Swaminathan J: Bridging gaps to build futures - the key role of State Level Bankers' Committees (SLBCs) in driving inclusive development

Speech by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the Conference of Convenors of State Level Bankers' Committees, held in College of Agricultural Banking (CAB), Pune, 19 June 2024.

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Mr. V G Sekhar, Principal, CAB, Convenors of SLBCs, my colleagues from RBI, ladies and gentlemen. A very good afternoon to you all.

I am delighted to address you all today, the conveners of all our SLBCs. I understand that you all had a very purposeful engagement over these two days, dwelling upon various strategies and approaches that we plan to adopt in achieving our goal of strengthening credit delivery for an inclusive and sustainable growth. Having been once the Convenor for the SLBC in Telangana in my earlier role as a commercial banker, I can first-hand attest to the immense personal satisfaction it gives to make a difference in people's lives through the SLBC forum. Indeed, over the years SLBCs have emerged as important instruments of change by catalysing synergies among stakeholders. Through the efforts made under the aegis of SLBCs across the country, commendable strides have been made in furthering the penetration of banking services to cover remote, unbanked and underbanked areas and to reach the marginalised sections of the population. More recently, SLBCs have spearheaded initiatives to promote digital payments, paving the way for all sections of the population to participate actively in the formal economy by facilitating financial transactions with ease and efficiency. These efforts have undoubtedly served to promote financial inclusion in various dimensions.

The topic of this conference 'strengthening credit delivery for inclusive and sustainable growth' is very relevant. Inclusive growth is crucial for several reasons. It helps reduce disparities in economic opportunities, employment and income levels across regions and population groups. When growth benefits everyone, it leads to broader well-being. A more inclusive economy promotes social stability and creates a sense of shared progress. Inclusive growth is in fact a sine qua non if we want to achieve our aspirations of becoming a developed country by 2047.

In this context, I would like to acknowledge and appreciate the leading role SLBCs play in providing solutions. Let me now enumerate some priorities that we may pursue with regard to inclusive growth.

Strides made in access, but work remains to be done on usage and quality

The Financial Inclusion Index developed by RBI measures the progress achieved in financial inclusion across the three dimensions of access, usage and quality of financial services. A review of the underlying parameters indicates that while several strides have been made in building access, much work remains to be done in improving usage and quality.

Let me explain this with an example. As per reporting by SLBCs, banking access has been provided to every village (or hamlet of 500 households in hilly areas) within a five km radius, barring a few. Data also indicates that it is the Business Correspondent (BC) model which has been leveraged in expanding such access. However, a recent survey undertaken by the Reserve Bank indicates that BCs largely provide only a limited set of services viz. cash-in/cash-out services and populations in far flung areas may still not have access to the full bouquet of banking services as would normally be available at bank branches.

Persisiting Credit gaps

Despite significant penetration of credit in India, there is still ample scope for reducing credit gaps that can promote economic inclusivity and development. While credit delivery to the priority sectors has indeed improved, we still have a long way to go to meet the credit needs of the MSMEs[1]. Similarly, nearly half of Self-Help Groups (SHGs) still remain to be credit linked while a considerable section of small and marginal farmers are yet to be covered under bank credit[2]. Addressing these credit gaps demands a multi-pronged effort in which SLBCs have a crucial role.

Expectations of SLBCs

I would like to cover four key areas where I believe SLBCs can make an immensely positive contribution.

(i) *Effective coordination with Government and NGOs*

Firstly, effective coordination with government agencies and non-governmental organisations is imperative. Being a collective forum, SLBCs must foster strong partnerships with various government bodies to align banking initiatives with developmental programs. This includes working closely with local administrations to ensure that banking services reach underserved regions, facilitating the implementation of government schemes, and addressing region-specific issues through collaborative efforts.

There is a need for sensitising the District administration on the scope of the Lead Bank Scheme and the role of banks under it. Besides this, staff at the operational level for both banks and government agencies associated with implementation of the Lead Bank Scheme must be aware of the latest developments and emerging opportunities. Better coordination can enhance the efficacy of financial inclusion initiatives and ensure that benefits trickle down to the grassroots level, thereby supporting the broader goal of inclusive growth.

(ii) *Proper planning*

My second point is about adopting a scientific approach to the preparation of annual credit plans. This is crucial. SLBCs should undertake detailed analyses to identify the root causes of the lack of growth in credit seen in certain jurisdictions. This involves using data analytics and field surveys to understand regional economic activities, local credit needs, and barriers to credit access. By pinpointing specific issues, whether they are related to infrastructure, borrower awareness, or banking processes, SLBCs can develop more targeted and effective credit plans. This approach will not only enhance credit flow but also ensure that it reaches the sectors and regions that need it the most, thereby supporting sustainable economic development.

Regular monitoring and evaluation should be integral to this planning process. By setting clear benchmarks and performance indicators, SLBCs can track progress and make necessary adjustments to their strategies. This iterative approach ensures that credit plans remain dynamic and responsive to changing economic conditions and local needs.

(iii) ***Leveraging technology***

Thirdly, leveraging technology can be a game-changer in enhancing financial inclusion and credit delivery. SLBCs should promote the use of fintech solutions to streamline banking operations and improve customer service. Technologies such as mobile banking, tech driven customer support, and digital loan processing have significantly reduced turnaround times and increased accessibility. Additionally, deploying advanced data analytics can help in better risk assessment and credit scoring, thus facilitating more informed lending decisions. Embracing technological innovations will improve the efficiency of banking services, extend their reach to remote and underserved areas and make them affordable.

Digital loan processing platforms have revolutionised the way credit is being disbursed. These platforms have automated the entire loan application and approval process, making it faster and more efficient. By utilising machine learning algorithms, these platforms can assess the creditworthiness of applicants more accurately and fairly, ensuring that credit is extended to those who truly need it. This can be particularly impactful for both agri-loans as well as micro, small, and medium enterprises (MSMEs), which often face hurdles in accessing timely and adequate credit.

The Public Tech Platform for Frictionless Credit by the RBI Innovation Hub is one of the initiatives in this direction. It has an open architecture, open Application Programming Interfaces (APIs) and standards and operates in a plug and play model to which all financial sector players can connect. Recently, NABARD has collaborated with RBI Innovation Hub to integrate its e-KCC loan origination system with the Public Tech Platform with the potential to reduce the turnaround time for agri-loans from weeks to minutes. This is just one example of how technology can revolutionise this sector. I would encourage SLBCs to explore more avenues to look for innovative approaches to improve credit delivery.

The programme of expanding and deepening the digital payments ecosystem is being implemented across the country under the aegis of the SLBCs. As on March 31, 2024, 179 districts are 100 per cent digitally enabled. Under this programme, five states, namely, Kerala, Telangana, Andhra Pradesh, Tripura and Tamil Nadu have made all their districts fully digitally enabled. I hope that SLBCs of other states will also gear up and achieve 100 per cent digitalisation of all districts under their jurisdiction soon. In States where 100 per cent coverage has been achieved, the emphasis needs to be on monitoring usage of digital payment modes as well as on sustained efforts to promote digital financial literacy.

(iv) ***Financial Literacy***

This brings me to my fourth and perhaps most important point which is on financial literacy, especially digital financial literacy. Despite the availability of digital banking services, a large section of the population remains hesitant or unaware of how to utilise these services effectively. Apart from basic financial services, SLBCs should also promote financial education programs that focus on the benefits and usage of digital banking. By enhancing digital financial literacy, SLBCs can empower individuals to manage their finances better, participate in the formal economy, and benefit from the full range of banking services available to them.

As you may be aware, today we have Centres for Financial Literacy (CFL) that cover nearly all blocks in the country. It is imperative that these centres, through their outreach to local communities and target segments, become conduits of tangible change, effectively bridging the gap between awareness and action. Therefore, at the SLBC level, monitoring should focus not merely on the number of camps conducted but on tangible outcomes, such as the number of beneficiaries linked with formal financial systems as a result of these financial awareness camps and programmes.

Emphasis should be placed on targeted awareness campaigns tailored to local conditions and needs to effectively spread financial literacy. This involves understanding the unique financial behaviours, needs, and challenges of different communities and designing educational content that resonates with them. For instance, in agricultural regions, financial literacy programs could focus on digital tools for agricultural financing, crop insurance, and efficient market linkages. By customising the approach to fit the local context, SLBCs can ensure that financial literacy initiatives are not only informative but also engaging and actionable.

RBI@100 goals

As we celebrate 90 years of the establishment of the Reserve Bank of India this year, we have also outlined our aspirational goals for RBI's centenary, referred to as RBI@100. Among these goals are deepening financial inclusion and expanding credit availability.

Deepening financial inclusion is not merely about increasing the number of bank accounts but about ensuring that every individual has access to a comprehensive range of financial services tailored to their needs. This includes savings, credit, insurance, and investment products that can enhance their economic well-being. Expanding credit availability, particularly to underserved sectors such as micro, small and medium enterprises (MSMEs), agriculture, and marginalised communities, is crucial for fostering inclusive growth and sustainable development.

While these may appear as part of RBI@100 objectives, they are, in fact, the goals of every stakeholder in the financial ecosystem aligned with national interest. Achieving these aspirations requires a collective effort involving government agencies, non-governmental organisations, financial institutions, and the banking community. The role of SLBCs in this journey is pivotal, as they are the linchpin connecting various stakeholders and ensuring that the financial system works seamlessly at the grassroots level. I would therefore request your active cooperation and engagement in this mission.

Conclusion

In conclusion, the role of SLBCs in fostering inclusive and sustainable growth is both crucial and multifaceted. From enhancing financial literacy to leveraging technology, SLBCs can drive significant progress in bridging the gap between financial services and the underserved populations. By focusing on effective coordination with government and NGOs, adopting a scientific approach to credit planning, and emphasising digital financial literacy, SLBCs can create a more inclusive financial ecosystem.

As we move forward, it is essential to monitor and measure the tangible outcomes of our efforts, ensuring that the benefits of financial inclusion reach every corner of our country. By tailoring initiatives to local conditions and needs, and by fostering a culture of financial literacy, we can empower individuals to actively participate in the formal economy, thereby contributing to the broader goal of inclusive and sustainable economic development which are essential for a Viksit Bharat 2047.

I urge all stakeholders to continue working collaboratively, leveraging the strengths of each sector, and harnessing the power of technology to create a financially inclusive society. Together, we can build a resilient and prosperous future for all, ensuring that no one is left behind in our journey towards economic growth and development.

Thank you.

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[1] The overall credit gap in the MSME sector is estimated to be 20 – 25 trillion by the Expert Committee on Micro, Small and Medium Enterprises (Chair: Shri U K Sinha)

[2] As per the Report of the Internal Working Group to Review Agricultural Credit, 2019 nearly 60 per cent of small and marginal farmers were yet to be covered under bank credit.