

Eighth Meeting of State Financial Inclusion Forum (SFIF), Bihar

13th October, 2015
Hotel Chanakya, Patna



Organized Under:

Poorest States Inclusive Growth (PSIG) programme



Background-Bihar, which is in the bottom five of CRISIL Financial Inclusion Index, requires cooperation amongst regulators, government agencies, financial institutions, service providers, and other stakeholders to strengthen financial inclusion efforts. Assisted by DFID, the Poorest State Inclusive Growth programme (PSIG) is working towards improving the access of financial services to low income households in 4 poorest states-viz Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The project has 3 components viz. – policy advocacy, improving access to finance and financial literacy.

While SIDBI is the implementing agency for PSIG, ACCESS-ASSIST has been assigned as Secretariat to coordinate the initiatives on policy advocacy in the above four states as well as at the national level. Setting up of multi-stakeholder State Financial Inclusion Forum (SFIF) in each focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component. The SFIF is expected to act as an exchange and deliberation Forum to promote effective coordination and synergy among various stakeholders for accelerating the process of financial inclusion in the state. The eighth meeting of the Bihar SFIF was organized on 13th October 2015 in Patna. The list of SFIF members and other participants of the meeting is provided in **Annexure 1**.

SUMMARY OF PROCEEDINGS

The theme of the meeting was ***One Year of PMJDY– Improved Financial Inclusion but Challenges Ahead***. Apart from SFIF members and PSIG team, the meeting was attended by representatives of commercial banks and government department. Objective of the meeting was to collectively discuss PMJDY – its implementation; progress and challenges; and come out with strategies to achieve the mission of financial inclusion. The meeting was formally started with welcome address by ACCESS ASSIST. **Ms. Radhika Agashe, ED, ACCESS ASSIST** welcomed the participants and it is encouraging that the SFIF has established itself as a neutral and informal platform that enables state level stakeholders to discuss the nuances of challenges faced in financial inclusion. The deliberations and suggested action points guide in quarterly SFIF meetings guide ACCESS ASSIST as well as SIDBI to undertake relevant initiatives.

- 1. Opening Remarks by Shri U C Gaur, GM, SIDBI:** Financial inclusion is not a new thing, it is being pursued for a long time. However, with the launching of PMJDY last year, it is now being done in a mission mode. We need to contribute in this mission and try our best to achieve financial inclusion for all. We also need to keep in mind the field level challenges and try to mitigate them.
- 2. Action taken report by ACCESS ASSIST:** A brief action taken report on follow-up actions of previous SFIF meetings was presented, which is summarized below:
 - a. Organize meeting with BC Organization to discuss the issues and challenges in implementing PMSSS.
 - **Action taken:** A meeting with BC Organizations was organized on 28th August which was attended by 13 organizations, working in Bihar. The key issues discussed in the meeting were –
Policy Level

- Lack of formal communication to BCs regarding Bank initiatives on Financial Inclusion
- Policy is not clear for Jan Suraksha Yojana especially for Atal Pension Yojana (APY)
- Launch of new schemes should be preceded by Financial Literacy
- Aadhar Seeding in accounts
- Banks should understand BCs as extended arms
- Implementation of minimum commission structure for BCAs as per provision under PMJDY

Operational Level

- Minimizing zero balance account
- Connectivity problem
- Claim settlement process is unclear - *Insurance schemes*
- Recognition of BCAs at field level - *There are incidents where local police labeled BC Agents as fraud.*
- Lack of clarity over commission to BCAs under APY
- Frauds and misappropriations at BCA level

Bank Level

- Involvement of Branch Manager - monitoring of BCAs
- Commission delay
- Lack of transparency
- Different banks have different policies - problematic for BCs working with more than one bank
- No insurance for cash in transit

- b. Take up the issues, challenges, and suggestions to the level of IRDA for further advocacy

Pending Action: PSIG National team will meet IRDA to discuss the issues of insurance.

- c. Other Activities -

- Banker's Exposure visit to MFI (Arohan)
- Dipstick study of Financial Literacy Centres completed.
- Quarterly Finance Bulletin
- An orientation Programme on Atal Pension Yojana – It has been organized on 5th October 2015 with support of PFRDA.

3. Overview presentation: Overview of PMJDY, both at national and state level, was presented to the forum. Under PMJDY, total 18.54 crore accounts have been opened in India till 30th September 2015, out of which 60% account is opened in rural areas. In Bihar more than 1.41 crore accounts have been opened out of which 70% of bank accounts are from rural areas. Percentage of zero balance account is 40.35 (India) and 41.50 (Bihar). Over 90% accounts have Rupay Card and only 15% accounts are Aadhar seeded. Major issues for PMJDY phase-2 can be provision of overdraft in active accounts, Aadhar seeding, ensuring effective BC networks, connectivity problems, activation of accounts etc.

4. Discussion

Major points of discussion are summarized below:

- **Aadhar seeding** – Only 15% of accounts at national level are Aadhar seeded. Major reasons of the slow progress in Aadhar seeding are –

1. Still a considerable chunk of population do not have Aadhar number
 2. People are wary of giving Aadhar number for bank accounts. In case a person gives Aadhar as KYC for second account while one account is already Aadhar linked for processing of subsidy, the system automatically changes the subsidy transfer to the second account linked to Aadhar.
 3. Supreme Court gave statement that Aadhar is not must for any scheme (except Ration Card) because of which Aadhar seeding is presently low on priority
- **Overdraft challenges** – Although data is not available widely about status of PMJDY overdraft applications; the number of overdraft eligible accounts is negligible compared to the number of accounts opened under PMJDY. E.g. one of the commercial bank shared that of the 1.23 lakhs JDY accounts in the bank in Bihar, only 1800 accounts are eligible for overdraft facility, of which overdraft has been provided in 700 accounts and only 18% of these account holders are availing this facility. Secondly, due to low level of transactions in the accounts, the amount of overdraft (eligibility) is very less, making it uninteresting for account holders while banks are incurring transaction cost in providing overdraft.
 - **High stamp duty in Bihar** – This is a state specific issue. In Bihar for any legally binding agreement, Rs. 1000 stamp is mandatory, which applies to the PMJDY overdraft as well. However, considering the small amount of overdraft (max Rs 5,000 but much lower in most cases), the amount of stamp duty is disproportionate. Some banks have internally decided not to treat this as agreement but arrangement so stamp duty is not payable. However, some banks follow it because of their legal requirement. The issue needs to be advocated with DFS and State Government – the department may be requested to exempt stamp duty under PMJDY schemes.
 - **Connectivity challenges** – Connectivity is a big issue in remote areas. BCAs working in remote SSAs (Sub-Service Areas) are facing this trouble while doing online transactions or data feeding for opening of bank. Even after keeping dongles of various service providers, the issue is not resolved. Due to low connectivity, clients are losing confidence in the system. Uninterrupted supply of electricity is also a major challenge. These infrastructural issues should be overcome as prerequisite
 - **Incentivize banks to promote services** – Government should fix incentives for the banks who are promoting services/schemes effectively. This will motivate bankers to perform better and achieve results.
 - **Increasing transactions in JDY accounts** – Although percentage of zero balance account has decreased from 75% to 40%, we need to check the amount available in those accounts. It might not be sufficient for providing a considerable amount of overdraft. Emphasis should be given on regularizing transactions in accounts.
5. **Suggestions**
- **Advocacy with DFS for exempting PMJDY overdraft from stamp duty** - This is important for Bihar and other states where stamp duty is high.
 - **Grace period for insurance premium** – At the time of renewal of insurance policies (PMSBY and PMJJBY) account will be debited on the due date for premium; in case the premium amount is not available, the policy will lapse. The SFIF recommended that similar to APY, the accounts should be rechecked for balance for deducting premium over a grace period of few days so that, in case, account holder deposits the required amount in the account a few days after the premium due date, the policy can be renewed. This can be advocated with IRDA.
 - **Insurance company should send SMS alerts to insurance subscribers** – Information on renewals of policies should come to banks from insurance company. Also, insurance companies should give SMS alerts to subscribers regarding policy renewal date.
 - **45 days condition of swapping Rupay card to get Insurance** – This 45 days period should be reviewed and increased to around 90 days. Every swapping of Rupay card involves transaction cost which is Rs. 11 in own ATM and Rs. 22 in other bank's ATM. Transactions through mobile and internet banking may also be

considered for this purpose. This issue can be advocated with DFS, to review the 45 days condition of swapping Rupay card to get insurance.

6. **Address by Ms. Ragini Choudhary, Private Sector Advisor, DFID:** She said that, we need to establish convenience and utility for banking services, just like mobile phones. Government cannot put money in each account. Banks should extend its support to BCs. It is known that banks are overburdened with so many schemes, but BC as expended arm of bank, can play a vital role in curbing burden of banks as well as providing financial services to unbanked population. India has large power of saving and we need to utilize it through proper channel.

Action Points -

- Advocacy with different agencies like DFS, Government of Bihar and IRDA to raise the related issues (as discussed) for review.
- **Sharing of FLC Study Report** – A roundtable will be organized to share findings of FLC Study Report with banks and other stakeholders.

7. **Vote of thanks**

Shri Surendra Shrivastava, DGM - PSIG, SIDBI expressed sincere thanks to all participants for actively participating in the meeting. He said that the discussion was very lively and participated by all the stakeholders. The discussion was very informative and many critical points have identified for advocacy.

ANNEXURE 1: Participant List

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