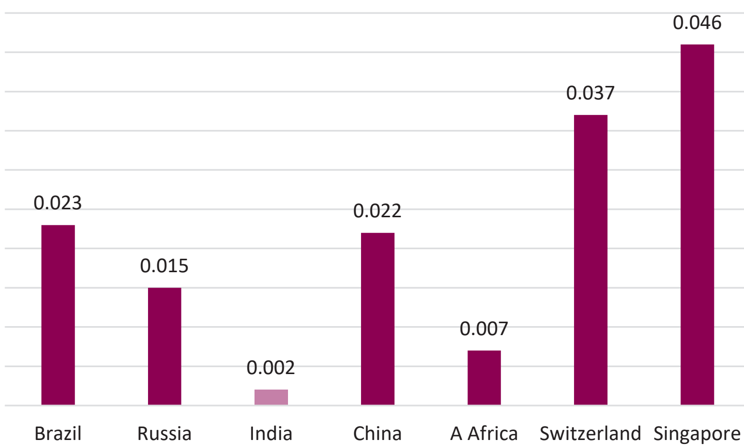



**Figure 7.6:** Per Capita PoS in 2017

*Source:* http://stats.bis.org/statx/srs/table/CT14b

percent to reach 923 million and credit cards grew by 25 percent to touch 47 million. Issuance of RuPay cards to PMJDY account holders has further swelled the numbers. Cards can be used either at ATMs or PoS and on both the Indian situation is far below comparable BRICS countries (Fig. 7.6). PoS terminals have seen a more than 150 percent jump in the last three years; still, the change is noteworthy as after a period of low growth during 2013–16, the number of PoS increased from .84 million to 1.3 million, the number has touched 3.8 million now. QR code-based payments appear to be growing as a cheaper means of digital transaction, but there is no data on the number of QR code points. Though the future points towards a shift from card-based payments to phone and QR code-based transactions, the moot point is that nearly 1000 million cards issued in the country have to be serviced.

**Table 7.4:** Transactions percent Growth during 2018-19

| | Growth in Number of Transactions | Growth in Value of Transactions |
|---|---|---|
| ATMs | 14.6 | 14.22 |
| PoS | 30.07 | 30.12 |

*Source:* Derived from Table 4.2.

The annual growth in transactions through both debit and credit cards at PoS is significantly more than at ATMs, in volume as well as value. While card transactions at ATM are also growing, the PoS transactions are growing at a faster pace, plus the average rupee transaction made at ATMs has also remained more or less stagnant, in the range of ~Rs 3000 to Rs 3500. The above figures indicate that increased availability of PoS has translated into increased use, which is a positive sign of customer adoption. The propensity of cash withdrawal through ATMs has at least not increased in average value (average debit card transaction at ATM as Rs 2.7 thousand), while increase in number of transactions are due to increase in cards issuance. The PoS transactions are of lower size with respect to both debit and credit cards as compared to use of ATM cards.

In this era of disruptions, it is quite likely that there will be new players lowering the PoS cost to make it attractive to merchants. Jio is reported to have entered the PoS space. Merchants have to pay Rs 3,000 to get the PoS on lines of the model Reliance adopted with the JioPhone, wherein users had to pay a "security deposit" of Rs 1,500 (refundable after three years) to get the handset. The Jio PoS can be used for debit/credit transactions as well as wallet payments from JioMoney and BHIM.[22]

## Connectivity Challenge Persists

Connectivity is central to digital inclusion, as technology-based solutions, be it card or phone-based, like UPI or Bharat QR code, require reliable net connectivity. The studies cited in the chapter also show, that problems related to connectivity lead to issues like delay and failure in authentication, which in turn leads to customer apathy/distrust towards digital. The region-wise penetration of internet exhibits a lot of gaps (Fig. 7.7). The overall internet connections have gone up by 143 million in the last one year, to reach 636 million, but despite a conservative definition of broadband (512 Kbps and above), 12 percent of the connections are narrowband. Rural areas account for 35 percent of internet connections. Regional concentration is also seen distinctly, with South India accounting for 24 percent of internet connections. Further, it is not clear as to how much double counting is there in internet connections, as a person having a mobile phone with internet and fixed line connection will be counted as two connections, and there are many such cases in urban area. Thus, the actual count of internet connections is much lower. Comparing it with other BRICS countries, India's internet connectivity penetration remains low. China has 58.4 percent of population covered with Internet, while similar figures for Brazil and South Africa are 70.7 percent and 53.7 percent respectively. The connectivity challenge is further compounded by the fact that even broadband connections like 4G and 3G face the challenge of lower speeds and disruptions.

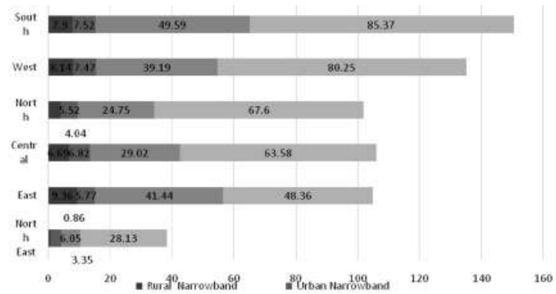



**Figure 7.7:** Region-wise Penetration of Internet Connection March 2019

*Source:* Telecom Regulatory Authority of India, 2019.

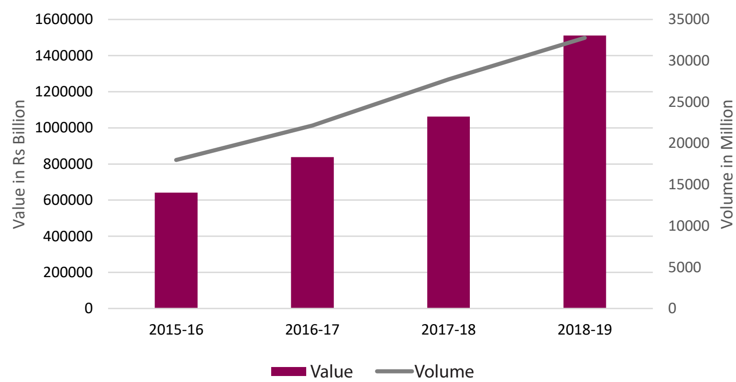



**Figure 7.8:** Retail Digital Payments Volume and Value

*Source:* RBI & NPCI (see endnote 18 & 19).

## Trends in Retail Digital Payments

This section analyses the trend in retail digital payments, excluding the SIFMIs, except RTGS-customer transactions, as mentioned above. Payment channels included are RTGS (customer transactions), NEFT, ECS, NACH, IMPS, UPI, #99, pre-paid instruments, credit cards and debit cards and it is consistent with Nandan Nilekani Report. The period of analysis is from August 2016, and covers the period till May, 2019. August, 2016 has been taken as the start, so as to see the picture before demonetisation in November 2016, and May 2019 is the month up to which data is available across all retail digital channels, at the time of report writing in mid-July. In some cases, data is also available for the month of June, but for the sake of consistency, May 2019 has been taken, as data across all channels is available for May.

The data used for the analysis has been taken from RBI[23] and NPCI,[24] and the full month-wise data set across these channels is given in Annexure 7.3.

## 45 Billion Transaction Target within Reach but What about per capita Transactions?

The composite trend in growth of retail digital payments has been impressive. The number of digital transactions reached 33.06 billion during 2018–19 as compared to 14.02 billion during 2015–16, i.e., more than double, and similarly, the volume of transactions grew by 82 percent to reach Rs 14,98,337 billion (Fig. 7.8). Nearly 70 percent growth in volume of digital transactions is a testimony to the policy push, demonetisation, and digital India programme and more so to the innovations in payments. The total volume of retail digital payments touched 3.3 billion transactions in May 2019, with a value of Rs135,567 billion. In August, 2016 the volume was 1.3 billion. Even if RTGS (customer transactions) are excluded, the figures do not change much, as RTGS accounts for 11 percent of the total volume. For the year 2018–19, the government has announced a target of 45 billion digital transactions. If the payments even keep the pace of May 2019, the total retail digital payments will cross 40 billion during 2019–20.

## Trends across Channels—UPI and PPI Surge in Volume of Transactions

A comparison of various retail digital payments channels' contribution to volume and value of transactions between August 2016 and May 2019, along with the growth percentages, throws up interesting insights on the developments in last two years.

Table 7.5 provides a clear snapshot of what is happening across channels. As the number of transactions provide a better answer to digital deepening, as well as also their alignment with the government's target, it can be inferred that the high growth channels are UPI, IMPS, and Pre Paid Instruments. While cards retain their share in

**Table 7.5: Share of Different Digital Channels (Volume and Value)**

| | August 2016 ( percent share) | | May 2019 ( percent share) | |
|---|---|---|---|---|
| | Volume | Value | Volume | Value |
| RTGS | 0.62 | 86.2 | 0.38 | 77.37 |
| ECS | 0.13 | 0.01 | 0.01 | 0.01 |
| NEFT | 8.56 | 9.74 | 6.71 | 15.70 |
| IMPS | 2.45 | 0.3 | 5.65 | 1.33 |
| NACH | 11.08 | 0.76 | 8.70 | 1.29 |
| UPI | 0.01 | Negligible | 22.60 | 1.12 |
| Credit cards | 6.11 | 0.29 | 5.36 | 0.45 |
| Debit Cards | 64.09 | 2.64 | 37.69 | 2.60 |
| PPI | 6.96 | 0.06 | 12.91 | 0.13 |

*Source:* RBI & NPCI, for details see Annexure 4.3.

value, their share in number of transactions have come down, significantly so for debit cards. Thirty-five percent transactions are now accounted for by UPI and PPIs but their combined share in value of transactions is 1.25 percent, which shows the small amounts being transacted through UPI and PPI. Despite the talk, that with the advent of UPI, which is linked directly to the bank accounts, PPIs will soon be a thing of the past, as they have the limitation of cash-in and cash-out through a bank account, the figures do not suggest so. As UPI, IMPS and PPI have gained traction and except IMPS are used exclusively through smartphone, it shows increasing adoption of mobile-based payments. It is also evident that these channels are used for low-value transactions.

UPI accounts for 22.60% of retail transactions, with it share in value of transactions at 1.12%-low value transactions through UPI

## The Phenomenal surge in UPI: Small Amount Transactions but Inclusion Picture Not Clear

Monthly transactions through the Unified Payments Interface (UPI) touched 822 million in July 2018 as per NPCI data. Despite the phenomenal growth in number of transactions, the average value of transactions has remained low (Fig. 7.9). From June 2018 to July 2019, the transaction size range was between Rs 1474 to Rs 2078. In the initial days of the launch, the volumes were low but transacted value was higher.

However, it is not possible to infer the impact of UPI growth on financial inclusion as NPCI does not provide data on place of origin of transactions to analyse its geographical traction—both state wise and rural/urban. It is heartening that Nandan Nilekani's Report has suggested that RBI should collate and publish users data at the PIN code level, which can show the rural reach of UPI. Small size of transactions are not sufficient to conclude that it has spread its net far and wide on account of two reasons. First, reports[25] suggest that Google Pay, Phone Pe and Paytm (apps which ride on UPI) account for ~90 percent share of UPI transactions—being smart phone based and more popular among urban population, their inclusion reach is doubtful. These are apps built on UPI platform for payments, and derive their maximum customer base from tie-ups with online merchants like ebay, Flipkart, Amazon, and other e-commerce, travel and merchandise platforms.

From the financial inclusion perspective, the USSD #99 channel, which works on feature phones and basic phones and number of Aadhaar-based authentications can be a measure. Aadhaar authentication-based transactions are more prevalent in rural areas.

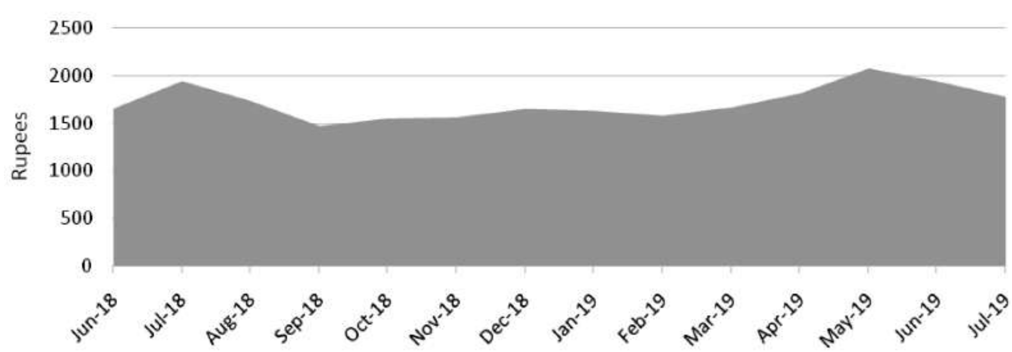



**Figure 7.9:** Average Transaction Value - UPI

*Source:* http://www.npci.org.in/products-statistics/upi-product-statistics

## Steady Decline Trend in *99#, AEPS Grows

*99# is a USSD based mobile banking service of NPCI, and was launched in November 2012. It was dedicated to the nation by the honourable Prime Minister on August 28, 2014, as part of the Pradhan Mantri Jan Dhan Yojna. When UPI was launched in 2016, which is a mobile application-based solution primarily catering to android/internet compatible phones (smart-phones), the NPCI also enabled UPI for non-internet based mobile devices (smartphone as well as feature phones ) in the form of dialling option (*99# ), and is known as USSD 2.0. This service is intended to take the banking services to the last mile, considering that most people in India do not own smartphones. Through this service, by dialling *99# on basic phones, customers can transact through an interactive menu displayed on the mobile screen. The services includes sending and receiving funds from one bank account to another, and balance enquiry. The service can be accessed in 13 different languages including Hindi and English. Considering its objectives and features, it can be said to be catering to financial inclusion for the BoP customers.

However, while UPI has at present 143 live banks on its platform, *99# service has 80 banks. Further, after re-launch of this service as USSD.2, this service is provided by all GSM service providers. However, despite the feature upgrade and offering of services by all telecom service providers, *99# service has not seen much traction and the volume of transactions is on a steady declining trend (Table 7.6). The factors impeding its growth need to be studied as majority of population holding basic phones is its customer base. Anecdotal evidence suggests that the *99# service is difficult to use and people often experience failures; it needs to be studied as this market is crucial for payments to reach the poorer sections of society.

Aadhaar Enabled Payment Service (AEPS) is a bank-led model which allows online interoperable financial transaction at PoS (Point of Sale/Micro ATM) through the Business Correspondent (BC)/ Bank Mitra of any bank using the biometric Aadhaar authentication. As most rural BCs use Aadhaar as authentication, this also provides a useful measure of digital financial inclusion. For making financial transactions under AEPS, one needs to remember his/her Aadhaar number and the name of the bank to which it is linked.

AEPS transactions have shown a sharp spike in recent months after stagnating at around 100 million transactions for quite some time. There is still a lot of scope for increase in AEPS transactions as people in rural areas prefer AEPS at Bank Mitras in an assisted mode for their bank transactions.

**Table 7.6: *99# Transactions (Source, NPCI)**

| Month | No. of Transactions | Value in Rs million |
|---|---|---|
| Jan-17 | 3,09,604 | 374.19 |
| Jul-17 | 1,90,584 | 301.89 |
| Jan-18 | 1,72,811 | 290 |
| Jul-18 | 1,36,707 | 243.1 |
| Jan-19 | 1,20,779 | 210.28 |
| May-19 | 1,01,694 | 182.94 |

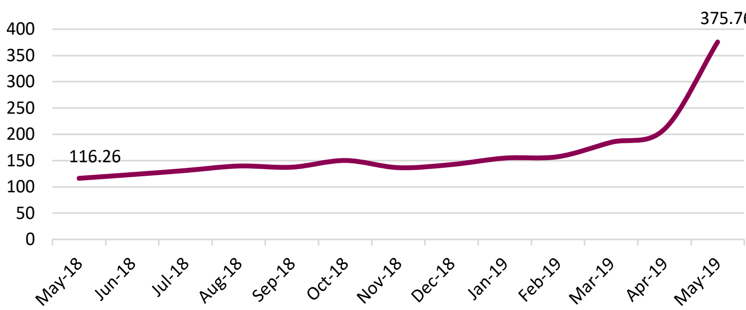



**Figure 7.10:** AEPS Transactions in Million

*Source:* https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=17583 accessed on July 19, 2019.

## Per Capita Digital Transactions—Long Way To Go; Cash Is Still King

While the absolute number of digital transactions has propelled almost ten-fold rise in per capita digital transactions in India over a five-year period (2014 to 2019), the figure at 22.42 is still way below global average and Nandan Nilekani-led committee in its report has set a goal post of ten-fold increase by March 2022. Similarly, the currency in circulation as percentage to GDP has almost come back to pre-2016 levels (Figs 7.11 & 7.12).

## Regional Picture of per capita Transactions

It is useful to analyse the per capita digital transactions trend across the states but the aggregate information including all retail digital channels is not available. However, the Digi Pay website of Government of India provides this statistics albeit covering only BHIM app—UPI based, *99# and Rupay Card on POS. Though the share of BHIM App in total UPI transactions is less and *99# is on a decline, in absence of any other data, this has been used.

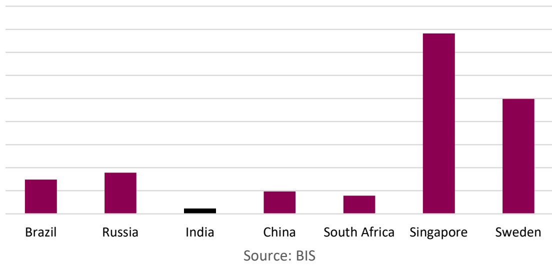



**Figure 7.11:** Per capita Cashless Transactions

*Source:* BIS

As per Digi Pay website of MeitY, the per capita digital transactions on BHIM App based on UPI, USSD mode transactions and Rupay Cards show an interesting trend. The Union Territory of Chandigarh

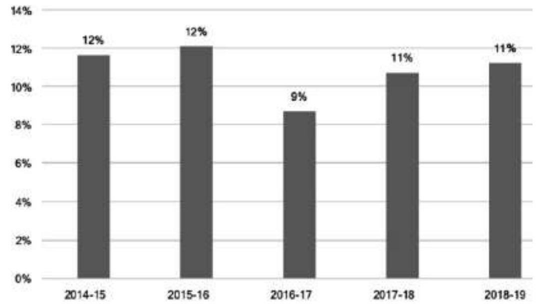



**Figure 7.12:** Currency in Circulation as a Percentage of GDP

***Source:*** High-Level Committee on Deepening of Digital payments, p. 23.

leads the race in adoption of these digital channels with 38.48 transactions per capita. Surprisingly, Haryana (12.42) and Uttar Pradesh (7.73) are ahead of economically developed states of Kerala (2.9), Karnataka (6.5), Tamil Nadu (3.4) and Maharashtra

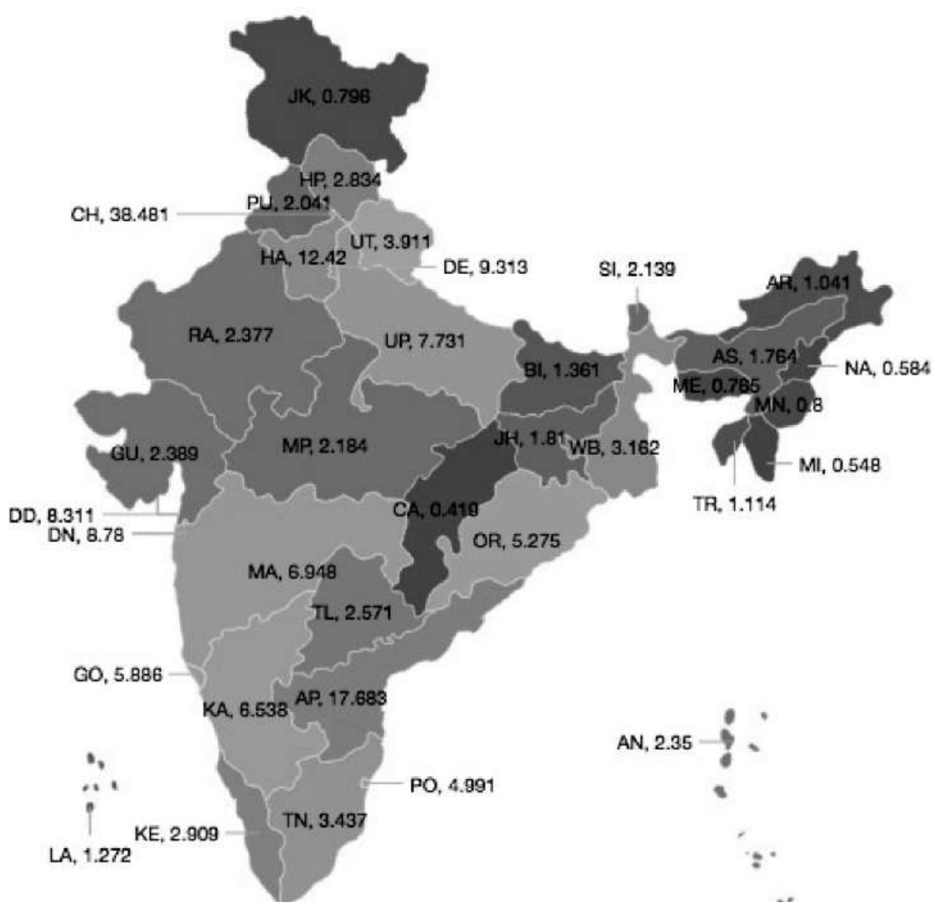



**Figure 7.13:** Per capita Transactions on BHIM, *99# and Rupay Cards (1 April to 25 August, 2019)

*Source:* https://digipay.gov.in/dashboard/default.aspx#popup1, accessed on August 26, 2019.

(6.9). As *99# numbers have not picked up, it is safe to assume that much of the share in these transactions is of BHIM followed by Rupay Cards.

## FINTECH JOURNEY: PAYMENTS DRIVEN AND MILLENNIAL FOCUSSED

Digital finance is closely related to Fintech, which is about using technology to provide financial services. There is a lot of talk about its disruptive potential and its ability to make financial services scalable, cost efficient, and speedier. Its popularity is evident from the fact that newspapers carry reports daily about new investments in Fintech, and investors look for the word "Fintech" as value proposition for their investments. As mentioned earlier, the current Fintech buzz can be credited to the government's work in providing citizens with a biometric-based identity, ubiquitous bank accounts, platforms like UPI to send/receive money and regulatory support in the form of permitting collaborations between various players.

Last year's edition of the report presented findings from the study by MicroSave and IIM Ahmedabad for J.P. Morgan[26], to analyse the landscape from financial inclusion perspective. While Fintech's ability to provide convenient and scalable services is not doubted, the questions pertinent to this report include: Are Fintech's enabling institutions to reach the unserved? In a country, where the excluded segment of populations exhibits characteristics such as not having a digital footprint, unreliable access to internet, phone ownership being limited to basic/feature phones, how is the Fintech promise dealing with it?

The landscape is diverse and there is no centralised data on it, hence, one has to rely on occasional reports on the subject. Last year's study by MicroSave and IIM A brought out the fact that the Fintech ecosystem in India is around 1,500+, of which nearly 600 entrants started in 2017. A lot of money is flowing into Fintech, with the study reporting deals worth US$ 2,173 million in 2017; 75 percent investments being in top 10 companies. Fintechs are offering varied financial services, but credit and payment services dominate, accounting for 32 percent and 25 percent share, respectively; savings and insurance account for 20 percent and 7 percent share respectively. In terms of growth stage, only payments Fintechs were placed at mature level. More importantly, the study brought out that 82 percent Fintech companies were located in three metro cities and catered mainly to the affluent elite.

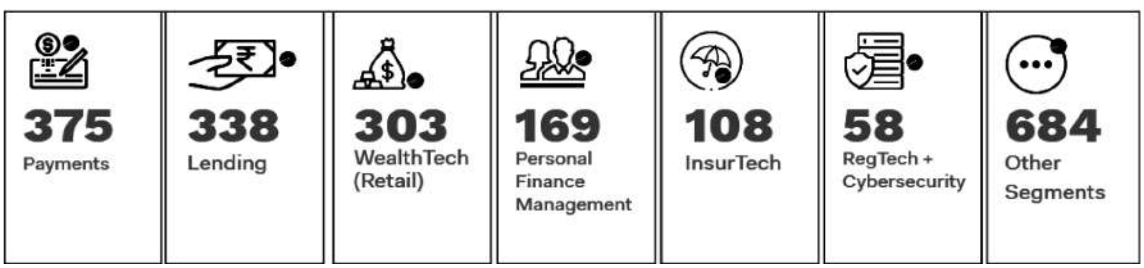



**Figure 7.14:** Fintech Startups by Segment

*Source:* India Fintech Report 2019, Amit Goel and Shubhanga Prasad, MEDICI.

This year's findings are based on the "India Fintech Report 2019" published by MEDICI.[27] MEDICI Report places the Fintech space at 2035 players across different segments (Fig. 7.14).

So, while the number of Fintechs has grown, the most active segments are in payments and lending. Similar to last year's findings, MEDICI Report also mentions about low traction in areas like Blockchain, Cybersecurity and Insurance. The recent guidelines on regulatory sandbox are expected to give a fillip to Fintechs. While UPI has led to payments revolution, the UPI data does not provide the geographical granularity to analyse its financial inclusion impact and see whether the digital payments are happening in rural India? Newspaper reports suggest that Google Pay, Phone Pe and Paytm account for 94 percent of UPI transactions.[28] This suggests that much of UPI-based payments' story is accounted for by urban millennials who are smartphone-friendly.

Fintechs, other than payments, have a lot of variety. Lending Fintechs can be a SME lender from their own books, lending in tie up with banks and NBFCs, lending based on analysing PoS transactions at merchant location, P2P lenders and market place aggregators like Paisabazar. From financial inclusion perspective, the report divides Indian population into three segments (Fig. 7.15).

The report acknowledges the fact that Fintech players are focussing India 1 & India 2, while only a few players have started to focus on India 3. Further, it says that maximum impact has been in the first segment, while the population segment below per capita income of US$ 1,000 is the financial inclusion segment. As such, like last year, the Fintech story continues to be focussed on 'elites' rather than the poorer segment.

NASSCOM also came out with a report on digital lending,[29] which places the number of Fintech companies at numbers similar to Medici's report. The report mentions that digital lending, digital payments and wealth management are the most popular segments under Fintech in India. It classifies Fintech lending industry under three major segments—SME lending, Consumer Lending and Online Lending Platforms. While SME lending is clear in its scope, consumer lending relates to individual lending and Online lending platforms relates to a marketplace where individual consumers can connect with the bank or lenders through online portals. It also mentions the trend of major Fintech companies such as Google Pay, Ola, Amazon, Truecaller,

**India 1**
110 million
$1 trillion GDP
$9000 per capita income

**India 2**
104 million
$300 billion GDP
$3000 per capita income

**India 3**
1,126 million
$1.3 trillion GDP
$1000 per capita income

**Figure 7.15:** Indian Population by Income and GDP

Source: India Fintech Report 2019, Amit Goel and Shubhanga Prasad, MEDICI .

among others entering into the lending business as a part of their expansion strategy. The major drivers for them include, easy market entry and targeted loan offerings due to large customer data insights and prevalence of huge untapped market for unsecured loans.The report does not get into the details of their coverage by geography or segment but the mention of various types of data (Fig. 7.16) indicates that these are urban focussed.

The report critically flags that default rates are rising and are around 6 percent, which is a cause for concern. The other risk factors mentioned by the report relate to higher cost of lending as Fintech players typically borrow from NBFC or bank to lend; the interest rates are in the range of 18–25 percent. Based on the personal knowledge of the author, many players indicated as Fintech have hardly any data based lending and if there, it is a secondary means to physical appraisal. Almost all of these Fintech lenders remain tight-lipped about their model and outreach, hence, it is difficult to comment on their performance.

## PSB Loans in 59 Minutes—Largest Fintech Lender

While the government and RBI have been focussing on increasing loans to micro and small enterprises, the problem of bankers relates to the practical day-to-day problems faced by bankers in lending to micro and small enterprises. The credit requirements of micro and small enterprises are varied, information is not easily available and the loan appraisal consumes a significant amount of time of bankers at the branch level, which is not proportional to the interest income. The launch of the portal (psbloansin59minutes.com) in 2018 can be a game changer in easing the problems of bankers in MSME lending.

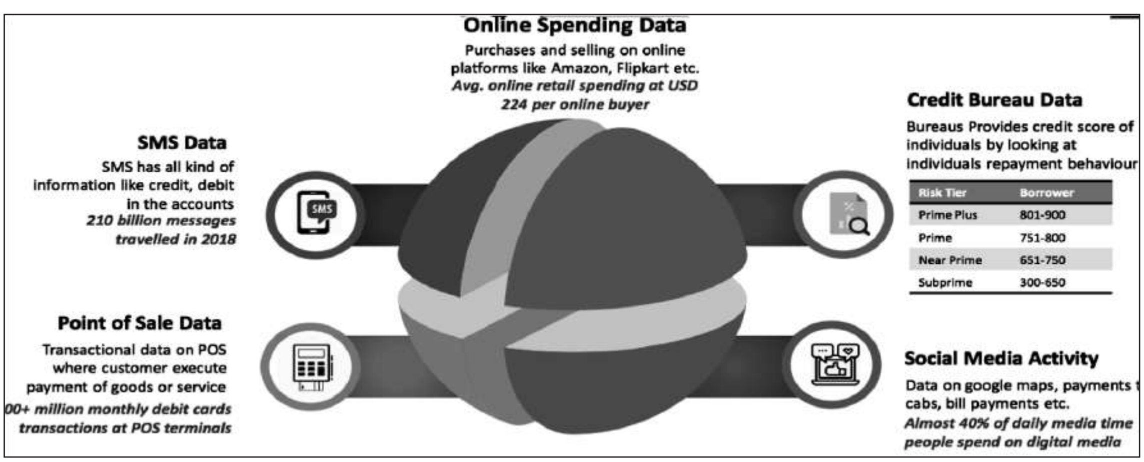



**Figure 7.16:** Illustrative Data Sources for Fintech Companies

*Source:* India Bank Sector, Credit Suisse, March 2019.

Conceived as a Fintech platform with majority ownership of SIDBI and five other public sector banks, it has integrated nearly 150 MSME loan products of banks taking into account the distinct appraisal metrices of various lenders. MSMEs having loan requirement of up to Rs 5 crore can use this site to get an in-principle approval from a chosen bank. The MSME has to register and then fill the online form requiring details like GST returns, income tax returns, bank account details, business details and the loan requirement. Based on these information, the portal does the appraisal in real time using sophisticated algorithm and throws up the names of banks and details of loan products which match the demand. In case, due to information deficiency no match is found, the user is guided about the lacunae. The user has the flexibility to choose from matched banks offers and get an in-principle approval from the portal on payment of Rs 1,000 fee. Any user who just wants to check eligibility or seeks renewal of existing credit facility does not pay anything. On the banker's side, the portal gives the machine analysed information of the potential borrower on key parameters like financial ratios, financial statements, credit bureau report and loan eligibility calculation among others—all within 59 minutes, which normally takes weeks to collect and analyse. The process of the loan website is given in Fig. 7.17.

Besides easing the work of entrepreneurs and banks, its significance for the regulator and public policy lies in efficient monitoring as a number of in-principle approvals converted into sanctions and disbursement across banks and regions is now available on a click. The database which will be built through this portal has the potential to provide useful insights for MSME policy making. Currently, it has 19 PSBs, 3 private banks and 1 cooperative bank on the platform. The data shows that till July 17, 2019, 133,448 proposals[30] have been sanctioned by various banks using the platform but there is no data on disbursement and loan sizes. It is difficult to assess its impact in the absence of disbursement data. The data on disbursements available till March 2019 from Credit Suisse Report[31] shows that Loan approvals exceeded Rs 300 billion (US$ 4.2 billion) and disbursements are estimated at Rs 250 billion, which seems to be a healthy conversion ratio. The average ticket size varies from Rs 2.7 million for New to Credit customer and Rs 3.4 million for repeat customer, which implies the lending is for small enterprises rather than micro. It seems logical as informal enterprises who do not have GST or tax footprint cannot be part of this digital journey, which excludes majority of the micro enterprises. The report

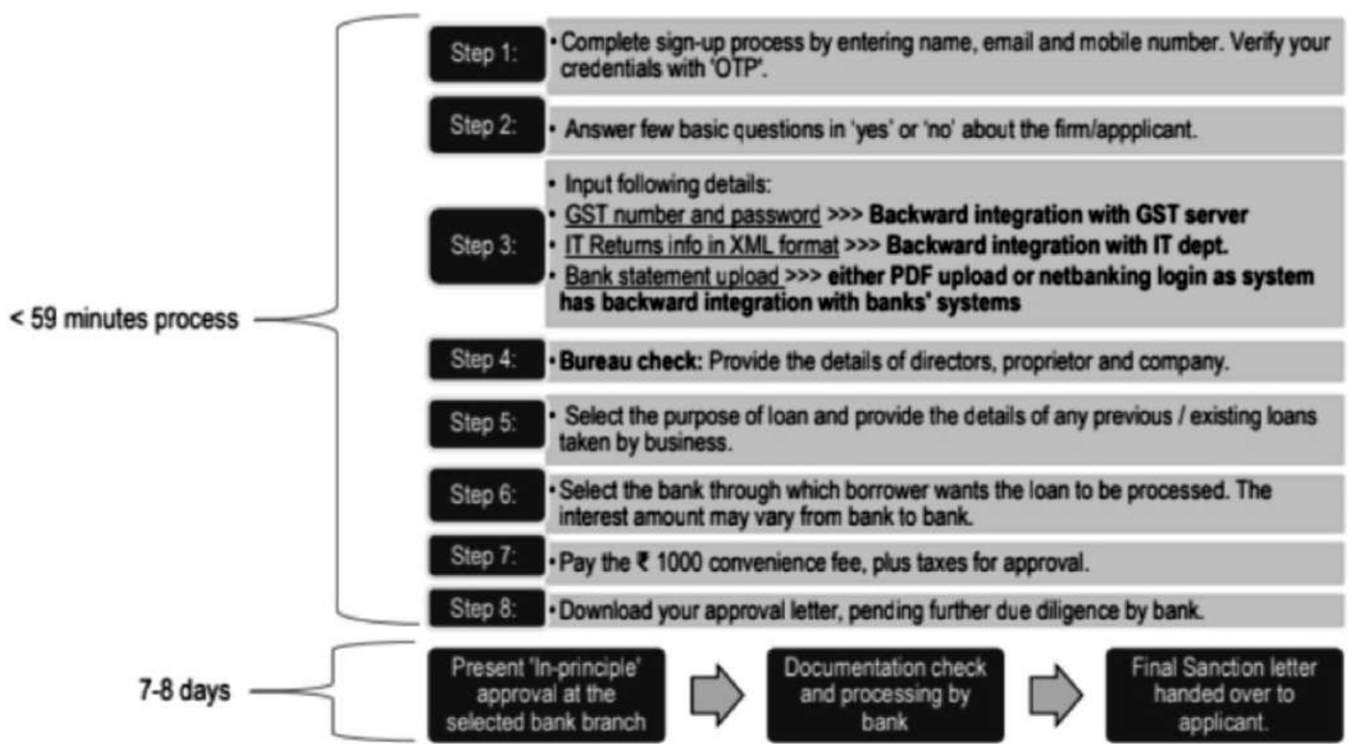



**Figure 7.17:** Sanction Process under PSB Loan in 59 Minutes

*Source:* India Bank Sector, Credit Suisse, March 2019.

adds that the "Quantum of loan processing through this portal is much larger than the ~Rs 65 billion of cumulative disbursements by two of the largest online SME lending NBFCs over the past three years."

While interactions with bankers and MSMEs drives home the point that the ecosystem and rails for MSME lending has been built through this initiative, its success in untying the knots in MSME lending will largely depend on bankers' intent, government confining its role to being a facilitator sans imposing any target-based approach and higher level of formalisation of MSMEs. Currently, the platform is rolling out personal and home loan products in addition to MSME Loans. It is expected to make auto loans live after the personal and home loan products launch.

## DIRECT BENEFIT TRANSFER (DBT)—DRIVER OF DIGITAL TRANSACTIONS

Direct Benefit Transfer has been an early starter from 2013 as a means for better targeting of welfare schemes, and consequent savings for the public exchequer. With the Jan Dhan (Bank Account)–Mobile Phone–Aadhaar trinity, the scheme has got more expansive. It started with 43 districts, and further on, 78 more districts were added. As of August 2019, it covers 439 schemes across 56 central ministries of the government. The DBT operates in both cash transfer and kind (physical delivery of food and fertiliser) mode. For cash transfer, bank account seeded with Aadhaar is the backbone, as transfers are done using the Aadhaar Payment Bridge System (APBS) developed by NPCI. APBS platform links the government departments and their banks on one side, and the beneficiary banks and the beneficiaries on the other. Kind transfers, like distribution of fertiliser, require the person to authenticate himself on the biometric device as the retailer.

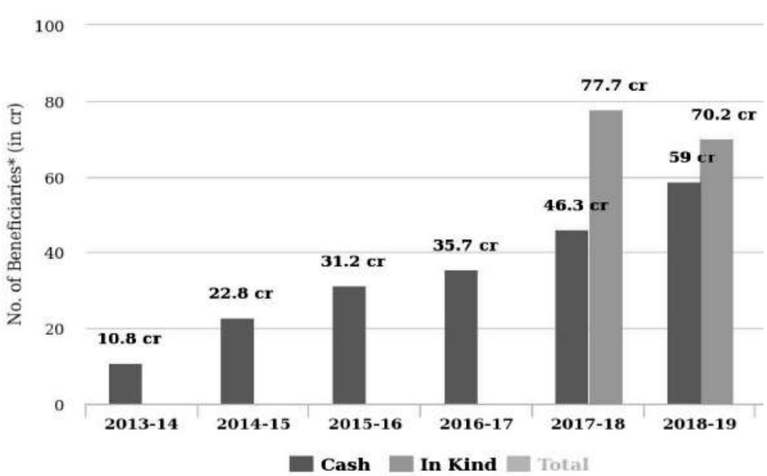



**Figure 7.18:** Year-wise DBT Beneficiaries

*Source:* https://dbtbharat.gov.in

Bringing 439 schemes under its net, the scope of DBT has increased immensely in the last two to three years, and this is reflected in the amount of money channelled through DBT, as well as the number of beneficiaries covered under the scheme. During 2018–19, the government transferred Rs 2,14,092 crore under cash DBT, as compared to Rs 1,70,292 crore in the previous year. Major part of the transfer relate to Mahatma Gandhi National Rural Employment Guarantee (MGNREGS), PAHAL (cooking gas subsidy) and Pradhan Mantri Aawas Yojana-Gramin (PMAYG). There has also been a massive growth in the number of beneficiaries covered under the schemes, which touched 129 crore; this appears high as it is a cumulative number of various schemes, and one person could be covered under more than one scheme (Fig. 7.18 ).

The DBT site mentions a cumulative saving of Rs 1416 billion by the end of March 2019 primarily due to deletion of duplicate records and fake accounts.

### How is DBT Faring on Ground?

It is critical to examine the perception of beneficiaries covered under DBT, as the state saving money from DBT can only be a positive externality, and not the core objective. During 2019, there were two studies covering Public Distribution System, Pensions and Fertiliser and both provide a positive picture. In addition, this year's Economic Survey of the Government of India has a chapter of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA). The programme was started in 2006 with the objective of ameliorating rural distress by providing at least 100 days of manual labour at minimum wages to anyone who seeks employment under the programme. The employment created is for productive infrastructure assets. Post Aadhaar, the programme payments moved from credit to panchayats to direct bank account transfer. Under the new arrangement, using National electronic Fund Management System (NeFMS) funds are directly transferred to the beneficiary bank account. By March, 2019, 99 percent payments under MNREGA are through Aadhaar-linked bank transfers. The two major benefits of Aadhaar-linked bank transfers relate to timeliness of payments and correct identification of beneficiaries. The Economic Survey lists several benefits through implementation of direct transfer. It is reported that while in 2014–15, 26.9 percent of the payments were generated within 15 days, by 2018–19, it has risen to 90.4 per cent in

2018–19. Further, the average amount disbursed to bank accounts almost doubled from Rs 1.82 crore per block per year in pre-Aadhaar period to Rs 3.98 crore per block per year.[32]

### Digital Governance in Krishna District—an Evaluation

A study of digital governance in Krishna District of Andhra Pradesh[33] provides useful insights into DBT. Krishna District is recognised as a leader in using technology to improve the delivery of public services and subsidies. The paper reports the results from surveys of beneficiaries who receive food rations through the Public Distribution System (PDS) and/or pensions, and on the response of landowners and tenant farmers to the digitisation of land records, another important programme. In both cases, the findings show strong support for digitisation and observes "The way in which the reforms have been implemented has indeed led to substantial improvements in delivery (as seen by beneficiaries) as well as, probably, significant fiscal savings."

In case of PDS, 70 percent of the beneficiaries found the new system better, while 28 percent felt it was worse. The preferences do not vary significantly across gender, age and other characteristics. The major reasons cited for preferring the new system related to elimination of diversion of rations and the timeliness of delivery and some mentioning improvements in the weighing system. People indicating the Aadhaar system as worse, cited difficulties with the biometric authentication system as the main reason for their choice, which implies that if authentication is smooth, there is universal acceptance of the new system. It is a matter of comfort that the study reports that though 2 percent were denied rations due to authentication problems, their problems were resolved through the grievance system. It goes on to say that elimination of ghost accounts and duplicate records has led to 33 percent cost savings for the state.

In case of pensions, an interesting thing crops up. Andhra Pradesh has experimented with various models of pension delivery, manually at village offices, through the post office, direct deposits into bank accounts, and, now, cash payments directly from panchayat offices backed by Aadhaar authentication. The study reports that pensioners expressed a strong preference for direct panchayat delivery, compared to routing it through the bank or post office. The reasons indicated relate to infrastructure gaps. The coverage of BCs across villages was scanty and the low delivery fee given to banks by the state government (0.2 percent) did not provide any incentive for banks to strengthen last mile delivery.

### MicroSave's National Study of DBT-Fertiliser—Improvement across All Parameters but Cash Remains Predominant

MicroSave conducted four rounds of evaluation of DBT in fertiliser, with the last round in July to September 2018, and the findings have been published recently, in March 2019.[34] Unlike earlier three rounds, which were limited to Andhra Pradesh and pilot districts, this evaluation covered 54 districts in 18 states and the sample size was 1421 farmers and 1256 retailers. Fertiliser subsidy is one of the main components of government's subsidy budget, as well as a contentious one. The Union Budget of 2016–17 stated the intent to bring fertiliser subsidy under the Direct Benefit Transfer (DBT) system. DBT in fertiliser (DBT-F) is a modified subsidy payment system, under which the government remits the subsidy to fertiliser companies, only after fertiliser retailers have sold fertiliser to farmers through successful Aadhaar-based authentication.

The report provides interesting insights into contentious issues—authentication rates and authentication failures leading to denial of fertiliser. The findings of the evaluation on both these counts is positive. While 80.3 percent of transactions were done through Aadhaar authentication, 99 percent of them were successful; the biometric-based authentication success rates have been steadily rising over successive rounds of evaluation (Fig. 7.19). Importantly, it is a relief to note from the study that from the pool of farmers who went the biometric way, the authentication failed only in case of 0.5 percent and of this 0.4 percent could access the fertiliser through manual transactions. Thus only in 0.1 percent cases, authentication failure led to denial of fertiliser, the study does not offer reasons for it.

The major reasons for authentication failure relate to fingerprint mismatch (78 percent), connectivity issues (65 percent) and server issues (55 percent). The average transaction time has also steadily come down over successive rounds of evaluation and was 3-4 minutes in the national study.

The report also brings out the fact that 76 percent farmers prefer Aadhaar-based system primarily because it tracks the actual buyer, avoids black marketing and reduces overcharging by the retailers. It would have been interesting to find the reasons as

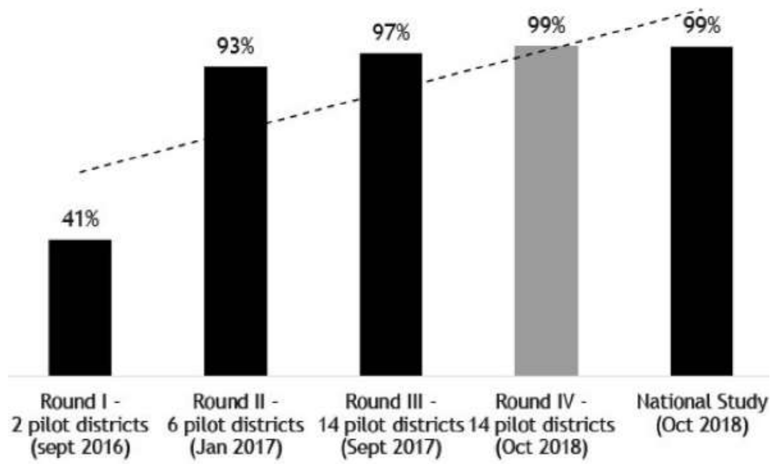



**Figure 7.19:** Authentication Success Rate in the First Three Attempts

*Source:* DBT in Fertliser: 4th Round of Concurrent Evaluation—A National Study, MicroSave, 2019.

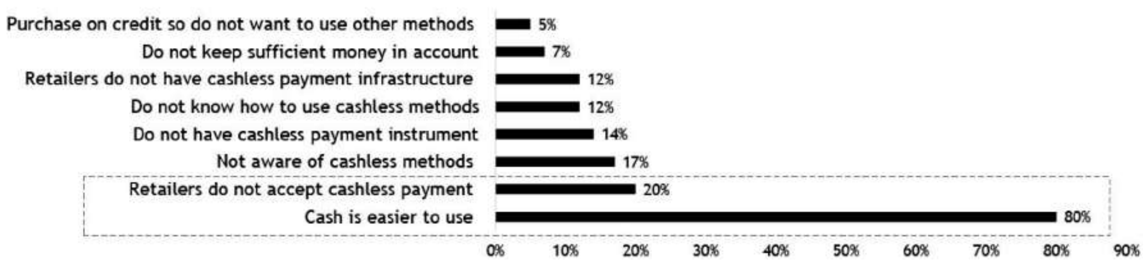



**Figure 7.20:** Reasons for not Preferring Cashless Modes

*Source:* DBT in Fertliser: 4th Round of Concurrent Evaluation—A National Study, MicroSave, 2019.

to why 24 percent farmers do not prefer Aadhaar system despite the benefits outlined. Aadhaar authentication is one leg of the digital journey and the other pertains to mode of payment. As regards, mode of payment, cash continues to dominate with 93.5 percent of farmers indicating that they make cash payment. Reasons for it are varied but the overwhelming response is that "cash is easier to use" (Fig. 7.20 ).

### *Critique of Aadhaar Linkage Continues*

While both studies cited above, bring out a good picture of Aadhaar authentication acceptance and benefits, the critics of making Aadhaar compulsory are also strident. Noted development economist, Jean Dreze does not attach much credence to these type of reports and observes "Eight years after it was formed, the UIDAI has failed to produce significant evidence of Aadhaar having benefits that would justify the risks. Instead, it has shown a disturbing tendency to rely on public relations, sponsored studies and creative estimates of 'Aadhaar-enabled savings'. To my knowledge, there has been no serious evaluation of any of the Aadhaar applications so far."[35]

In a recent article[36] on the subject, authors present a different picture based on their study in rural Jharkhand. The authors based on their own research as well as other studies have primarily raised two objections. First, "informed consent" was not taken for seeding bank accounts with Aadhaar and second in the poorly staffed and overburdened scenario of banks in Ranchi, there were errors in seeding of bank account with Aadhaar leading to payments in another person's account. Among various newspaper blogs and studies it quotes, one report[37] mentions that 16 percent of pensioners did not receive their pension due to Aadhaar issue. The article describes the banking situation as

> Rural banks in Jharkhand are severely overcrowded. Regardless of the bank location, one

> observes hundreds of people queuing up for basic services such as cash withdrawal; multiple visits to update one's passbook is a common occurrence. Banks are acutely short-staffed, and owing to a mix of formal and informal pressure from the central government, banks have had to meet stiff targets for seeding Aadhaar numbers. Therefore, it is an arduous task for the overworked staff to take informed consent from every customer with targets looming over their heads.

Reading through these critiques as well as the other evidence based reports, it seems that while there are teething problems leading to wrong seeding or technical issues but there is no denying the fact that the new system has ensured better targeting and speedier transfers. The issue of "informed consent" seems a bit out of place based on legal rulings and practical realities. Last year's Supreme Court judgement on the constitutionality of Aadhaar upheld the linkage of Aadhaar with bank accounts in cases where the state delivers subsidies or other payments. Poor people living on the margins are less bothered about urban phrases of informed consent than receiving timely payments without any cut. However, it will be worthwhile for the government to put in place a robust grievance redressal system, so that people facing problems can find a fast resolution. Similarly, empirical evidence suggests that more investment in banking infrastructure is needed to enable them to handle large-scale transactions.

## CONCLUDING NOTES

The buzz around digital and technology has fully embraced the financial services and every discussion on financial sector accords a primary place to Fintech. The public infrastructure in the form of IndiaStack and world class payments system built by India is behind this dominance. Policy push through demonetisation, Digital India mission and other policy initiatives like waiver or reduction of charges on digital transactions, growing POS add to the story.

The review of digital finance landscape with financial inclusion lens throws up interesting insights. Much of the Fintech till now is centred around payments based on smartphones or cards. While the data shows a tenfold increase in per capita transactions, there is no authentic data on where it comes from? Newspaper reports suggest it is mainly urban. It seems credible as availability of POS for card transactions or smartphone ownership remains pretty low and hinders adoption of digital modes in rural areas. For broad-based payments and taking it deep into rural hinterland will require work on both these areas plus stable internet connectivity. It is also felt that PoS infrastructure by virtue of its cost may not be suitable for small merchants and will require QR code-based solution. QR code poses another public policy challenge as it passes on the infrastructure cost from merchant/acquirer bank to the consumer in the form of smartphone cost. Associated with this is the task of digital literacy; feature phone-based USSD payment system has failed to take off and that shows that rural payments growth can only come from QR code solution. Making smart phones cheaper and providing mass scale digital literacy seem to be the only option; both of these will require time and as such policy needs to be patient. While this journey is being undertaken, policy needs to ensure that there is at least no shrinkage of points where cash is available—be it ATMs or BCs or other Cash-in Cash-out points. This point has also been stressed by Nandan Nilekani Committee. People need to be assured that despite digital payments ecosystem, they can always have assured access to cash. Forced push by drying up cash availability can be counter productive.

On the lending side, the story so far is focussed more on urban areas and millennials. This can be explained in terms of two dark spots-areas which have low connectivity and population with negligible digital data points. Fintech rides on digital data history and connectivity, thus work on these fronts will have a multiplier effect by attracting Fintech players. Currently, in these segments, DBT is the main driver of digital inclusion, but it is one-legged as payments come into bank accounts but are used in cash.

If one crystal-gazes to see next generation policy changes which will accelerate India's digital journey—four things come up. First, building up of payments acceptance infrastructure and improving connectivity in areas with low digital transactions. Second point relates to formalisation of the economy. Even with the first step, merchants may not be willing to go for digital transactions for the fear of being in tax net. Policy steps to nudge informal sector towards formal has to walk a fine balance between incentive and compliance; too much focus on compliance will keep people away. Third, for new entrants to financial inclusion, the interface across apps has to have common features. It is difficult to imagine a new digital transaction user being able to navigate through different interfaces. All this looks simple to a tech savvy person, but for a person used to the assisted mode, the multiplicity breeds confusion. Finally, the most important point is about having a robust complaints/grievance redressal system. The system

## Annexure 7.1: High Level Committee on Deepening of Digital Payments

### Recommendations for the RBI

Recommendation 1: The Committee recommends that the RBI and the Government plan for digital transactions volume to grow by a factor of 10 in three years. This would result in per capita digital transactions to reach 220 in three years from current level of 22. The corresponding increase in value relative to GDP would be 2 times. This growth may be accompanied by a corresponding increase in the number of users of digital transactions by a factor of three, from approximately 100M to 300M.

#### *Provide a Consistent View on Digital Payments*

Recommendation 2: With a view to providing a consistent view on the state of digital payments in the country, the committee recommends that the RBI rationalize the definition of digital payments and become the source of accurate and consistent data for better tracking.

### Accelerating Acceptance

#### *Fix Interchange Fees on Card Networks*

Recommendation 3: Keeping in view the fact that there is acute paucity of acquisition infrastructure in the country, and to incentivise acquirers, the committee feels that the regulator must intervene at regular intervals to fine tune interchange fee and to address other related issues, to ensure there is level playing field in the market both for issuer and acquirer.

#### *Encourage Non-Banks to Participate in Payment Systems*

Recommendation 4: With a view to expand the usage of digital payments, the committee recommends including Non-Banking entities to be an associate member of payment systems and become an active player in enhancing acceptance infrastructure in the country.

#### *Setup an Acceptance Development Fund*

Recommendation 5: The Committee recommends setting up of an 'Acceptance Development Fund 'to be used for improving acquiring infrastructure at Tier IV, V and VI areas which will ensure optimum utilisation of millions of cards issued to customers, resulting in increased digitisation in these deficit centres. Issuers must contribute to this fund from the interchange fees, matched by funds from the RBI.

| Metric | Target (3 Years) |
|---|---|
| Per Capita Digital Transactions (correlates to Digital transaction volume / month) | 10X [from 22 in March 2019 to 220 in March 2022] |
| Digital Transaction Value / GDP | 2X [from 769% in 2018-19 to 1500% in 2021-22] |
| Number of digital payment users (Active in the month) | 3X [from 100 M to 300M in 3 Years] |
| CIC / GDP ratio | No specific target. However, CIC should grow slower than GDP growth + inflation.<br>As a result, in 5 years, this ratio should go down by 3-4%, and tend towards the global average (7%) |

#### *Promote Acceptance of Digital Payments*

Recommendation 6: In order to ensure that a willing customer is able to do financial transactions digitally, the committee recommends that each merchant support at least one digital mode viz BharatQR, BHIM UPI QR, or Cards.

#### *Ensure no user Charges for Digital Transactions*

Recommendation 7: Keeping in mind that digital transactions result in larger balances with the bank, the committee is of the view that customers must be allowed to initiate and accept a reasonable number of digital payment transactions with no charges

#### *Incentivize users to Make Digital Payments*

Recommendation 8: Keeping in view the fact that large number of cards and other digital options already available with customers are inactive, the committee recommends Issuers should have ongoing campaigns to incentivise users to make merchant payments digitally.

### Preparing for Scale

#### *Build Capacity for Digital Transformation in the Banking Industry*

Recommendation 9: Keeping in mind the need for building capacity within the banking system to manage the digital transformation, and to lead customers through the digitization journey, the committee recommends that the IDRBT take the lead on building training programs, and capacity in the financial services industry.

#### *Ensure Fast Dispute Resolution*

Recommendation 10: To allow payment systems to scale, and to meet users' heightened expectations of speedier response to complaints, the committee recommends that all payment systems operators, including NPCI, implement an online dispute resolution system that is fast and fair. This system may be used by the banks to handle the customer's complaints.

Further, Aggregate (participant wise) data on issues reported, and resolution timelines must be published from the ODR, so that the regulator has the necessary visibility into the health of the payment system. The RBI Ombudsman data may be used to improve the dispute resolution process and results.

#### *Ensure Business Continuity Planning for Digital Transactions*

Recommendation 11: To provide business continuity for digital payment services, particularly in sensitive/ coastal areas, national and state level disaster strategies should monitor availability of well-oiled disaster recovery mechanism; e.g. availability of mobile cell phone towers and sharing of such infrastructures among all the service providers during crisis period. Preventive measures like ensuring through an audit and accountability framework installation of robust and resilient infrastructure in sensitive areas and their proper upkeep should also be part of such disaster recovery plans. Similar backup plans for cash out should also be ensured to alleviate suffering of the affected people.

### Data and Infrastructure

#### *Monitor Transaction Failures*

Recommendation 12: In order to maintain continuous improvement in the payment systems, and to increase customer confidence, the committee recommends that the regulator must monitor failed transactions, and in particular, the technical decline rates and the business decline rates. Further, the regulator must ensure that the operators present a plan to bring down these failure rates by 25% every year.

Recommendation 13: With a view to minimise networking issues and to enhance customer experience, it is recommended that POS machines should have inbuilt features to monitor network issues to minimise transactions decline on account of poor connectivity. The Committee recommends that the SLBC / DLCC may be used to coordinate with the state level representative of the DoT to solve these issues and ensure a reliable telecom infrastructure for payments. BharatNet may be made operational at the earliest. (Action: Industry, SLBC, TRAI / DoT)

### Transaction Security

#### *Activate the FIN-CERT*

Recommendation 14: With a view to improving security of the financial system, the committee recommends the operationalization of the FIN-CERT for oversight, and monitoring security of the digital payment systems.

#### *Educate Users*

Recommendation 15: To ensure that users are aware of the risks, and the steps that they can take to protect themselves, the committee recommends that RBI publish aggregated fraud data periodically, and educate users on the emerging risks.

#### *Prevent the use of Insecure Devices for Payments*

Recommendation 16: To ensure the continued security of payment applications, the committee recommends that payment applications must be prevented from running on insecure devices – including rooted phones.

#### *Identify Obsolete Phone Numbers in Financial Databases*

Recommendation 17: To ensure the continued security of payment systems, the committee recommends that the telecom operators publish a monthly list of telephone numbers, which have become inactive, and may be issued to a new customers (Action: TRAI/DoT). Financial system providers must mark obsolete numbers in their databases to protect customer accounts, as well as sensitive information.

#### *Create a Centralized Fraud Registry for Realtime Rating of Transaction Risk*

Recommendation 18: To ensure a systemic response to frauds, the regulator must facilitate the creation of a central fraud registry, that tracks all reported fraud. This registry should be accessible to all payment system participants on a near real-time basis, who may use it to evaluate the fraud risk for all users, and transactions (dynamically). This risk rating may be used to provide additional protections to the user.

Recommendation 19: The committee has already recommended the creation of a dispute resolution system at the Payment System Operator. This system may be enhanced to keep track of fraud reports, and coordinate with the fraud registry, and regulatory reporting.

### Cash In Cash Out

#### *Enable a Robust Cash In Cash Out (CICO) Network*

Recommendation 20: With a view to increase digital transaction, and provide a safety net of a robust Cash In Cash Out network, specially at Tier III, IV, V and VI (Semi Urban to Rural) centres, the committee recommends strengthening of BC infrastructure, besides empowering small Merchants to provide cash at POS to the customers to meet their immediate requirements.

### Additional Recommendations to Prepare for Scale

#### *Spread Best Practices*

Recommendation 21: In order to improve customer confidence, and to borrow a good feature from BHIM UPI, various payment systems operators may make the necessary changes to allow for auto-reversal of failed transactions.

#### *Make B2B Payments more Software Friendly*

Recommendation 22: Keeping in mind, the benefits that can arise from better linkages between accounting systems and payment transactions, the committee recommends that the banks enable software driven transactions, that carry invoice information, so that books can be reconciled. The relevant payment meta data schemas may be updated.

### Financial Inclusion

#### *Monitor Progress with Data*

Recommendation 23: While lot of progress has been made during last few years to improve Financial Inclusion in the country, The Committee recommends RBI should develop a quantitative financial inclusion index, to measure level of implementation at field and to assess the remaining work required, to take Financial Inclusion to the next level.

The RBI must manage the payment ecosystem based on digital data. To do this, it must be the primary, and most comprehensive source of data to track the progress of payments, and digital financial inclusion.

The RBI must rationalize the definition of digital payments and include all information that can be captured with high fidelity. This may include unregulated sources (on best effort basis) as well, as periodic surveys commissioned to help understand user experience. This data must be enough for all stakeholders to analyse and monitor the supply of, and demand for, digital financial services, as well as to assess the impact of key programs and reforms.

For a defined area, this data must allow stakeholders to look at the following dimensions:

1. Users
2. Infrastructure
3. Usage
4. Demand side user attitudes towards digital payments

This data must be made available to the SLBC, and DLCC, who can use it to identify what needs to be done to increase number of activated accounts and encourage usage. This could be in the form of user education, creation of more infrastructure, etc. The SLBC and DLCC can help ensure that the infrastructure grows in tandem with demand and usage, ensuring that it is viable.

This data must be used to create a digital financial inclusion index, which can be used to compare different areas of the country and build in a competitive element to digitisation of payments.

Recommendation 24: The committee recommends that the RBI conduct periodic user surveys on attitude to digital payments to get a better pulse of local issues.

***Empower for the SLBC/DLCC through Data***

Recommendation 25: To ensure that SLBC / DLCC are able to effectively make local decisions to improve the spread of digital payments in their area, the RBI must publish aggregated data for all service areas with sufficient details on Users, Infrastructure, and Usage.

***Create a Standing Committee on Digital Payments at the SLBC***

Recommendation 26: With a view to assess ground level situation and to provide immediate solutions of issues relating to Financial Inclusion, The Committee recommends each SLBC should set up a standing committee on Digital Payments to further improve digitisation, specially at Semi urban and Rural centres. This standing committee under the leadership of the RBI representative may also investigate and provide quick solutions relating to Aadhaar Seeding in customer accounts.

***ReviewLimits on BSBD Accounts and Small Accounts***

Recommendation 27: Taking into account the difficulties faced by customers who are new to the financial system, the committee recommends that all limits for BSBD and Small accounts be modified so that Government, insurance and other statutory payments are not included in these limits.

Also, considering the need to promote digital payments, the committee recommends that BSBDA accounts be allowed a reasonable number of free digital payment transactions.

Further, a graded path must be made available to upgrade customers into more suitable accounts without losing the benefits available to them. Further, the committee also considered reports of high fees being charged to customers for failed payment transactions and recommends that the RBI consider placing a cap on fees chargeable to any BSBD or Small accounts.

***Promote BHIM Aadhaar Pay to Serve Customers without Phones***

Recommendation 28: With a view to allowing users without a mobile phone to make digital payments from their Aadhaar enabled bank accounts, the committee recommends that BHIM Aadhaar Pay may be promoted.

Recommendation 29: With a view to streamlining usage of accounts that receive DBT transfers through business correspondents, banks who receive DBT payments may be required to support Off Us transactions through AEPS. The interchange for these transactions may be set at 1 percent, with a maximum of Rs 15 per transactions

***Revisit MicroATM and APBS Architecture***

Recommendation 30: As Micro ATMs have gained popularity and has become an integral part of the financial inclusion infrastructure, the committee recommends that IBA revisit the technical architecture of Micro ATMs, and improve it to support other banking services beyond dispensing cash.

Recommendation 31: The committee recommends that the IDRBT, NPCI and the DBT cell revisit the architecture of the APBS, and DBT delivery, so that beneficiaries have a greater visibility and control into the funds flow, and that they are able to on-board themselves into various schemes. This could be enabled through the business correspondents, as well as various local Government offices.

***Promote Digital Transactions at Rural Farmers Markets***

Recommendation 32: The Committee recommends that efforts should be enhanced to ensure that adequate digital infrastructure is available on priority at all wholesale grain mandis, village haats, etc. so as to introduce digital transactions, and their benefits to the rural customers.

***Encourage Innovation for use of Feature Phones in Digital Payments***

Recommendation 33: With a view to including feature phone users into digital payments, the committee recommends that the regulator may encourage innovation through the regulatory sandbox on priority to develop new enabling solutions for this user to make, and receive digital payments, interoperable with the rest of the ecosystem.

For instance, QR codes have become a popular light weight acceptance infrastructure, and it may be possible to enable feature phone users to use this facility.

***Bring in RRBs into the Digital Payments Ecosystem***

Recommendation 34: With a view to cover customers in villages and semi urban centres also, who are banking with RRBs, the committee recommends that all RRBs should be brought under the ambit of UPI at the earliest.

***Remove Barriers for Language and Accessibility***

Recommendation 35: The Committee recommends that Digital infrastructure should be accessible to citizens of all genders and people with special needs, to make it an inclusive right for each citizen. Further, the committee also recommends that technology should be made available in vernacular languages, to the extent possible, for ease in acceptance by citizens of the country

The committee recommends the adoption of a standard such as EN 301 549 by the IDRBT so that all financial service providers can be tested for compliance, and the technology made available to all.

***Convert Business Correspondents into Digital Assistants***

Recommendation 36: The Committee has noted that BCs are an important interface in successful implementation of financial inclusion in the country. Keeping in view the fact that BCs inter alia rely largely on digital infrastructure in performing their tasks, the committee recommends they may be converted into Digital Assistants.

Further, in order to ensure they perform their duties strictly as per place and timings allotted to them, and meet banking requirements of allotted area, their operations be monitored by IBA through respective Banks and SLBCs.

***Promote Financial Literacy through Frontline Staff and Agents***

Recommendation 37: Noting the need for digital financial literacy, the committee recommends that the National Center For Financial Education (NCFE) must create standard materials to educate customers on digital payments and services. Further, these materials may be used by frontline agents to help customers use digital payments for their benefit.

Recommendation 38: Keeping in mind the number of new users, and their diverse needs, the committee recommends that the regulator conduct focussed User Awareness and Education programs in the field, to support the SLBC staff with their immediate requirements. The Financial Education Fund may be utilised for this purpose.

***Enable Kisan Credit Cards for Digital Payments***

Recommendation 39: Looking into the difficulties being faced by Farmers, the committee recommends that efforts being made to convert KCCs issued by banks into RuPay cards should be completed on priority basis (say, within 1 year) and adequate acceptance infrastructure should be put in place where KCC holders can make purchases digitally for their agriculture procurements using KCC Cards.

***Ease Digital Purchase of Train Tickets***

Recommendation 40: With the objective of making life easier for the common man, and digitizing unreserved train bookings in India, the committee recommends that UTS be made interoperable with all other online payment systems such as wallets, BHIM UPI, etc. The facility must be available at no additional cost.

### 10.2.5 High Frequency Use Cases

***Enable Recurring Payments in All Digital Payment Systems***

Recommendation 41: As popularity of digital payments is increasing manifold, the committee recommends that all of these products should become feature rich, and should support recurring payments besides other contemporary features, to improve customer experience with adequate customer protection.

***Promote Interoperable Standards for Transit Payments***

Recommendation 42: The Committee recommends large scale usage of common and interoperable Mobility cards by public across different transit options for which it is necessary to adopt common technical standards and a time bound road map to migrate existing systems also to common new standardised platform such as the NCMC. Further such mobility cards would be with low stored value without any KYC requirements. Since these are stored value cards, the RBI must provide guidelines on the liabilities in case of lost and stolen cards.

***Enable Wider use of NCMC***

Recommendation 43: The Committee recommends that the NCMC card usage be extended beyond mobility use cases, and it should be accepted at POS devices. A roadmap for migration of POS devices to accept the NCMC card may be put in place.

**Recommendations for Specific Payment Systems**

***RTGS/NEFT***

Recommendation 44: Keeping in view the customer convenience and to give increased thrust to digitisation, the committee recommends to increase the timings for RTGS window and to make NEFT facility available 24 ×7 for customers.

***Bharat Bill Payment System***

Recommendation 45: Taking note of the fact that BBPS phase one has been successfully implemented, and to improve the lives of customers and ensure that all kinds of bills can be paid conveniently, and easily, the committee notes recommends that the scope of BBPS may be liberalized to include all categories of recurring payments. Further, the committee recommends that more non-banks be brought in as BBPOUs to increase the coverage of potential billers.

***National Electronic Toll Collection (NETC)***

Recommendation 46: Given the wide geographic coverage of the toll collections, the committee is of the view that it would be useful to standardize the experience, so that traffic can flow smoothly on the national highways. Further, the committee recommends that NETC allow other vehicle related use cases, such as parking and road congestion in smart cities, to be developed through APIs.

The committee notes that NETC has already been mandated by the NHAI for all national highway tolls and recommends that its use be extended to all tolls for improved ease of collection, and transparency. To bring in more innovation, and increase competition, the committee also recommends that more issuers and acquirers be brought into the NETC

***ATMs***

Recommendation 47: With a view to reducing costs of ATM operations, the committee recommends that RBI and the Government take a consultative approach to changes required from ATM networks, so that they may be allowed to address regulatory concerns through lower cost solutions. This process may be used for the release of newer currency notes, as well as other requirements. Further, the committee recommends a review of the recent guidelines for swapping cassettes during the loading of cash in ATMs.

Recommendation 48: The committee recommends that features of ATMs should be enhanced merely from cash dispenser to support the gamut of banking facilities including Cash Deposit, Bills Payment, Funds Transfer, Tax Deposits, Mobile Recharge etc. in addition to customer support and grievance reporting so as to act as a complete Digital facilitation point.

#### *NACH*

Recommendation 49: In order to further improve efficiency in NACH operations and to bring transparency in the system, the committee recommends signing up proper Service Level Agreements with banks for NACH registrations.

Further, the committee recommends that users be provided with simple options to manage their active mandates.

### Regulatory Changes

#### *Review All High-Volume Payment Systems Every 6 Months*

Recommendation 50: Keeping in mind the dynamic nature of the payments markets, and the high growth experienced, the committee recommends that the BPSS conduct a half-yearly comprehensive review of all high-volume payment systems, including market dynamics, customer complaints, frauds, decline rates, and any other issues that may affect customers.

#### *Facilitate First Level Regulators/Self-Regulatory Organizations*

Recommendation 51: Keeping in mind, the continuous evolution of technology, and for the need to build regulatory capacity to regulate in this environment, the committee recommends that the regulator facilitate the creation of an Self-Regulatory Organization for the recently licensed NBFC Account Aggregators. This can serve as a blueprint for more SROs that may be created later in the area of digital payments.

#### *Promote use of Regulatory Sandbox*

Recommendation 52: With a view to encouraging innovation and developing solutions for customers who might otherwise be hard to serve, the committee commends the RBI initiative to setup a regulatory sandbox, and recommends that mass market use cases be tested on a priority basis.

#### *Consider Investment in Digital Payment Infrastructure for Priority Sector Lending*

Recommendation 53: With the objective of removing hurdles to the creation of digital payments infrastructure, the committee recommends that lending for capital expenses towards digital payments infrastructure be allowed under priority sector lending.

## ANNEXURE 7.2: Goals-posts for Payment and Settlement System Vision 2019- 2021

| Competition | Cost | Convenience | Confidence |
|---|---|---|---|
| 1. Self-Regulatory Organisation for all PSOs | 1. Accessible affordable and inclusive services | 1. Harmonizing TAT for resolution of customer complaints | 1. Increased coverage of the Cheque Truncation System |
| 2. Encourage and facilitate innovation in an environment of collaborative competition | 2. Review of corridors and charges for inbound cross border remittances | 2. Setting up a 24x7 helpline | 2. Increased scope and coverage of the Trade Receivables Discounting System (TReDS) |
| 3. Feature phone-based payment services | 3. Inter-operability and building capability to process transaction of one system in another system | 3. Enhancing Awareness | 3. Geo-tagging of payment system touch points |
| 4. Off-line payment solution | 4. Acceptance infrastructure to address supply –side issues | 4. Conducting customer awareness surveys | 4. Contacts-less payments and tokenization |
| 5. USSD-based payment services | 5. Systems capacity and scalability | 5. Internal ombudsman for digital payments | 5. Enhanced security of mobile-based payments |
| 6. Global outreach of payment systems | 6. Increasing LEI usage for large value cross border payments | 6. National settlement services for cards schemes | 6. Oversight for maintaining integrity of payment systems |
| 7. Fostering innovation in a responsible environment through regulatory sandbox | 7. Regulation of payment gateway service providers and payment aggregators | 7. Enhanced availability of retail payment systems and a wide bouquets of offerings | 7. Third party risk management and system wide security |
| 8. Review of membership to centralised payment systems | | 8. Widen scope / use of domestic cards | 8. Framework for collection of data on frauds in payment systems |
| 9. Inter-regulatory and intra-regulatory co-ordination | | 9. Explore adoption of newer technologies including DLT for enhancement of digital payment services | 9. Framework for testing resilience of payment systems |
| 10. Benchmarking india's payment Systems | | 10. E-mandates /Standing Instructions for payment transactions | |

Source: https://www.rbi.org.in/Scripts/PublicationVisionDocuments.aspx?Id=921

## ANNEXURE 7.3: Retail Digital Transactions across various channels

| Month | RTGS Customer Transaction Volume in Million | RTGS Customer transaction Value in Rs. Billion | ECS Transaction Volume in Million | ECS DR Value in Rs. Billion | EFT/NEFT Transaction Volume in Million | EFT/NEFT Value in Rs. Billion | Immediate Payment Service (IMPS) Transaction Volume in Million | Immediate Payment Service (IMPS) Value in Rs. Billion | National Automated Clearing House (NACH) Transaction Volume in Million |
|---|---|---|---|---|---|---|---|---|---|
| Aug-16 | 8.21 | 66,495.95 | 1.78 | 12.14 | 118.55 | 8,764.13 | 33.89 | 268.49 | 153.33 |
| Mar-17 | 12.14 | 1,11,825.01 | 1.15 | 11.24 | 186.70 | 16,294.50 | 67.41 | 564.68 | 182.12 |
| Mar-18 | 12.36 | 1,12,498.68 | 0.37 | 7.96 | 212.01 | 22,540.77 | 110.15 | 1,038.04 | 217.31 |
| Apr-18 | 10.37 | 82,457.44 | 0.70 | 12.58 | 167.35 | 16,326.64 | 109.55 | 1,022.40 | 263.52 |
| May-18 | 11.19 | 93,765.34 | 0.58 | 10.56 | 172.91 | 17,151.96 | 116.62 | 1,085.75 | 237.09 |
| Jun-18 | 11.14 | 1,01,133.89 | 0.55 | 13.33 | 177.15 | 19,017.08 | 120.49 | 1,130.12 | 235.41 |
| Jul-18 | 10.69 | 99,646.35 | 0.69 | 14.47 | 180.60 | 17,321.40 | 127.38 | 1,171.67 | 256.35 |
| Aug-18 | 10.74 | 97,993.53 | 0.46 | 10.02 | 193.20 | 18,712.45 | 133.58 | 1,237.34 | 259.96 |
| Sep-18 | 10.14 | 91,806.84 | 0.56 | 10.59 | 181.01 | 18,015.50 | 135.74 | 1,256.40 | 235.15 |
| Oct-18 | 11.58 | 97,944.08 | 0.70 | 16.28 | 209.04 | 19,227.03 | 154.62 | 1,403.07 | 247.75 |
| Nov-18 | 10.70 | 91,162.92 | 0.50 | 12.39 | 194.21 | 18,246.68 | 149.94 | 1,347.57 | 246.99 |
| Dec-18 | 11.05 | 1,01,338.56 | 0.53 | 10.96 | 194.78 | 19,570.40 | 176.93 | 1,468.99 | 247.86 |
| Jan-19 | 11.50 | 1,06,991.92 | 0.43 | 9.19 | 205.13 | 19,662.62 | 171.51 | 1,522.97 | 244.89 |
| Feb-19 | 10.84 | 94,576.26 | 0.40 | 14.55 | 201.10 | 19,214.30 | 166.37 | 1,493.43 | 265.73 |
| Mar-19 | 13.35 | 1,25,551.00 | 0.27 | 10.57 | 242.39 | 25,470.01 | 190.18 | 1,762.89 | 294.47 |
| Apr-19 | 11.23 | 93,080.66 | 0.55 | 11.96 | 203.44 | 20,546.69 | 185.04 | 1,691.97 | 342.82 |
| May-19 | 12.22 | 1,04,886.16 | 0.32 | 7.86 | 217.68 | 21,277.74 | 183.33 | 1,804.56 | 282.48 |

*Source :* 1. RBI Bulleting- Payment system indicators at https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=17583, accessed on July 19, 2019.
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*Note:* Data for latest 12 month period is provisional.

| National Automated Clearing House (NACH) Value in Rs. Billion | USSD *99# Transaction Volume (actual) | USSD *99# Transaction Value in Rs. Million | UPI Transaction Volume in Mn | UPI Transaction Value in Rs. Billion | Credit Cards Transaction Volume in Million | Credit Cards Value in Rs. Billion | Debit Cards Transaction Volume in Million | Debit Cards Value in Rs. Billion | Prepaid Payment Instruments (PPIs) Transaction Volume in Million | Prepaid Payment Instruments (PPIs) Value in Rs. Billion |
|---|---|---|---|---|---|---|---|---|---|---|
| 681.78 | | - | 0.09 | 0.03 | 84.59 | 260.50 | 887.22 | 2,380.13 | 96.28 | 56.46 |
| 829.37 | 2,11,202 | 337.57 | 6.37 | 24.25 | 106.70 | 331.11 | 981.28 | 2,616.45 | 342.09 | 106.77 |
| 1,313.70 | 1,65,248 | 284.40 | 178.05 | 241.73 | 128.08 | 446.77 | 1,093.84 | 3,082.07 | 293.66 | 118.82 |
| 1,227.04 | 1,42,882 | 259.51 | 190.08 | 270.22 | 133.05 | 451.74 | 1,092.70 | 3,102.54 | 326.17 | 133.80 |
| 966.41 | 1,35,164 | 244.50 | 189.48 | 332.89 | 138.41 | 474.01 | 1,100.17 | 3,115.59 | 350.74 | 155.21 |
| 1,101.64 | 1,38,708 | 242.88 | 246.37 | 408.34 | 136.73 | 466.29 | 1,111.53 | 3,159.98 | 332.95 | 163.46 |
| 1,114.09 | 1,36,707 | 243.10 | 235.65 | 518.43 | 145.80 | 481.33 | 1,147.48 | 3,164.25 | 351.80 | 175.19 |
| 1,111.87 | 1,30,250 | 233.13 | 312.02 | 542.12 | 145.04 | 483.68 | 1,162.69 | 3,249.48 | 373.39 | 189.94 |
| 1,046.00 | 1,27,090 | 227.50 | 405.87 | 598.35 | 139.03 | 464.72 | 1,161.39 | 3,149.01 | 357.86 | 177.49 |
| 1,389.55 | 1,24,965 | 225.90 | 482.36 | 749.78 | 161.97 | 565.96 | 1,263.00 | 3,476.90 | 420.20 | 221.28 |
| 1,428.33 | 1,08,362 | 196.74 | 524.94 | 822.32 | 146.65 | 519.94 | 1,215.49 | 3,319.10 | 394.17 | 185.19 |
| 1,218.35 | 1,20,784 | 206.14 | 620.17 | 1,025.95 | 159.22 | 546.38 | 1,301.84 | 3,670.43 | 441.77 | 189.22 |
| 1,220.26 | 1,20,779 | 210.28 | 672.75 | 1,099.32 | 160.43 | 553.39 | 1,254.08 | 3,168.08 | 443.58 | 187.03 |
| 1,303.92 | 1,08,932 | 189.13 | 674.19 | 1,067.37 | 142.13 | 488.59 | 1,165.08 | 3,050.34 | 384.85 | 164.97 |
| 1,635.08 | 1,12,960 | 195.86 | 799.54 | 1,334.60 | 163.27 | 580.49 | 1,298.99 | 3,420.10 | 427.24 | 185.99 |
| 1,550.43 | 1,03,942 | 186.29 | 781.79 | 1,420.34 | 167.79 | 580.50 | 1,216.48 | 3,393.55 | 420.97 | 185.54 |
| 1,744.00 | 1,01,694 | 182.93 | 733.54 | 1,524.49 | 174.04 | 616.76 | 1,223.30 | 3,523.19 | 419.00 | 182.97 |

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# About the Authors

**Alok Misra** has 27 years of professional experience in international development, rural finance /inclusive finance and research at both policy and implementation level. He started his career with India's apex rural development bank (NABARD) in 1992, wherein his work spanned financial sector supervision, institutional development, microfinance, agricultural/rural finance and rural livelihoods /MSME finance. He was also part of multi institutional task force (2003-2004) responsible for setting up India's first online demutualized commodities exchange (NCDEX). In 2008, he shifted to a global microfinance rating, policy analysis and technical advisory agency. As CEO, he has done extensive work on credit ratings, social ratings, portfolio audits, programme evaluations, risk diagnostics, advisory and country sector evaluations. Alok has worked across institutions in both developed and developing countries such as Bangladesh, Cambodia, Cameroon, Fiji, Georgia, India, Indonesia, Kenya, Kyrgyzstan, Malawi, Morocco, Nepal, Nigeria, Netherlands, New Zealand, Rwanda, Philippines, Sri Lanka, Solomon Islands, Timor Leste, Uganda and Vietnam and supervised work across many other countries. In his long career, Alok has provided consulting services to various multinational agencies such as ADB, UNCDF, World Bank, IFC, IDLO, GIZ, SDC and Rabo bank.

Currently, Alok Misra is Professor and Chairperson, Public Policy & Governance at Management Development Institute (MDI), Gurugram. Alok is a member of Inclusive Finance India Group of Advisors, board member of MFIN, member of Digital finance working group constituted by ITU, Geneva. Alok is closely associated with international initiatives like SPTF and Smart Campaign as member of accreditation review committee. Alok has written numerous articles and reports and he authored "Responsible Finance India report" in 2015 and 2016 and "Inclusive Finance India Report" in 2018. Alok Misra holds a PhD in Development Studies from Victoria university of Wellington, Master in Development Management (Gold Medallist) from Asian Institute of Management, Manila. He has been trained at Harvard Business School in "Strategic leadership for Microfinance" and was a Fellow, Fletcher Leadership Program for Financial Inclusion at Tufts University

**Ajay Tankha** has over 35 years of experience as an academic and consultant in development economics, rural finance and microfinance.

He was International Head of Microfinance of ActionAid UK, where he directed a global review of its savings and credit programmes, including impact assessment studies in India, Bangladesh, Kenya, Ethiopia and Ghana. Earlier, he worked as Economist with the National Bank for Agriculture and Rural Development in India.

He has been a consultant with CARE-India's CASHE project, GTZ (now GIZ) Rural Finance Programme, American India Foundation, Sa-Dhan, the association of Indian community development finance institutions, Access Development Services, Small Industries Development Bank of India, EDA Rural Systems and Centre for Microfinance, Jaipur. In addition, he has conducted studies sponsored by the World Bank, International Finance Corporation, Ford Foundation, Rabobank, ICCO and Cordaid.

For over 15 years he has lectured on economics and development studies at the University of Delhi, International Institute of Social Studies of the Erasmus University, Rotterdam and the National Economics University, Hanoi.

Ajay Tankha has authored several research papers and publications on microfinance and rural livelihoods as also three books on self-help groups including *Banking on Self Help Groups: Twenty Years On* (Sage, 2012). He has co-authored the *Microfinance India State of the Sector Report 2013*, *Inclusive Finance India Report 2014* and *Inclusive Finance India Report 2018.*




The Inclusive Finance India Report is an in-depth, well researched, well analyzed evidence on how the financial inclusion agenda has progressed at various levels and across all the broad themes. The report covers a review of the performance of diverse institutional structures and delivery models in inclusive finance – the commercial banks, Regional Rural Banks and Cooperative Banks, the new specialised banks, non-bank finance companies, self-help groups and the microfinance institutions. The report covers the initiatives in digital technology that address the last mile delivery challenges and provides an overview of some new initiatives.

The report also tracks the performance of programmes and scheme of the government to promote financial inclusion, as also contribution and new initiatives of large apex institutions and regulators. The report aims to inform the policy development process on inclusive finance, inform banks and investors both national and international, highlight positive impact of various institutions, models and initiatives and identify policy and practice gaps.

The methodology of development of the report includes consultations with the RBI, Ministry of Finance, Banks, apex financial institutions, technology services providers, diverse delivery models and technical agencies.

The Inclusive Finance India Report is the best reference book on the annual trends and progress of the financial inclusion in India, covering a comprehensive data based analysis of all streams of financial inclusion with most current information in terms of numbers and developments; a must for every stakeholder in the financial inclusion value chain.

**Alok Misra** is an academic and development professional specialising in financial sector policy and regulation, governance and inclusive finance. Currently, he is Professor and Chairperson, Public Policy programme at Management Development Institute (MDI), Gurugram. He has worked across 20+ countries, authored numerous articles and reports and provided consulting to various multilateral agencies such as the World Bank, UNCDF, UNDP and ADB.

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