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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

PREFACE

As we release the fourth issue of our widely acclaimed bi-monthly digest, it gives me immense pleasure to learn that since its inception in April 2010, in a short span of time, FICCI's 'Banking and Finance Digest' has gone a long way, in facilitating a comprehensive forum to promote active debate and raise pertinent issues that concern the who's who of the entire BFSI sector in the country. I am hopeful that this Digest will further cement FICCI's fundamental role in guiding the course of action and recommending course correction for our stakeholders.

FICCI's extensive network of Industry members has given an overwhelming response to our previous issue 'Indian Financial Markets-2020'. Through the candid opinions of the gurus of the financial world, the last issue endeavoured to track the growth trajectory of the financial markets over the next decade and identify the roadblocks that could impede the growth of Indian economy in general and the Indian Financial sector in specific.

One of the major issues facing our economy today is that of promoting “Inclusive growth”. Majority of the Indian population has remained financially excluded either because of poor penetration of the financial services available or because of the dire state of financial literacy in the country. Although the poor have received some relief, through centre/state funded anti poverty schemes in the form of cash handouts and bailouts, the very concept of “inclusive growth” is still without a realistic pathway.

In this regard, the current issue of our journal aims to bring to the forefront perspectives of experts from India Inc. and financial sector intermediaries on **'Role of Financial Institutions in Financial Inclusion'**. Financial Institutions along with the government as a facilitator of an enabling environment for growth can play a larger role in fostering the process of financial inclusion and ensuring sustainable sources of livelihood and raising the standards of living of the poor.

We thank our partners MCX Stock Exchange for extending their support to help achieve our endeavour.

We do look forward to views and suggestion from the readers to help us improvise the content of the journal and make it more relevant and informative.

Dr Amit Mitra
Secretary-General
FICCI

The Case for Small Banks

Ms. Bindu Ananth, *President, IFMR Trust*

Mr. Suyash Rai, *Finance Foundation, IFMR Trust*

In what could become a welcome trend, the RBI has started putting out detailed discussion notes on future policy steps. Recently, the central bank released a discussion paper presenting the pros and cons of various approaches to new bank licenses[1] . Though the paper doesn't clearly favour any particular structure, it does seem to be tilting towards or away from certain possibilities. One possibility that the paper seems to be almost squarely opposed to is of allowing more small, local area banks to be set up in the country. The paper lays out some arguments opposing the idea of small banks, and cites experience with small banks like local area banks and urban cooperative banks to make a case against them.

As far as performace of local area banks is concerned, the record in itself doesn't prove that the small banks don't stand a chance. The Indian experience with small banks has been a mixed one, and there are examples of well performing banks in almost every category of small banks (local area banks, district credit cooperative banks, urban cooperative banks, etc), as there are of non-performing ones. This is true for big banks as well. This process is inherent to the process of development of institution-types, and the key is to ensure learning and application of "design principles" that make banks successful, rather than writing off entire categories of institutions. If there are indeed inherent weaknesses in the model, which are unmanageable, then the model should very well be discarded. If there are advantages in the model, and weaknesses that can be managed by some structural innovations, then there is no real need to discard the small banks model itself.

Before we consider the challenges to stability and continuity of small banks, and ways of managing these challenges, the key question to ask is: what really are the advantages of small, local banks? Interestingly, the

[1] *The paper is available at: rbidocs.rbi.org.in/rdocs/content/PDFs/FIDIS110810.pdf*

RBI paper cites financial inclusion (i.e. expanding access to financial services) as the main objective for providing more bank licenses. Let's stay with this objective. Firstly, small banks have proven advantages in processing "soft" information, which is crucial for lending. Professor Jeremy Stein of Harvard University has argued that such institutions are likely to be more successful when information is "soft" and cannot be credibly transmitted. In contrast, large hierarchies perform better when information can be costlessly "hardened" and passed along[2]. There is documented tendency for bank mergers to lead to declines in small-business lending. Studying the empirical evidence on large/multi-national banks, Professor Atif Mian of University of California, Berkeley, shows that greater cultural and geographical distance between a foreign bank's head quarter and the local branches, leads it to further avoid lending to "informationally difficult" yet fundamentally sound firms requiring relational contracting[3]. Greater distance also makes them less likely to bilaterally renegotiate, and less successful at recovering defaults. The small/domestic banks have been shown to have more smaller/local (profitable) clients. Such differences can be economically large enough to permanently exclude certain sectors of the economy from financing by such large banks.

This ability to process soft, local information is particularly crucial in India, where "hard" information (credit history etc) about a vast majority of people is not readily available. In other words, the main way for banks to know about most clients in India is to access and process local knowledge, mostly captured through local presence, and small banks have proven to be much better at doing this. Big banks tend to skim the surface, where small banks can and usually do go deeper and provide services to many more.

Complete financial inclusion means providing financial services in a high quality, so that people use the services actively. Quality can be understood in terms of the convenience, flexibility and reliability of these services, which are universal terms, but must be defined locally. For example, different timings for bank branch may be deemed convenient in different parts of the country, and this has to be managed on the basis of local understanding. The second big advantage of a small bank is its ability to be agile about local preferences for providing convenience and flexibility required to use banking services effectively. Thirdly, if an institution's horizontal growth (across geographies) possibilities are limited, it has greater incentives to try harder to grow vertically, by serving more people in the geography and providing more services to the same clients, enhancing the financial inclusion agenda.

Now, let's discuss some of the weaknesses/challenges identified by the RBI discussion paper. According to the paper, the key inherent weaknesses of the small, local area bank model are: a) unviable and uncompetitive cost structures due to small size, b) high concentration risk and higher risk of adverse selection due to geographical concentration, c) limited ability to attract professional staff and competent management due to salary and location constraints, and d) lax governance

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[2] *The paper is available at: http://www.economics.harvard.edu/faculty/stein/files/hierarchies-jf-final.pdf*

[3] *The is paper is available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=631705*

standards because of concentrated ownership. Though these could be critical challenges to stability and continuity of small banks, there are ways to mitigate most of these weaknesses. For example, the concern about costs is primarily related to the inability of small banks to incur large capital expenditures for deploying systems like core banking systems, or risk management platforms. Innovations in recent times have made it possible to develop and offer these systems Application Service Provider (ASP) form, wherein the user doesn't need to incur large establishment expenses, but pays on the basis of usage. The software industry is churning out such solutions regularly.

The concentration risk can also be managed if the risk is properly managed by the bank, with systematic risk regularly transferred to entities or markets able and willing to hold the risk for a fee. For example, a local area bank is highly vulnerable to risk of flood in the area, which would lead to a run on the deposits and high defaults on loans. A big part of such systematic risks should be transferred out from the small bank's balance sheet, while the bank should hold the risks it can manage. This could be done by securitization or parametric insurance on the portfolio, and could be made mandatory by RBI. Also, these banks can be asked to maintain higher capital adequacy. In some cases, the regulator could severely restrict the ways in which the bank can use the savings mobilized. For example, it could make it mandatory to invest most or all of the short-term savings in cash or government securities (narrow banking). Other such solutions could be considered for managing this weakness.

Attracting professional staffs and management is easier if the bank, true to its nature, focuses on recruiting and nurturing local talent. Corporate governance issues can be best addressed by requiring that the ownership is not very concentrated, and the board composition is a healthy mix of independent directors, executives and promoters. Also, oversight of these institutions could be strengthened by regular and close monitoring by investors and lenders to the bank. If the system is made transparent and market-based, the market participants would be incentivised to monitor the institutions and ensure quality, thus adding to the regulation and supervision by the regulator.

The key point is that, if we do acknowledge the important advantages of small banks in meeting the objective of financial inclusion, we can find many ways of addressing the challenges cited in the RBI paper. There are strong reasons to believe that the advantages are substantial enough to find and deploy these solutions.

Interestingly, The issue of optimal size of the banks is being debated

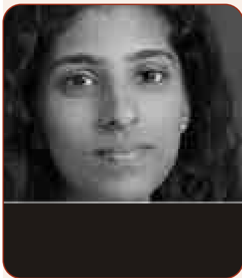
internationally, especially in wake of the recent financial crisis, which has once again brought forward questions about the optimal size of banks from the point of view of service quality as well as systemic risk. Emergence of more high quality small banks could create a more fragmented and competitive banking sector, which will also minimize the "too big to fail" threat that much of the world banking sector faces.

This argument for more small banks in no way undermines the importance of other financial institutions. World Bank's Chief Economist Justin Lin recently wrote a paper arguing that small local banks are the best entities for providing financial services to the enterprises and households that are most important in terms of comparative advantage. While his argument for small banks is spot on, he also argued that the size and sophistication of financial institutions and markets in

the developed world are not appropriate in emerging markets. This is not necessarily true, because small banks and larger financial institutions/markets complement each other in many ways. While the former have distinct advantages in delivering high quality services at the front-end, the latter are required for managing certain systematic risks at the back-end, providing support to small banks for designing appropriate products, and supplying capital for small banks and large projects.

High quality small banks can carry forward what effectively started in the last round of bank licensing in 1993. From the cohort that started with that round of licensing, the banks that managed to succeed (like ICICI Bank and HDFC Bank) carried the paradigm of banking to the next level, taking it forward from what the then existing banks were doing, thus expanding access to a much larger number of people. They did so with increasingly sophisticated products and higher levels of efficiency. Small banks can take this process to the next stage, picking up from what these banks have done (or are doing), and taking the banking revolution to the next frontiers - the remote, rural areas, and the under-served parts of population in urban areas.

About the Author



Ms. Bindu Ananth
President
IFMR Trust

Bindu Ananth is the President of IFMR Trust, a Chennai-based organisation working with the mission of ensuring that every individual and every enterprise has complete access to financial services. She worked with ICICI Bank in its microfinance practice between 2001 and 2005 and was Head of the new product development group within the bank's rural finance business in 2007. She founded the Centre for Microfinance, IFMR, and has published in the Small Enterprise Development Journal, the Economic and Political Weekly, the OECD working paper series and the IFMR working paper series.

Mr. Suyash Rai
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Suyash Rai works with IFMR Finance Foundation, a subsidiary of IFMR Trust. The Foundation's strategy is to use research, policy advocacy, knowledge management and strategic partnerships to pursue the mission of ensuring complete access to financial services for every inidividual and every enterprise. Prior to joining IFMR Finance Foundation, he worked in the Social Initiatives Group of ICICI Bank. He has published in the areas of health economics, financial system design, and rural finance.

Role of Financial Institutions in Financial Inclusion

Mr. Joseph Massey
MD & CEO, MCX Stock Exchange

The level of development of the financial system in a country is one of the best indicators of its general economic development. Efficient financial institutions and mature capital markets-primary and secondary stimulate economic growth by efficient mobilization of savings and making those available for productive investments. Financial institutions not only ensure growth of the economy but also help in achieving social returns. There is a critical role to play by every financial institution in the process of financial inclusion and promote inclusive growth by ensuring opportunities for all in the society. Financial inclusion implies that the population in a country has access to a diverse range of financial products and services not only at an affordable cost but also in a convenient manner. It is a state when financial products and services are promptly delivered by a range of providers-public and private to every segment of the population.

The capital markets in India are underdeveloped. The equity market suffers from high concentration and low market breath along with high trading costs. The capital formation is limited as a large portion of volume is contributed by non-delivery trades. The corporate debt market is conspicuous by its insignificant size, growth and development. The market faces severe systemic problems. The market share of top 5 cities only has grown over the last decade; liquidity is concentrated in a very few listed companies; about 70% volume comes from index futures and options based on a single benchmark; an efficient corporate bond market is missing and interest rate derivatives are almost absent. Less than 2 per cent of the country's population directly participates in the capital market as compared to over 9 per cent in China and about 20 per cent in developed countries like United Kingdom and United States. In India, less than 10 per cent of listed shares are held by domestic individuals. This signifies the extent of exclusion and poor development in the country when compared to countries like Taiwan where individuals hold around 40 per cent of the listed shares and contribute to over 70 per cent of the trading. Nearly 55 per cent ($65 billion) of the India's total financial savings go into bank fixed deposits annually instead of getting channelized to market linked instruments. Raising risk capital at low rates is very important for corporates as it promotes investment and employment in the country. Thus, financial institutions have a great responsibility in developing and deepening the capital markets, by contributing to financial inclusion in the country.

Efforts of government and financial institutions

India has demonstrated a long term growth trajectory. However, a large section of Indian population has remained financially excluded from even the basic opportunities and services emerging in the financial sector. To address the issues of financial inclusion, in June 2006, the Government of India appointed a "Committee on Financial Inclusion" under the Chairmanship of Dr. C. Rangarajan. The Committee has defined Financial Inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Besides, fostering a policy environment where financial institutions can thrive is an equally important task to be accomplished by the government. They can be instrumental in achieving greater financial deepening and market penetration in Indian economy by devising products and services tailored to meet preferences of the investing community as well as of the lower income population. Strategies of innovation, credit counseling, financial education and proper segment identification adopted by financial institutions can help in taking the product and services to the masses. A mature institutional set-up can also devise low cost distribution mechanism for taking multiple financial products and services across the country. Financial institutions also generate inclusive growth by creating and distributing wealth along with making capital available for corporates, especially for small and medium enterprises across the country.

Generating incomes and mobilizing savings

Access to financial services leads to increase in household incomes. Access to a wider set of financial conveniences like credit, savings products, payment systems/services, insurance products keep the households well equipped to absorb financial shocks, stabilize their incomes and also helps them in building their assets.

India has been experiencing a robust trend in gross domestic savings as a proportion of GDP since 2000. The gross domestic savings rate has improved from 23.6 per cent of GDP in 2001-02 to over 30% currently. The household savings have also continued to grow and as per RBI estimates, the net financial saving of the household sector in 2008-09 is 10.9 per cent of GDP at current market prices. When compared to international standards, India's gross

household savings rate as percentage of disposable income is impressive. Financial institutions can efficiently mobilize the household savings and make these available for developmental projects. The role of institutions in savings mobilization is also crucial when a vast number of SMEs in India face constraints in raising risk capital.

Financial integration and the role of banks and other financial institutions

A greater degree of integration between financial institutions can help achieve 100% financial inclusion. To realize this, it requires greater integration of network of banks, exchanges, insurance companies, fund houses and other financial bodies and institutions to facilitate and benefit from cross selling.

RBI has considered fostering competition as an important step in

promoting financial inclusion. The average population coverage by a commercial bank branch in urban areas has improved from 12,300 in June, 2005 to 9,400 in June 30, 2010 and in rural and semi urban areas from 17,200 in June 30, 2005 to 15,900 in June 30, 2010. However, a large chunk of underprivileged population still lacks access to formal banking services. RBI is promptly considering giving some additional banking licenses to corporates and also to non banking financial companies.

Banks have a larger role to play in fostering financial inclusion given 400 million account holders and 80,500 branches. As a part of its 100% financial inclusion drive, it has enabled kirana store owners, retired defense personnel and school teachers NGOs/MFIs, trusts, non-profit companies, post offices, cooperative societies to assist as Business Correspondents in reaching the unbanked areas.

The RBI aspires to provide a bank account to those desirous to have or is potential users who should have an account. RBI launched the Lead Bank Scheme back in 1970 which was followed by the establishment of Regional Rural Banks (RRBs) in 1975. Recognizing the potential for financial institutions to help achieve greater financial inclusion, the High Level Committee to Review the Lead Bank Scheme (2009) has suggested continuation of the scheme with a decentralized approach for wider financial inclusion.

Banking system constitutes the back bone of capital markets. In recent times, banks have been performing various functions apart from the conventional banking activities and they generate greater revenues from the fee-based services like retail banking, commercial banking, investment banking, asset management, portfolio management, transaction services etc. Fee based services have become major sources of revenue for banks like HSBC and Citi Bankin India, where their contribution accounts for more than 50 per cent of the banks' revenue These services cater to different customer bases like retail clients along with institutional and corporate clients. Encouraging non-conventional banking activities can not only enhance financial inclusion but also boost banks' business..

A number of countries use the banking sector to distribute mutual funds. European mutual funds predominantly use banks as the major distribution channel with a market share of 53 per cent. In Finland, approximately 70 per cent of assets are managed by banks. The American Bankers Association estimates that 3500 banks (around 1/3rd of banks) in the US sell mutual funds. Some merely refer customers to outside brokerage houses; others manage their own mutual funds while around 10-15 per cent of funds are sold through banks.

Mutual funds play a significant role in mobilizing the household savings and bringing them to capital markets as they facilitate diversification of risk. The Indian mutual fund business constitutes only 1 per cent of the global mutual fund sector, but holds immense scope for growth. Nearly 7.7 per cent of the country's total savings are diverted into mutual funds. However, fund houses have only 2,500 branches as compared to 80,500 bank branches. Hence the existing banking network needs to be utilized for penetration of mutual funds which is limited mainly in top 10 cities and to only around 5 per cent of the households.

To foster greater integration, RBI has permitted banks to enter agreements with mutual funds for marketing and distributing mutual fund products. Banks can also offer discretionary portfolio management and investment advisory services. SEBI has very aptly allowed online trading of open-ended mutual funds on the stock exchanges. This has encouraged retail investors to conveniently invest in mutual funds. With 200,000 such terminals allowing investors in over 1,500 Indian towns to invest in the stock market, the network of brokering companies has spread to semi-urban areas and is now increasing its focus on retail investors. Such cross selling results in bringing to the markets enough products and services and each intermediary can have economies of scale along with promoting financial inclusion.

Greater integration of insurance companies with other financial intermediaries is expected to aid

financial inclusion. Off late, online insurance policies have been promoted whereupon agents' commissions have tapered down making it more cost effective for the end-consumer. Recent guidelines by IRDA in the context of ULIPS on minimum lock-in period, switching options, simplicity and transparency in product and in disclosure norms regarding charges are a welcome step towards attracting and retaining more customers.

Financial institutional efforts to foster financial literacy

Lack of financial literacy is the major hindrance in spreading financial inclusion. This has resulted in the more than 50 per cent of savings of the household sector and of the financially illiterate getting drained in non financial investments. Banks and financial institutions need to look at financial inclusion not as a social responsibility or obligation but as a business opportunity and it needs to be meticulously integrated in their business activities. This can make banks and financial institutions contribute to financial inclusion on a larger scale and at a rapid pace. A pro-active role by banks in providing simpler and affordable products can draw the lower income groups towards the formal financial system.

Financial and education institutions, financial intermediaries and local correspondents need to take up suitable initiatives to heighten financial literacy among people. RBI has recommended that financial literacy and customer education should be incorporated in the business strategies of banks and they should stay committed to this task. Business networks, technological aids and other resources can be effectively used by the intermediaries to adopt low cost business models. Banks and other institutions may include the criteria regarding financial literacy and financial inclusion in the performance evaluation of their field staff while financial education may be made a part of curriculum in the formal educational system for bringing awareness among young generation.

Competition and technology harnessing

Introduction of competition in telecom, banking and insurance sectors has reaped greater results. For instance, the telecom tariffs have come down to 1 paise. Government can aid inclusion by promoting

Mutual Funds	Banks	Insurance	Capital Market
AMCs: 44	Commercial Banks: 170	Insurers: 23	National Stock Exchanges: 2
Branches: 2500 Agents: 64,000	Branches: 80,500	Offices: 11,800 Agents: ~3 million	Brokers: 2100 Trading Terminals: 200,000
AUM: $165 billion	SCBs Agg. deposits: $875 bn	Sum Assured: $600 bn	Market capital: $1120 bn
Users: ~47 million	Users: ~600 million	Subscribers: ~260 million	Direct investors: ~15 million

Data as on Dec '09

Source: SEBI, IRDA and RBI

Financial institutions can effectively harness technology to enhance financial inclusion. RBI believes that banks and financial institutes need to recognize the penetration levels of internet and mobile telephony in India and use it as an effective medium to achieve inclusion. RBI's regulatory guidelines in 2008 have enabled mobile banking and since 2009 non-bank entities have also been permitted to develop mobile based products and promote m-commerce. Also, the capital market regulator, SEBI recently allowed mobile trading to promote inclusion.

Financial institutes can partner with mobile service and technology providers. The government has been encouraging steps towards financial inclusion by a bank-led model coupled with infrastructure provided by mobile service providers. Similar partnership and co-operative ventures could be followed with other technology providers. This is crucial because technology advancement can help facilitate greater coverage at lesser costs. However, technology must be customer-centric rather than employee-friendly and must enable customer facilitation in terms of cost, time and convenience.

Financial Inclusion on global agenda

G-20 nations have expressed their commitment to improve access to financial services for the populations while working with Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC). In June 2010, at the Toronto Summit, the finance ministries and central banks of G-20 nations have recognized the fact that around 2.5 billion global population scattered in Africa, Latin America, Asia and the Middle East lack access to financial services. They have underlined the importance of financial stability, financial inclusion and consumer protection for the financially excluded. It is a recommendable step that G-20 summit has taken initiatives to establish a G-20 Financial Inclusion Experts Group (FIEG), and its two sub-groups on Small and Medium-sized Enterprises Finance, and Access through Innovation initiative. The group has identified financial inclusion as a policy priority while launching the Financial Inclusion Experts Group. This group is expected to promote innovative approaches to providing financial services to these groups including micro finance and support to SMEs and promoting successful regulatory and policy environment conducive to financial access and financial literacy.

Conclusion

Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international fora have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot. Provision of a healthy and encouraging regulatory canvass and a competitive environment by the government is equally important in enabling institutions to be pro-active in this accomplishing this mission. Governments and institutions also need to adopt greater integration and harness technological interventions.

(The views expressed in this article are personal and do not reflect in whatsoever manner, those of MCX - SX)

Mr. Joseph Massey
Managing Director & CEO
MCX Stock Exchange

About the Author

Mr. Joseph Massey is MD & CEO of India's new stock exchange - MCX Stock Exchange. He is instrumental in formulating and implementing policies, procedures and best practices at the exchange and oversees strategic operations, and overall functioning of the exchange.

Mr. Massey has been a part of the MCX team since inception and his last responsibility with MCX was as MD & CEO. Mr. Massey headed strategic operations and development initiatives of MCX and made MCX the "exchange of choice" for all commodity participants. He has over 20 years of diverse corporate experience and has been associated with leading financial organisations such as Life Insurance Corporation of India (LIC), the Reserve Bank of India (RBI), Stock Holding Corporation of India, and the Vadodara Stock Exchange. In his last assignment, he was heading Interconnected Stock Exchange of India—a collaboration of 15 regional stock exchanges—as its Managing Director.

Mr. Massey has also travelled to various global stock exchanges like the NYMEX, LME, CBOT, CME, NYBOT, CCX, EURONEXT-LIFFE, IPE, NYSE, NASDAQ, Philadelphia Stock Exchange, SEC, CFTC, LSE, Singapore Stock Exchange, and DTC and has brought best practices to India. He has been a part of various committees of FMC, SEBI, and the Government of India on various policy issues related to the development of the commodities and securities market.

Mr. Massey is actively involved in the field of education as a visiting faculty at leading institutions to speak on the subject of financial markets.

Role of Financial institutions in Financial inclusion

Ms. Jayshree Ashwinkumar Vyas
Managing Director, Sewa Bank

The majority of the working poor in India, especially those working in the informal sector like small and petty vendors, home-based workers, artisans, labourers, maid servants, desperately need financial services from formal financial institutions. The reason that they are involved in economic activities in which they need working capital. They also need credit or term loans to buy business equipment like sewing machines or cutting machines or livestock or handlooms. There is also a need for credit for improving their huts of houses, for adding water and drainage services in their living place, or for getting electric connections.

These are all their needs for running economic activities, mainly because they are self-employed or working on their own. Because of their nature or work (mostly manual labour), poor living and working conditions, and low income level, they are very vulnerable and susceptible to many types of risks, i.e., personal risks like sickness, accident death, or natural disasters like floods, cyclone and fire. They need to be protected under these risks. They also want to build little savings for their future needs. Women want to "save for rainy days". Vulnerability during their entire working life does not allow them to build or plan for their old age.

This was important as it would then enable them to design and market products more innovatively. "What is important in any inclusion initiative is that there is greater hand-holding between the institutions and the excluded".

The poor need credit, insurance, savings and pension services. But because of lack of access to these financial services from formal sector, they have to depend on informal financial sources, i.e., private money lenders. Not only are these informal sources exploitative, they provide only credit services and do not provide other financial services like savings, insurance, pensions and remittances. As a result, the poor are caught in a debt trap; they borrow at very high interest rates for all types of life-cycle needs. If our objective is to bring these economically active poor out of the vicious cycle of poverty and help them build their own capital assets and business, we need to ensure that they get access to integrated financial services, and that too from formal financial institutions at a reasonable price.

The current 'financial inclusion' policy has all the components that are required to ensure that poor get access to financial services. Most importantly, the policy does not talk about only credit service, but also about integrated financial services. It provides for "door-step" banking, which is needed by the poor. It talks about bank appointing business facilitators and banking correspondents. It seeks to allow the poor to open 'no frills' accounts.

Banks are given targets and they are strictly monitored. There is the necessary political will as well as positive response from the formal financial sector, especially banks.

Though targets are supposedly being achieved, it is yet to be seen that it is bringing a positive change. Thus, while 'no frills" accounts have been opened, few accounts are being meaningfully operated. Probably the gap is at the demand side; may be the needy are not ready to avail of these services in a meaningful way; because this is the first generation of the population which we are trying to link with formal financial services. They are used to deal with informal financial service providers who provide 24 hour service at their doorstep with the simplest procedures. May be, they are reluctant because they are scared to follow procedures.

For a few services like savings and insurance, there is a need that should be converted into demand. There is a need to help them change their financial behavior - they normally live on day-to-day basis and also think on a day-to-day basis. We need to build their awareness to help them think for long-term lifecycle needs. There is need to teach them to differentiate between productive and consumptive use of money, specially borrowing.

What we need tis a two-step 'financial literacy" programme to make "financial inclusion" successful and meaningful. One is developing personal financial management skills and the other is developing financial operation skills for availing various financial services.

Personal financial management literacy includes the component of awareness building for financial planning and changing impulsive financial decisions, understanding importance of regular savings, borrowing only for productive purpose, minimizing risks through availing insurance services and also understanding financial principles. These include the principle of fungibility of money; principle of power of compounding; principle of productive versus unproductive use of money ; principle of borrowed versus own capital; and, principle of insurance.

A proper understanding of the principle of power of compounding will make the provision of 'no frills" accounts meaningful because poor will understand the importance of regular savings for the long term. Similarly the principle of productive versus unproductive use of borrowed money for productive purpose and the principle of fungibility of money may help them to save and plan for different purposes or different life-cycle needs.

Personal financial management literacy should be accompanied with financial operational literacy, like account opening procedure, explaining a nomination facility, types of saving accounts or how to avail credit from a bank.

The financial inclusion programme can become meaningful if parallel work is done on both demand and supply side. Excluded population should be prepared to avail of financial services from formal financial institutions and financial literacy can play a very important role in bringing in the desired results. Of course, it will be too much for banks to play this role of preparing people for availing financial services or converting need into demand.

Thus, a parallel financial literacy movement should be encouraged, may be through the media, even as we build a cadre of financial counselor at the grassroots level to educate people by building financial awareness.

Ms. Jayshree Ashwinkumar Vyas
Managing Director
Shree Mahila Sewa Sahakari Bank

About the Author

Ms. Jayshree Ashwinkumar Vyas is the Managing Director of Shree Mahila Sewa Sahakari Bank, Ahmedabad. She has experience of over twenty two years of running a formal bank for poor self employed women. During this period she has introduce innovative schemes such as integrated social security scheme for women working in the informal sector. She has also devised and implemented various technical and housing finance schemes for poor self employed women. Over 1,00,000 women have taken advantage of this scheme is in the last nineteen years. She has actively worked on designing and implementing micro pension scheme for 50,000 women members of SEWA Bank.

Financial Inclusion: The Way Forward

Mr. N K Maini
Deputy Managing Director, SIDBI

Introduction

Micro Finance has emerged as a new paradigm of inclusive growth by empowering hitherto relatively disadvantaged sections of our society, such as, women, minorities, backward castes and the poor, in general. SIDBI, which is the principal financial institution for the promotion, financing and development of industry in the Micro, Small and Medium Enterprises (MSME) sector, is committed to contributing towards the national goal of attaining Inclusive Growth by promoting the great spirit of MSME entrepreneurship as well as reaching out to those at the bottom-of-the-pyramid by extending developmental and financial support through the network of Banks, FIs, Micro Finance Institutions and other support worthy intermediaries.

The Background

SIDBI had initiated micro finance activities since February, 1994 with the objective of providing assistance to select well-managed Non-Governmental Organizations (NGOs) for on-lending to the poor for setting up micro enterprises/income generating activities. Need- based amounts of grants were also given to the NGOs for their capacity building. The pilot programme was implemented from 1994 to 1998 during which period, the Bank sanctioned assistance including grant support to NGOs for meeting their managerial costs. The assistance was utilized for undertaking income generating activities in the non-farm sector, with emphasis on group entrepreneurship activities.

Learning from the experience of the pilot phase, SIDBI reoriented and upscaled its micro finance programme in 1999. A specialized department, viz. 'SIDBI Foundation for Micro Credit (SFMC)' was set up with the mission to create a national network of strong, viable, disciplined and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sector for providing micro finance services to the economically disadvantaged people of India, especially women.

Role of SFMC

The setting up of SFMC was envisaged as an institutional answer to the huge unmet demand for micro finance. SFMC has been created to serve as an apex wholesaler for micro finance in India providing a complete range of financial and non-financial services to the MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers and advocating for appropriate policy framework for the sector. Today, SFMC functions as a nodal set-up to facilitate accelerated and orderly growth of the micro finance sector in India.

Creating a network of viable intermediaries

Over the years, SIDBI has been able to create, develop and nurture a pool of about 150 partner MFIs that is likely to grow in the coming years. The partner MFIs represent a cross-section of organizational forms ranging from informal Societies and Trusts to the more formal and Non-Banking Finance Companies (NBFCs). SIDBI meets the various financial needs of MFIs with a variety of structured, value-added products.

Loans for On-Lending

SIDBI provides need-based financial assistance by way of loans to partner MFIs on an annual basis for on-lending to the poor, mostly women. Assistance to MFIs is based on an independent Capacity Assessment Rating (CAR) through Credit Rating Agencies, supplemented by in-house appraisal of financial, management and institutional aspects of the MFIs. The concept of CAR in India has been pioneered by SIDBI with a view to bringing about professionalism in the sector and instilling confidence in the funding agencies. CAR not only helps in assessing the creditworthiness of partner MFIs, but also helps the MFIs to get an insight into their strengths and more particularly, weaknesses, which are thereafter appropriately addressed to ensure long term sustainability of these institutions.

Capacity Building of the Sector

In order to help the partner MFIs to move profitably on the growth path and achieve financial self-sufficiency, it is imperative to lay equal and sustained emphasis on building the capacities of these institutions. SIDBI has, over the years, provided adequate and customized package of capacity building grant tailored to the needs of the MFIs with a view to building their operational, financial and institutional capacities, as well as those of the end-users. Capacity Building support to MFIs is provided in areas, such as, human resource development; Information & Communication Technologies; group formation and mobilization costs; branch expansion costs; consultancy and mentoring support; documentation; accounting, audit & internal control; technical collaboration with international MF

service providers; impact assessment; action research studies; surveys, etc.

The capacity building support has enabled the MFIs to increase their outreach and volume of business, besides bringing about improvements in their business processes, leading to efficient financial management and achieving institutional and financial sustainability.

Experiments and initiatives in Underserved States

While the micro finance culture has been well-trenched in the four Southern States of Andhra Pradesh, TamilNadu, Karnataka and Kerala, the other States have lagged behind in the development of micro finance interventions. These States have,

therefore, been accorded special focus by the Bank, for development of micro finance.

One of the major strategies adopted by the Bank to address the issue is to induce the leading and well-performing MFIs from the developed Southern States to expand their operations in the North, East, North East and Central parts of the country. Need-based support, both by way of loan and grant, is provided to the MFIs for meeting their on-lending requirements and part of their cost associated with expansion, such as, branch infrastructure, MIS, Information and Communication Technology (ICT), professional human resources, etc.

Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development /micro finance professionals. The incubation support is either given through well-reputed management institutes or through institutions specializing in capacity building and technical support services. A large number of MFIs have been incubated in the underserved States through such programmes.

Reaching out to rural areas

SIDBI is also committed to widen the scope of financial inclusion by reaching out to the micro enterprises in the 'Missing Middle Segment' of the credit spectrum of the MSME sector, especially in the rural areas, i.e. loan size ranging from `50,000 to `10 lakh.

The Bank provides collateral free need based composite loan to this segment directly for acquiring capital assets and also for their working capital/ marketing related requirements. This renewed focus on this segment has the potential for large-scale employment generation through direct Micro Enterprise Loan by SIDBI and selected MFIs. For this, SIDBI is adopting the 'Downscaling' model in structured way.

Setting up of rural enterprises has all along been an important initiative of SIDBI. For this, the Bank has devised a Rural Industries Programme (RIP), which aims at promoting viable rural enterprises leading to employment generation in rural areas and use of local resources. The package of Business Development Services offered under the programme includes identifying and motivating rural entrepreneurs, identification of viable ventures based on local skills and resources, training, appropriate technology and establishing linkages with the formal banking sector. As on March 31, 2010, the RIP has been implemented in more than 120 districts in 24 States promoted around 35,000 enterprises, which have generated employment opportunities for over one lakh persons.

Progress Update

The cumulative micro credit assistance by SIDBI upto September 30, 2010 aggregated ` 7,544 crore, while cumulative disbursement was at ` 6,604 crore. The micro finance assistance of SIDBI has benefited about 300 lakh disadvantaged people, most of them being women.

As regard the foray in underserved States, SIDBI has, during the last year, added 10 new MFI partners from the underserved States in its portfolio, taking the total no. of assisted MFIs in such states to 81 in these states as on March 31, 2010. The aggregate assistance sanctioned to MFIs in the underserved States, during FY 2009-10, stood at around ` 800 crore.

Impact of SIDBI's Micro Finance Programme

An independent Impact Assessment Study of SIDBI's micro finance programme has demonstrated that micro finance is an effective strategy for extending financial services to the poor and other disadvantaged groups. The Study has clearly

demonstrated that micro finance is not only a financially viable business, but also addresses the larger social agenda of inclusive growth through poverty alleviation. The study revealed that SIDBI's micro finance has effectively reached out to the underprivileged sections of society with Scheduled Castes/Scheduled Tribes and Backward classes accounting for 73%, women constituted around 80%, improved human capital (65% of the female children were going to school - 71% for the 'very poor' client), dependence on Costly Informal Sources (e.g. Moneylenders) went down from 36.5% to 23.9% between base line and end line) etc. All these benefits are without any significant cost to the state exchequer as most of the activities are now being funded by commercial sources with focus on self-sustainability in the long run.

The endeavour of SIDBI in promoting microfinance is also in line with the Millennium Development Goals and the key achievements, as brought out in the Impact Assessment have been summarized in the Box.

BOX

Endeavour Towards Attainment of Millennium Development Goals

- MDG 1 -Eradicate extreme poverty and hunger
  - As per impact study, 44 % of clients were 'borderline / very poor' clients.
  - The proportion of households having 3 meals per day increased from 66% to 79%.
  - The proportion of households in 'very poor' and 'poor' categories declined and those in 'borderline', self-sufficient and surplus categories went up.
- MDG 2 -Achieve universal primary education
  - All children of 57% of households were going for school education.
  - 65% of female children were going to school (71% in case of very poor clients)
- MDG 3 -Promote gender equality and empower women
  - 80% beneficiaries were women. Majority (55%) of them being illiterates.
  - Proportion of client women with economic activity as their main occupation increased from 60% to 65%.
  - Improvement in joint ownership from 28% to 37% and ownership by women from 26% to 27%.
- MDG 6 -Combat HIV/AIDS, malaria and other diseases
  - Proportion of client households having treatment at private hospitals increased (55% to 64%) - especially in case of very poor and poor categories.
- MDG 7 -Ensure environmental sustainability
  - Environmental appraisal of activities of assisted MFIs carried out.
- MDG 8 -Develop a global partnership for development
  - Partnership with DFID-U.K., IFAD-Rome, ADB-Manila, KfW-Germany and World Bank for provision of micro finance and capacity building of MF sector towards eradication and alleviation of poverty and women empowerment.

Way Forward

As a result of the sustained capacity building activities undertaken by SIDBI, the micro finance sector has reached a take-off stage in India and is now poised for exponential growth. SIDBI is, therefore, in the process of designing new and innovative products to meet the emerging requirements of the sector. In order to broad-base its operations, special products are also being designed for rural/ artisan clusters. New intermediaries in the form of Formal Financial Institutions and Non-Banking Finance Companies engaged in providing financial services and / or livelihood generation opportunities to the poor are being roped in with a view to increasing outreach. On the capacity building front, many new developments are on the anvil, particularly for providing the poor access to markets. It is intended that the multi-pronged strategy and approach of SIDBI would eventually result in creation of a strong network of viable and sustainable grassroots community-owned micro finance institutions, functioning on the lines of mainstream formal financial institutions.

Responsible lending has been one of the top priorities of the Bank in the recent times. The Responsible Finance Initiative - cross-linked to the financing - could help improve management, governance, operational practices and disclosure. SIDBI has been playing an active role in impressing upon its partner MFIs to adopt and practice good corporate governance of managing the MF operations, besides sensitizing them on other issues. Promoting responsible finance and adherence to a laid down Code of Conduct would be a major intervention by SIDBI with support from the World Bank.

As part of its responsible finance initiative, SIDBI has initiated the process of creation of a Lenders' Forum comprising key MFI Funders with a view to promoting cooperation among MFI lenders for leveraging support to MFIs across the sector to promote more responsible lending practices. The Forum would work towards voluntary adoption of measures on governance, transparency, competitive practices, and support to MFIs on their adherence and adoption of these industry standards by building them into their covenants.

With a view to promoting transparency, SIDBI proposes to develop, in collaboration with the World Bank, a common information platform for MFIs - a MIX[1] market tailored for India - to provide and disseminate valuable information on the Indian MFIs. Other initiatives proposed to be undertaken include development of a Code of Conduct Assessment Tool for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct formulated by Sa-dhan[2] and M-FIN[3] .

Recently, SIDBI has endorsed the "Smart Campaign" launched by ACCION International for client protection in Micro finance, thereby demonstrating its commitment towards institutionalizing the Campaign's Client Protection Principles. The Campaign aims to raise awareness about client protection, develop and disseminate best practices, assist micro finance institutions to implement the best practices and create processes to certify MFIs as pro-client.

Information sharing on the beneficiaries among the MFIs is the crying need of the sector. This is required to suitably address the issue

[1] MIX Market is the leading global information database (www.mixmarket.org.), and managed by the Microfinance Information Exchange, which was founded by the Consultative Group to Assist the Poor (CGAP, a multi donor consortium housed in the World Bank and part of its Financial Sector network).

[2] The Core Values and Voluntary Mutual Code of Conduct for MFIs has been formulated by Sa-Dhan, the leading network of MFIs in the country. The code has three main parts: (i) core values (ii) code of conduct (iii) compliance.

[3] Major NBFC - MFIs have recently come together for formation of Microfinance Institutions Network (MFIN) and are inclined to introduce / initiate necessary corrective steps so as to improve the systems. Most of them continue to be members of Sa-Dhan also, which besides NBFCs / Section 25 companies also has MFIs with all other forms of constitutions as members. Both Sa-Dhan and MFIN have similar areas of concern and have initiated various steps to address the issues arising with the exponential growth of the sector.

of multiple lending and credit absorption capacities of the ultimate beneficiaries. Though the Unique Identity Project of GoI would aid in borrower identification, setting up of a Credit Bureau for micro finance to act as the repository of all credit information on microfinance clients would help to specifically address their issue at the ground level. Suitable steps have already been initiated in this direction and the beneficiaries' data of leading MFIs is being currently uploaded in two credit bureaus.

Micro-Insurance is a key element in the financial services package for people at the bottom- of- the-pyramid. The Bank is exploring tie-ups with Insurance Companies having pan-India presence for using the micro finance network to provide insurance products to the ultimate clients which would help in bringing down the inherent risk cost of lending. Using the MFI network would help to keep the cost of insurance attractive enough for the poor, even while addressing the concern of the insurers about the low returns of micro-insurance.

Conclusion

While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these financial services, the objective of "Comprehensive Financial Inclusion" would be to provide a holistic set of financial services. The banks / FIs would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. For accelerating the process of Financial Inclusion, concerted efforts are required for greater use of intermediaries like Micro Finance Institutions, etc; ICT for delivering the financial services instead of branch-based delivery mechanism, which will reduce the transaction cost; launching a national financial literacy campaign; involvement of state administration at grass roots level; inclusion efforts not only in rural areas but also in urban, metropolitan areas for migrants, slum dwellers.

SIDBI is committed to facilitating the process of financial inclusion through its various financial products, in general and micro finance, in particular.

The views expressed here are those of the author and not necessarily of SIDBI.

About the Author

Mr. N K Maini

Deputy Managing Director

SIDBI, Lucknow

Shri Navin Kumar Maini is Deputy Managing Director in Small Industries Development Bank of India (SIDBI), Lucknow, India, the premier financial institution for Micro, Small & Medium Enterprises (MSMEs). He is a graduate from St.Stephens College, Delhi, India and holds a Degree in Law from Delhi University, India. He is also a Postgraduate in Management from Management Development Institute (MDI), Gurgaon, India and International Trade from Indian Institute of Foreign Trade (IIFT), Delhi, India. Besides, he is a Certified Associate of Indian Institute of Bankers (CAIIB). Starting his career in the Banking Sector in 1977 as a Probationary Officer in UCO Bank, he subsequently served in Industrial Development Bank of India (IDBI) before joining Small Industries Development Bank of India (SIDBI) at its inception in 1990. He has been the Chief Executive Officer of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Mumbai, India which is in the business of providing guarantees to eligible Member Lending Institutions (MLIs) for collateral free loans extended to small industries.

He has vast experience in various facets of financing SMEs & Large Corporates, Micro Credit and Core Business functions of both commercial and development banks. He has been nominated on the Boards of various National level organisations, State Financial Corporations, Regional Venture Capital Funds, Micro Finance Institutions (MFIs) and Industrial Units over the years. He has been associated with various SME committees of leading industry associations in the country, besides being on the Boards of leading MFI Associations.

Presently, he is on the Advisor group of expert panel (India) of researchers of Micro Credit Summit Campaign (MCSC), Washington DC, USA. Besides, he is a Director on the Boards of India SME Technology Services Ltd., (ISTSL), New Delhi, Indai; India SME Asset Reconstruction Company Ltd., (ISARC), Mumbai, India; SIDBI Venture Capital Ltd., (SVCL), Mumbai, India; and SIDBI Trustee Company Ltd., (STCL), Mumbai, India.

Shri Maini has attended various international training programmes and also participated/ delivered talks in various international seminars in the fields of Development Banking and Microfinance organised at Cranfield School of Management, UK; Harvard and Stanford Universities, USA; Shangai, China; Washington DC, USA; Hanoi, Vietnam; Bali, Indonesia and Haikou, China & Hongkong.

Financial Inclusion: Innovative Approaches

Mr. M V Nair[1]
Chairman and Managing Director, Union Bank of India

Background

1. The genesis of inclusive growth can be traced back to late 1960s when banks were brought under the scheme of social control in the year 1967, followed by nationalization of 14 major commercial banks in 1969. Then in 1970, the Lead Bank Scheme was introduced and each State was assigned to one commercial bank as the Lead Bank to coordinate the efforts of financial institutions in meeting the credit needs of the economy. The social banking agenda of the government led to higher banking penetration through rapid branch expansion, delivery of credit to priority sectors and deposit mobilization in the 1970s and 80s. Between 1969 and 1990, number of bank branches increased by 7 times and share of rural branches in total network increased from 22 per cent to 58 per cent. Similarly, financial savings of the household as percent to total household savings increased from 25 per cent in 1969 to 46 percent in 1990. The bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. However, large part of the population including farmer households still remains unbanked.

2. The States like Bihar, Orissa, Rajasthan Uttar Pradesh, Chhattisgarh, Jharkhand, West Bengal and North-Eastern States are under-banked. When compared to the developed world, the coverage of our financial services is quite low. Within the country, there is a wide variation across the States. For instance, the ratio of deposit accounts per 100 of adult population (for the year 2009) for Kerala is as high as 113% while Bihar is marked by low coverage at 55%. In the North Eastern States like Nagaland and Manipur,

[1] *Shri M V Nair is the Chairman & Managing Director of Union Bank of India*

the coverage was a mere 42% and 37%, respectively. Northern Region, comprising the States of Haryana, Chandigarh and Delhi, had a high coverage ratio of 126%.

3. For the past several years the extent and impact of Financial Exclusion has been drawing continuous attention of both, the Government of India and Reserve Bank of India. This was necessitated as the high economic growth in low inclusive set up was leading to inter-regional and intra-regional disparities. The various committees that were constituted for bringing inclusive growth suggested a series of measures for comprehensive Financial Inclusion with village as the focal point of development. Due to various experiments carried out by banks and other financial institutions, access to banking services has significantly increased. However, 50% of population is still devoid of basic banking services of having deposit accounts. Scaling up financial access to unbanked and under-banked population, both in urban and rural areas is a formidable developmental challenge in a varied and vast country like ours. The situation therefore calls for innovative measures to reach out those unbanked and under banked areas with an appropriate technology at an affordable cost.

Initiatives by the Union Bank of India

4. Union Bank of India has adopted proactive approach towards the goal of financial inclusion and offered a number of products. Bank has opened over 3 million no-frill accounts through its branches till date. Formation and linkage of SHG was considered as our thrust area for Financial Inclusion and we have formed 1.42 lakhs SHGs and linked 1.04 lakhs of them, with more than 90000 of them being women SHGs.

5. Bank has set up 201 Village Knowledge Centres (VKCs) throughout the country as core centers for rural development activities and imparting knowledge to the farmers about new developments in methods of cultivation/technologies, proper use of fertilizers, pesticides and likes, for better yield and higher income. Besides, bank set up 13 Rural Self-Employment Training Institutes [R-SETIs] in all its Lead Districts The main objective of these institutes is to train youth in rural and semi-urban areas to take up self-employment ventures, to conduct various vocational and human resources development training programmes and to provide consultancy services etc. The Financial Literacy and Credit counseling centres (FLCCs) set up by the bank in 5 centres to spread financial literacy among rural folks and counsel them on various issues related to credit, availability and use of financial products and services, savings and investment avenues and guide them about management of existing debt.

6. The Branchless Banking project of the Bank was initially launched in Chandauli district in the State of Uttar Pradesh and subsequently extended to Wardha district in Maharashtra and 8 districts of Andhra Pradesh. Bank also provided this facility to the migrant workers living in Mumbai, Karaikudi in Tamil Nadu and Chandigarh City. Till date the bank is serving in excess of 3 million branchless banking customers through the BCs with about 3254 customer Service touch points. Moreover, credit facilities are

extended to these migrant urban poor through biometric cards on flexible weekly repayment terms. This has benefited more than 3000 such beneficiaries. We have recently launched a pilot for lending to Joint Liability Groups of 5 members each and covered 900 such groups.

7. To ensure that the BC model is effectively leveraged to make available more products to the customers, whereby the whole project becomes self-sustainable; Union bank has introduced a lot of new initiatives. Three such initiatives that had been well received by the beneficiaries need mention here.

Financing farmers through PACS Using BC Model

8. PACS or Primary Agriculture Co-operative Societies, which are registered under the Co-Operative Societies Act takes care of the credit needs of members. The PACS were financed by District Co-operative Banks under traditional methods but could not assure un-disrupted timely credit flow. The farmers were forced to borrow from informal sources like the money lenders and thus fell into a vicious circle of debt - trap. Pursuant to the recommendations of the Vaidyanathan Committee, Andhra Pradesh was the first state to bring modifications in its Co-operative Societies Act so as to improve the rural credit delivery system. The State Government decided to constitute PACS as "hubs" to enable Financial Inclusion of rural citizens. It appointed Co-options Technologies Limited as a technology provider for implementation of basis services at all the 2700 PACS functioning in the state.

9. To facilitate reach of formal finance to the farmer members of PACS and to smoothen out the operations, Union Bank has tied-up with PACS through Solution Provider (SP), Co- Options Technologies Limited. The SP gives a solution which tracks credit history of members of PACS and bank has an option to fund those regular/prompt borrowers as direct agriculture advances through their Business Correspondents M/S Co- Options Rural Foundation (CRF).

10. Since Co- Options is investing in computerisation of PACS, they are allowed to develop business for PACS, use the PACS as their agents for various business services and are entitled for sourcing of funds of PACS members for 10 years. Co-options Technologies Limited, the solution provider offers end to end services in enabling the Bank to provide top- up loans to farmer members of PACS through BC, M/S Co- options Rural Foundation (CRF). Co- options have computerised a total of 625 PACS so far. The project is successful with 99% of recovery.

11. The Bank undertook a Pilot in February 2008 at Nizamabad District of A.P and completed two crop seasons, which was eventually extended to Chittoor

and East Godavari districts for crop loans and Vehicle loans. Now, Bank intends to extend its reach further with a credit outlay of Rs 500 Crore.

Milk Pourers Project

12. Union Bank also came out with solution for the milk pourers. The first such experience was with milk pourers of the National Dairy Development Board (NDDB), which is the world's largest dairy development board with operations spread across 1,17,575 Village Co-operative Societies across 12.4 million farmer families and 21.5 million litres of daily milk procurement. NDDB was looking for implementing a hassle free, safe, secure, prompt, pilferage free payment mechanism for its pourers at their respective places which should ultimately translate into increased milk production and procurement.

13. The Bank developed a model in consultation with NDDB and offered biometric based IT solution initially through No-Frill SB account which facilitates receiving fortnightly payment and savings and subsequently offered a host of banking services like customized loan products, micro insurance remittance.

14. The pilot carried out in the jurisdiction of two Dairies viz. Nanded in Maharashtra and Junagadh in Gujarat, where milk pouring activities are under new generation Company (NGC) as the milk pourers are facing problems in getting prompt cash payment. The pilot project covered about 1000 milk pourers, & on successful roll out it has been extended to over 90,000 pourers of which an average 40000 pourers are getting the payment through the system in Uttar Pradesh, Haryana, Rajasthan.

15. Prior to Bank's intervention, NDDB would make payment to the pourers on fixed cycle say, ten or fifteen days. Once the price and other details were arrived at, the amount used to get credited to the account of the Sahayaks, who would draw cash and make cash payments to the pourers.Alternatively, NDDB adopted bank mode solution where pourer use to have account with a local cooperative or commercial bank branch where his milk receivables use to get credited. In this model frequently the pourer was required to make 2 or 3 rounds to nearby Bank branch for drawing the amount for which he was incurring to and fro charges on transit. NDDB was also required to undertake complex administrative process of crediting pourers' money in different bank branches.

16. To obviate the difficulties faced by pourers Bank has extended an end to end process of biometric smart card based solution. As per agreed workflow and on data of milk pourers provided by NDDB, bank enrolls pourers though it's BC-FINO and provides a No-Frill SB account on bio-metric smart card. The simplified procedure for KYC compliance is undertaken and member codes obtained.

17. The Service Provider captures demographic and biometric data of the customer either through workstations comprising a laptop, finger print grabber, a webcam or a specially designed mobile phone oriented enrollment or Over the Counter Card issuance method (OTC) where enrollment to handing over of personalized card to the beneficiary takes

place on the spot. Once the cards are handed over to the beneficiary, a list of pourers is provided to NDDB, which carries out a mapping process with their record. Upon arriving the pourer wise payment, NDDB issues an e-pay order (list showing pourers details like account number, URN number)

18. NDDB makes arrangements for transfer of funds to Bank. Under the arrangement, the bank through its BC ensures that the payment reaches within T+ 3 (within 3 days of receipt of funds to the bank) to the pourers on nominal service charges at their respective places.

19. Going a step ahead of providing No-Frill SB account and a payment channel, bank has developed two customized loan products for purchase of milch animals and other associated credit needs.

Remittance Product for Migrant Labourers

20. A major requirement of migrants is to send money to their kith and Kin back home. They have ad-hoc ways of sending money which is time taking, risk prone and comes at huge cost. Union Bank's product is a safe, secure, swift transfer of low ticket size funds at affordable cost. The Bank has identified special corridors for this project, like Mumbai/Delhi to eastern parts of Uttar Pradesh and Bihar, Surat to Ganjam in Orissa. Two types of remittances can be affected, Biometric Card to Biometric Card remittance and Biometric Card to bank (CBS) Account.

21. This is one of the many services provided on the Bio-Metric Smart Card. The Bio-Metric Smart Card is a No-Frill SB Account like any other No-Frill Account opened in Bank branch. It is an intra-bank remittance facility where both remitter and beneficiary should necessarily be bank's customers. KYC for both the parties is taken care of at the time of opening of account both in branchless and branch banking.

22. At the originating end remittance is affected only by way of transfer transactions from the No-frill account.This is done at nominal charges which are way below the remittance charges of any nationalized bank or the Post Office. The settlement happens through the back end and the Remittance cell, specially created for this purpose.

23. The minimum amount which is transferred is Rs.100/- and the maximum amount is Rs.10000/- per day with a maximum of Rs.30000/- per month. The Bank has undertaken 3.56 Lakhs remittance transactions through Bio-Metric Smart Cards

amounting Rs 160 Crores in one year of operation.

Conclusion

24. Mere access to financial services is not sufficient. Capacity building measures should also take place enabling the "included" to use the services. This takes place only when Financial Inclusion itself doesn't become an "END" but a "MEANS" for poverty alleviation where the financial institutions like banks have a major role to play in spearheading the drive.

25. Union Bank of India's efforts has been directed towards a meaningful inclusive growth where the intended benefits percolate down to the unbanked and under-banked strata of the population. This has been possible through introducing innovative approaches to the product delivery which is cheaper, accessible and offers high degree of reliability.

About the Author

Mr. M.V. Nair
Chairman & MD
Union Bank of India

Mr. M.V. Nair is the Chairman and Managing Director, Union Bank of India and Chairman of the Indian Banks Association

His tenure as CMD, Union Bank, has been characterized by a series of innovations resulting in putting the Bank on a trajectory of quality growth. In March 2008, Union Bank became the first large Public Sector Bank to network all its branches under the Core Banking Solution(CBS). Mr Nair successfully introduced a change process called "Project Nav Nirman" by leveraging technology, changing processes and empowering people, thereby transforming the Bank into a customer Centric marketing organization. Under his stewardship Union Bank has brought all its branches as also branches of its sponsored RRBs under the CBS network, the first large Public Sector Bank to do so. The Bank has opened representative offices in Shanghai and Beijing, PRC, Abu Dhabi, UAE, London, UK and Sydney, Australia and also its first full fledged overseas branch in Hong Kong.

As Chairman of the IBA, Mr. Nair has worked tirelessly to ensure that banks work out a strategy to facilitate branchless banking in villages. Passionate about financial inclusion he is relentlessly pushing for increase in the number of business correspondents to penetrate banking services in the hinterland.

He is a member of various High Level Committees constituted by Govt. of India and on the board of various renowned Corporates and Institutions.

Indian Economy – An Update

GROWTH

Even as much of the developed world has struggled to regain the pre crisis growth rates, the Indian economy has emerged strongly from the global crisis of 2008-09, like most of the Emerging Market Economies (EMEs). India's growth trajectory is now on the rise and the overall growth of the Indian economy is balancing out. The stimulus package introduced in the economy during the crisis period is taking its effect and consequently the economy has registered a decline in government spending and private spending has picked up.

The outlook for the current year is generally more positive, the GDP figures for the first quarter of 2010-11 witnessed a robust growth of 8.8 percent; agriculture grew by 2.8 per cent; industry by 10.3 per cent and services by 9.7 per cent. Several forecasters including Prime Minister's Economic Advisory Council have projected growth to be around 8.5 per cent in the fiscal year 2010-2011.

FISCAL DEFICIT

Higher-than-expected revenues from the sale of 3G spectrum and the positive thrust to tax revenue from sustained economic recovery is expected to keep the fiscal deficit within the budgeted 5.7% of GDP in the current fiscal year, which began in April 2010. As a proportion of budget estimate, fiscal deficit during April-August 2010-11 was 39.7 per cent and revenue deficit was 36.3 per cent (GOI, MoF Data). The report of the 13th Finance Commission, tabled in parliament has predicted that fiscal deficit should drop to 4.2 percent in 2012/13 and to 3 percent in 2013/14.

INDUSTRIAL PRODUCTION

The Index of Industrial Production (IIP) figures for India for the month of August reached a 15 month low of 5.6% compared to 10.6% in the year ago period suggesting a degree of correction in the country's growth trajectory.

The index of Six Core Infrastructure industries, which captures activity in basic sectors such as electricity, coal and cement that feed Indian Industry, too has seen growth decline from 7.3% in March 2010 to 3.7 % in August 2010. The August 2010 numbers are significantly lower than August 2009 which registered a growth of 6.4 % last year. During April-August 2010-11, these sectors grew by 4.1 per cent as compared to 4.8 per cent during April-August

2009-10. Sectors like Coal 0.9% compared to 12.6 % last year) and Cement (4.6% compared to 13.4% last year have seen significant reduction in growth last year.

Negative growth in key sectors like consumer non-durables, capital goods, apparels and chemicals is a cause for concern and with further appreciation in Rupee and hardening of interest rates, the growth of manufacturing sector may be significantly affected. In fact, any further hike in interest rates could impact consumer durables and automotive sector particularly.

Further, FICCI's quarterly survey on Indian manufacturing sector for August 2010 reflects the same somber mood for Indian industry. While survey results show that the overall growth outlook for Indian manufacturing sector remains positive for Q-2 (Quarter-2 of 2010-11) due to number of factors like strong private consumption demand, pick-up in exports despite weakness in global trade etc. However, expectations of growth across industries for Q2 remained varied. While sectors like Automotive, Electronics & Consumer Durables, expected to witness a strong growth (>12%) in Q-2 but sectors like textiles, chemicals & pharmaceutical, cement, metals and food & FMCG expected some moderation in growth. Also, importantly while in Q-1, 67% respondents expected their

production to be higher but in Q-2 only 63% respondents were expecting higher production levels vis-à-vis last year.

INFLATION

While the growth rate still falls short of the pre-crisis performance, there is a widespread perception that with several institutional and infrastructural constraints hindering the capacity of the economy, a rapid growth, higher than the present one may trigger strong inflationary pressures. The inflation rates that the economy is now experiencing, both from the supply and the demand sides, are clearly a matter of great concern. Headline index WPI was in double digits until recently. Year-on-year inflation in terms of Wholesale Price Index was 8.62 per cent for the month of September, 2010 as compared to 1.09 per cent in September, 2009. This is still above RBI's comfort zone of 5-6 per cent.

Higher food prices are still a cause of grave concern for the economy, India's annual food inflation rose to 16.24 percent towards September end. However, food inflation, based on the annual Wholesale Price Index, eased slightly in mid-October, declining to 15.53 per cent for the week ending 15th October. The effect of adequate monsoon this year has slowly become visible on prices of essential items, as supply side pressure has eased off after a good harvest. In the current Kharif season, paddy yields per hectare rose to 2,177 kg from 2,025 kg in 2009-10 kharif, which helped in increasing rice output by 4.5 million tonne despite marginal fall in the paddy coverage area. As a result, Food inflation fell by 0.84 percentage points on improved supplies and declining prices of certain vegetables and Kharif crop.

The going food price inflation rate however has exerted pressure on the RBI to hike interest rates further. In September 2010, RBI hiked its short-term borrowing and lending rates by 50 basis points and 25 basis points respectively. RBI is widely expected to hike its key lending rates at its next review on November 2. RBI's tightening measures by means of gradually raising interest rates are aimed at keeping a tight leash on liquidity to tame non food inflation and close on end-March 2011 inflation projection of 6 per cent.

FOREIGN TRADE

With the return in the confidence amongst investors, India is consistently becoming an attractive destination for inbound investment with both foreign investments and domestic investments picking up. On the trade front, export growth has been in double digits since January 2010. Exports are expected to remain buoyant this year as it's coming off a low base. From the period April to August in 2010-11 the cumulative exports have reached a level of USD 85.27 billion at an average growth of 28.6 percent during these months. Exports, in US dollar terms have increased by 22.5 per cent and imports increased by 32.2 per cent, during August 2010. India's Imports, which were hit by the crisis, have recovered sharply with high positive growth since December 2009. The ascending trend in imports has continued.

FOREIGN INVESTMENTS

Showing their faith in the Indian economy, overseas funds have infused a record breaking $6.11 billion in just 25 days in October, the highest amount brought in any single month by the foreign institutional investors (FIIs) since they were allowed to invest in local stocks. The total inflows of FIIs, so far, in 2010 have crossed $24.48 billion-mark - a record investment in any single calendar year. In dollar terms, the net equity inflows in the 2009 were $17.45 billion.

The FDI inflows into India have also risen considerably over the same period. The UN Conference on Trade and Development study -- World Investment Report 2010 -- ranks India as the 9th most attractive destination for foreign direct investment, up from 13th last year. It received $35 billion in FDI in 2009. India attracted FDI equity inflows of US$ 8,887 million From April 2010 to August 2010 according to latest data by the Department of Industrial Policy & Promotion. With the Indian economy on the recovery path, it is expected that with time both portfolio investments and foreign direct investments would go up further.

FOREIGN EXCHANGE RESERVES

With foreign investment inflows resuming and gaining pace, India's foreign exchange reserves have also gone up in recent months. The declining trend in foreign reserves was arrested in March 2010 and forex reserves continued to increase as it rose to $294.15 billion as on October 1, 2010. Foreign currency assets, a major component of forex reserves, grew to $266.50 billion in the week ended October 1, 2010 (RBI data). With the outlook on FDI and FII flows in the coming months being quiet positive, it is expected that our reserves position will further strengthen in the months ahead.

EXCHANGE RATE

Rupee appreciated against US Dollar, Pound Sterling and Japanese Yen and depreciated against Euro in the month of September 2010 over August 2010. The value of Indian Rupee vis-à-vis the USD has seen a gradual increase through the year 2009-10. After reaching a peak rate of Rs. 51.2/USD in December 2008, the value of Rupee has slowly but steadily appreciated to the current level of Rs. 44.485 against the Dollar, as reported on October 28th.The strong FII inflow in the equity markets is being cited as the main reason for this trend reversal in the value of Rupee.

Banking sector

1. The Reserve Bank of India divested its stake amounting to Rs 1430 crore (Rupees one thousand four hundred and thirty crore) in National Bank for Agriculture and Rural Development (NABARD) on October 13, 2010. With this, the Reserve Bank's holding in NABARD has come down to one per cent of shareholding in NABARD. The Government of India now holds 99 per cent of the stake.

2. The Reserve Bank of India (RBI) allowed firms to play the role of an intermediary tospread banking in rural areas, in a move aimed at making banking services available to the unbanked. RBI, in its guidelines for business correspondents (BCs), allowed individuals, non-governmental organizations, cooperative societies, post offices and companies with “large and widespread retail outlets” to become BCs, but kept non-banking financial companies (NBFCs) out of it.

3. The RBI in its Mid-Quarter Monetary Policy Review on September 16 2010 hiked the repot rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 5.75% to 6.0% and increases the reverse repo rate under the LAF by 50 basis points from 4.5% to 5.0%.

4. After getting the feedback on the discussion paper by RBI released in August, the RBI has begun the consultative process with various stakeholders before finally issuing the licenses to private players.

5. The Reserve Bank of India announced constitution of a sub-committee to look into the functioning of micro finance institutions (MFIs), as they have drawn flak for using strong-arm tactics to recover loans. The MFI tactics have even prompted the Andhra Pradesh Cabinet to approve an ordinance to rein them in.

6. The Reserve Bank has constituted a working group to review the current operating procedure of monetary policy, as transmission of the policy to the rest of the system remains imperfect. The group, to be headed by RBI executive director Deepak Mohanty, will also review the liquidity adjustment facility (LAF), through which the central bank manages money supply in the system on a day-to-day basis.

7. In August, the RBI released a discussion paper on the entry of new private banks. The paper covers broad issues including minimum capital requirements for new banks, caps on promoter shareholding, foreign shareholding in new banks and whether industrial houses could be allowed.

Capital Markets sector

1. SEBI barred 197 foreign funds, and 342 sub-accounts from further trading in stock market. These entities were barred from fresh trading for non- disclosure of holding structure to the regulator.

2. Lenders of shares under Securities Lending and Borrowing (SLB) programme will now get dividend on the record date instead of the current practice of receiving it at the time of taking back securities.

3. With an aim to check frauds and help it probe the suspected fraudulent activities, market watchdog SEBI may prescribe a Code of Conduct for key executives of market players such as brokerages and merchant bankers, to keep a check on activities like fraud against the clients, front-running, circular trading and manipulating share prices through rumour mongering.

4. Headed by C Achuthan, Takeover Regulations Advisory Committee (TRAC) had submitted its draft final report to Sebi. Some of the major recommendations of the committee had been an increase in the open offer size to 100% of equity share capital from the present minimum limit of 20%, as well as raising the open offer trigger to 25% from the current 15% among other recommendations.

5. India's capital markets regulator SEBI on October 25th 2010 doubled the investment limit for individual investors in initial public offerings (IPOs) to Rs.200,000 to attract more retail participants into such primary issues of companies. In addition, the regulator has also allowed price discount for retail investors participating in initial public offers and follow-on offers.

Insurance sector

1. India's largest distribution network with 1.55 lakh offices has been thrown open to the insurance industry with the industry regulator IRDA allowing India Post to sell policies of multiple insurance companies. This opens a new distribution channel for insurers who have been desperately trying to poach bank distributors from rivals to increase their reach.

2. IRDA has announced an overnight ban on all universal life insurance plans (ULPs). The regulator has told insurance companies that all current universal life plans will cease to exist from October 22.

3. Under the new IPO guidelines for Insurance Companies by the IRDA, Insurance companies will soon be allowed to raise resources from the equity markets and be listed as market regulator- SEBI is expected to give the nod to it soon

4. IRDA has placed a ban on credit insurance covers following reckless sale of the product by some non-life companies.

FICCI Economic Outlook Survey October 2010

About the Survey

FICCI's Economic Outlook Survey is a quarterly survey conducted amongst leading economists of the country with a view to gauge their perception and views on topical economic issues as well as seeks their outlook for key macro-economic variables. The economists who take part in this survey largely come from the banking and financial sector. The sample however also includes economists from industry and research institutions.

The first survey report was released in January 2010, the second report in April 2010 and the third in July 2010. This is the fourth report of the Economic Outlook Survey. The survey was conducted during the period October 6, 2010 and October 22, 2010. As part of the survey, a structured questionnaire was drawn up and sent to key economists for their inputs and views. This time **19 economists** of repute **participated in the survey.**

The economists were asked to provide their **forecast for key macro economic variables for the year 2010-11** as well as for Quarter 2 (July- Sep) and **Quarter 3 (Oct-Dec) of 2010-11.**

In addition to these, FICCI sought the views of economists on some topical issues **like rise in interest rates and impact on demand, slow pace of non-food credit growth and expected monetary policy action by RBI in the forthcoming monetary policy review.**

The feedback received from the participating economists was aggregated and analyzed. The results obtained are presented in the following pages.

The findings of the survey represents the views of the leading economists and do not reflect the views of FICCI.

Executive summary

Economists' views on Rise in interest rates and impact on demand in the economy

1. Near consensus amongst economists that while the present cycle of increasing interest rates will have a limited impact on corporate investments, there would be slackening of consumption demand in the coming months.

a Investment demand.

i. Companies have access to alternate channels through which funds can be raised. The stock market is performing very well and this bodes well for raising funds through equity issuance. Companies also have access to external sources like ECBs. Another option is of issuing commercial paper where rates though rising are still a little competitive as compared to bank loans. Finally, many mid and large sized Indian firms are in a cash surplus position and they will use these internal reserves for proposed investments.

ii. Wherever some lags are emerging with regard to investment response they are more on account of some uncertainty and questions about sustainability of domestic and external demand.

b. Demand for non-durables.

i. Due to persistent rise in prices, households have to allocate a larger proportion of their incomes to food items and this reduces the amount available for expenditure on other items from the FMCG / non-food category.

ii. Additionally, there is reason to believe that consumers, particularly in rural areas, have traded branded for non branded products to economize on their expense schedules.

iii. However, with a good agricultural season seen this year, income levels are expected to go up and this would have a positive impact on consumption demand of non-durable products in the coming months. Interest rates do not have much of a bearing here.

c. Demand for consumer durables.

i. Most economists agree that rising interest rates in the economy will impact and moderate the demand for consumer durables in the near to medium term.

ii. Already we are seeing that growth in consumer durables sector is trending downwards. This could get accentuated if interest rates in the economy are increased further.

Economists' views on non-food credit growth

1. Majority feels that while credit growth in the second half of the current fiscal should pick up, yet, the overall non-food credit growth in the current year will fall short of RBI's target.

2. Most economists are veering around a figure of 18 to 19 per cent for non-food credit growth in the current year as against RBI's target of 20 per cent.

3. Sluggish growth of non-food credit in the first half of the current year can be explained by -

   a. The introduction of the base rate regime has ended the flexibility for obtaining negotiated interest rates. As a result companies are moving to other sources (commercial paper, corporate bonds) of funds which are a little more competitive in terms of rate of interest.

   b. Given the strong performance of the stock market, companies

are using the equity route to raise money.

c. Given the low interest rates prevailing in the financial markets of the west, companies are also using the ECB window to raise finance.

4. Credit growth is expected to pick up in the second half because of good monsoon and performance of the capital goods sector.

Economists' views on expected monetary policy action by RBI on November 2, 2010

1. Majority of the participating economists expect RBI to further hike both the repo and the reverse repo rate on November 2, 2010 by 25 basis points each. According to this set of survey participants, a further hike in November is justified on account of the following factors -

a. Inflation, particularly food inflation, continues to remain a major concern. What is perhaps more important is the steady rise in inflation expectations as revealed by the RBI's latest survey released in June 2010. Results of this latest edition of 'Inflation Expectations Survey of Households' show that a larger proportion of people expect prices to increase more than the current rate even one year ahead. In fact, expected inflation rate for June 2011, as per the RBI survey, stands at 11.9 per cent and is higher than the expected current rate of 11.1 per cent.

b. Further, while the growth momentum may be moderating a bit, yet overall economic conditions are consistent with 8.5 per cent growth in the current fiscal.

c. Another round of policy rates hikes will also help in correcting the scenario of negative real interest rates, as interest rates in the economy, especially bank deposit and lending rates would further move up.

2. While the majority view is that both repo and reverse repo rate would be increased by 25 basis points each on November 2, 2010, there is a smaller set of economists who feel that RBI may just decide to hold on to the present level of policy rates in November 2010. And the arguments presented for holding rates at current levels are -

a. Already RBI has increased policy rates on several occasions in the current fiscal. With rates being close to normal and with monetary policy action transmitting through the economy with a lag, RBI may want to see the result of earlier rate hikes before deciding on the next course of action.

b. Industrial growth has shown signs of volatility in recent months. Core sector growth too has eased a little. Global economic situation also remains uncertain. All these weaken the case for a rate hike on November 2, 2010.

3. On expected rate action with regard to CRR, the majority view is maintaining status quo. Most economists feel that given the tight liquidity situation, RBI would refrain from raising CRR in the November 2, 2010 policy announcement.

Conference on "Global Banking: Paradigm Shift"
Theme: "Banking 2020: Making the decade's promise come true"
7-9th September, 2010 - Hotel Trident, Nariman Point, Mumbai

The next decade holds tremendous promise for India. Sustained growth of 10% is a distinct possibility. Industry will grow rapidly, become increasingly global and multinational. Huge numbers of individuals are expected to join work force and be internationally mobile. Banks have a unique opportunity and at the same time a responsibility to facilitate this growth and support the aspirations.

The 9th edition of FICCI - IBA Conference on "Global Banking: Paradigm Shift" laid out the foundation for the upcoming decade for the banking industry. A tumultuous financial crisis saw a reaffirmation of the strength and resilience of the Indian financial system, while highlighting the relative strength of Indian banking vis - a - vis its other counterparts be in terms of asset quality, product range, or even range of investment and financial options for depositors. Credit most definitely must go to the regulator for this. There is also better flow of information within the system, and a central database has led to financial institutions being better informed while making lending decisions. Globally, the financial sector regulations are undergoing a shift and are surely going to have an impact on the banking sector across the globe. This forum therefore attempted to look at the evolving framework and their possible impacts as also provide necessary inputs in defining the financial regulatory architecture.

This conference provided a platform to kick start a debate between policy makers and industry stakeholders, and some of the pertinent issues that were covered include:

- The tremendous role to be played by the Indian M&A and capital markets industry to meet the aspirations of corporate India over the next decade as huge amount of capital is required if India's growth promise is to be actualised.
- Infrastructure development is firmly in the centre stage of government agenda, and while progress has been steady, it has nonetheless been slow. Financial innovation is required to break the dead lock and unlock the flow for unique needs of infrastructure sector - long gestations, huge funds, and project risks.

- Regulation in India will have an enviable task of supporting the banking system in facilitating the enormous growth and at the same time keeping a sharp focus on risks that invariably come from rapid growth. While the global banking crisis has exposed the weaknesses in western frameworks of regulation, there is a need for India to define its own framework that meets its unique needs.
- Financial inclusion is the decade's challenge. Majority of India is in rural areas and a large part of it is excluded from banking. The challenges in rural and agriculture banking are the most difficult and the most crucial at the same time. There is a need to unlock the potential of the co-operative banking system and in the BC model, as well as create the right products to facilitate long term investment in agriculture infrastructure.

FICCI's Seminar on Pension: "New Pension Scheme: - Prospects and Challenges" 9th November 2010, Hotel Taj President, Mumbai

FICCI in association with PFRDA organized a seminar on **Pension "New Pensions Scheme: Prospects & Challenges"** on the **9th November, 2010 at hotel Taj President, Mumbai. Mr. Yogesh Aggarwal, Chairman, PFRDA delivered the Inaugural Address. Ernst and Young** was the Knowledge Partner for this Seminar.

Unlike most other developing countries, India does not have a universal social security system to protect the elderly against economic deprivation. With increasing life expectancy there has been a growing need to gaze into the future and foresee financial stability during old age. Hitherto, pension was an unknown word for the unorganized sector, which constitutes nearly 90 percent of India's workforce.

Although many schemes have been floated to provide benefits similar to a pension product from time to time but the absence of a formal pension system for the unorganized sector was always felt. The New Pensions Scheme (NPS) of the PFRDA has certainly helped fill in the gap which existed due to the absence of a formal retirement system.

FICCI through this platform intended to review the product and understand the point of views of the stakeholders involved, to bring more vibrance in this critical segment of the economy. The overview, prospects, challenges and the way forward for New Pension Scheme were deliberated upon in great detail at the Seminar by industry stalwarts including Mr. GN Bajpai, Mr. Ashvin Parekh, Mr. Deepak Satwalekar, Dr. Nachiket Mor among others. The Seminar participants included representatives from Banking and Financial Services sector, Life Insurance industry, Non- Life Insurance industry, MHIs, NBFCs, Insurance Brokers etc.

Interactive Session with Mr. Dominique Strauss-Kahn Managing Director, IMF December 2, 2010 FICCI Federation House, New Delhi

FICCI and IMF are organizing an interactive session with Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, at 2:00 PM on December 2, 2010 at Federation House, New Delhi. Mr. Strauss-Kahn will be speaking on an extremely contemporary issue - 'India's Evolving Role in the Global Economy'. As the world recovers from the worst crisis since the 1930s, policymakers around the globe face new challenges to sustain the recovery and ensure robust financial sectors are put into place. To achieve these goals, international policy cooperation will be essential. India must play a leadership role in these efforts, both to support global growth, and to continue to secure its own long-term economic success.

Mr. Strauss-Kahn's address will be followed by commentaries from Dr. Kaushik Basu (Chief Economic Advisor, Ministry of Finance, Government of India), Mr. Nandan Nilekani (Chairman, Unique Identification Authority of India) and Dr. Y V Reddy (Former Governor, Reserve Bank of India).

FICCI - UNDP - Sa-Dhan Seminar on "Role of Bankers in Financial Inclusion" December 16th, 2010, FICCI, Federation House, New Delhi

About the conference:

FICCI and Sa-Dhan (The Association of Community Development Finance Institutions) in association with UNDP as a Support Partner is organising a One day seminar on "Role of Bankers in Financial Inclusion" on December 16th, 2010 at FICCI, New Delhi. This conference is being organised under the aegis of FICCI's Financial Inclusion Committee being chaired by Ms Naina Lal Kidwai, Group GM & Country Head, HSBC Ltd.

Financial inclusion is one of the key challenges for banking sector in the next decade.Banks as has been rightly pointed out in the Raghuram Rajan and Rangarajan committee report have a significant role to play in achieving Financial Inclusion.They need to be at the forefront of any financial Inclusion initiatives with of course, strategic alliances with other stakeholders in the ecosystem.This forum aims to understand the bankers' initiatives and their role in promoting Financial Inclusion and the issues and challenges being faced by them in their endeavour.

"A study on the progress of Financial Inclusion in India" is being conducted by M-Cril on analysing the role played by banks hitherto in creating Financial Inclusion and future strategy they need to adopt to make further progress.This study will be released at the **Inaugural session** of the event.

Key Stakeholders:

- Representatives from Banking and Financial Services Sector
- Micro Financial Institution (MFI's),
- Non-Government Organizations (NGOs)
- Self-Help Groups (SHG's)
- Non Banking Finance Companies (NBFC's),
- Policy makers and regulators
- Technology providers
- Community based organizations
- Service Providers
- Consultants
- Researchers

FICCI - SA-DHAN National Microfinance Conference Jan 20th-21st, Hotel Ashok, New Delhi 2011

FICCI in association with **Sa-Dhan** (The Association of Community Development Finance Institutions) is organising the **National Microfinance Conference on 20th-21st January, 2011 at Hotel Ashok, New Delhi**. The theme of the National Conference this year is “Micro Finance Foot Prints: Lessons for future.” This conference is being organised under the aegis of FICCI's Financial Inclusion Committee being chaired by Ms Naina Lal Kidwai, Group GM & Country Head, HSBC Ltd.

The Conference in 2011 aims to deliberate the footprints of microfinance sector, the lessons learnt, the steps taken as also the necessary measure desired.The forum would provide a common platform for all the stakeholders to think colectively on various contempory issues, share experinces and innovations and develop collaborations for the growth of the sector. The conference also provides strategic guidance towards policy formulation and future direction for the sector.

The conference alims to deliberate on the issues faced and the lessons learnt in relation to empowerment of clients, microfinance delivery practices, pricing and scale, interface of the polity and the sector and the measure undertaken thereof.The sessions would be enriched by industry stalwarts from both the development and corporate world where they would share their experiences.

Every year we witness the presence of diverse set of stakeholders: Regulators and Policy makers, like RBI, Ministry of Finance, Ministry of Rural Development , Ministry of Corporate Affairs, PFRDA, IRDA, etc. heads of apex development Financial Institutions like SIDBI, NABARD,etc and other commercial banks like SBI, Central Bank, ICICI Bank, Standard Chartered Bank, to name a few. This year too, we expect the presence of Parlimentarians, high level policy makers, regulators, senior bankers, global equity investors, insurance companies, livelihood support agencies, practitioners, international experts, academia and media.It will have participants representing the entire gamut of the microfinance industry including international delegates as was witnessed during the past conference.

Seminar on IFRS: New Delhi

Indian Accounting Standards are to converge with IFRS in phases beginning with the financial year commencing 1st April 2011. While there are significant benefits to be gained from the process of convergence including greater reporting transparency, better comparability of performance and reduced reporting requirements among others, the process also raises a few challenges in terms of the 'carve outs' that need to be created, as well as practical difficulties in the implementation process.

It is with this in mind that FICCI proposes to organize a conference on the subject matter with a view to highlight and better understand the various issues of concern that could possibly arise as a part of this transitionary process in the coming months.

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