

ICICI Bank's Strategy for Promotion of Financial Inclusion

Introduction

People from low-income groups live in high-risk and unpredictable environment, making access to financial services vital for their sustenance. Dealing with life cycle events, emergencies and planning for future are some aspects in which financial intervention can help. A large part of this financially under-served segment resides in rural India. Integration of rural India into economic mainstream will boost rural household incomes and have a multiplier effect on the demand for goods and services across the economy while promoting financial inclusion.

However, considering the sheer size of the population and the geographic spread, neither the existing bank branch based infrastructure nor the standard financial products are optimal to meet the financial needs of the rural populace. Seasonality in income, coupled with dependence on weather, necessitates creation of financial products that mitigate such risks. At the same time, traceable credit histories need to be built that will help in designing products that meet needs such as housing, health, education, child care etc. Further, varying financial needs of different customer segments viz. manual labourers, farmers, traders, and rural entrepreneurs calls for customised financial products.

Focus on Underserved Segments

ICICI Bank has taken up specific initiatives to ramp up financial literacy as well as intermediation to the underserved and underbanked segments in both rural and urban areas.

Customers' Financial Behaviour

In the absence of a formal Credit Bureau, extending financial service to low income segments becomes a challenge. To overcome this challenge, ICICI Bank's financial intermediation models, both through the microfinance institutions and business correspondents have been designed to build a repository of information with regard to financial behavior of the customers. Through Financial Information Network and Operations Limited (FINO (Refer Annexure I for details on FINO)), the technology platform it has helped conceptualise, and the biometric card, the Bank is able to collect demographic information of the customers. It would be possible to trace details such as credit history, savings habit and investment patterns of individuals. This information would be useful to incentivise those with good credit history and to discourage wilful default, at the same time developing better-suited financial products.

This information, when shared across the industry, will enable the underserved segments to have access to financial services in a well-defined credit analysis framework. It will also go a long way in channelising funds from funding agencies involved in promoting financial inclusion. They can track and monitor the end use of their funds, thus being able to assess the impact of their interventions.

ICICI Bank's Financial Intermediation Models:

With focus on low-income segments, ICICI Bank has come up with innovative delivery channels:

Microfinance

ICICI Bank works closely with MFIs and NGOs to adapt its products to suit consumer needs.

Two innovative models have helped achieve scale in serving the low-income household:

- a) Partnership Model being implemented with NGOs and MFIs: Under this model ICICI Bank forges an alliance with existing MFIs wherein the MFI undertakes the promotional role of identifying, training and promoting the micro-finance clients and the ICICI Bank finances the clients directly on the recommendation of the MFI, so the customer and portfolio resides in the Bank's book.
- b) Securitisation of Portfolios of MFIs: Under this model ICICI Bank buys out portfolios from MFIs. The MFI continues to service the clients and acts as the collection agent. Here again, the MFI shares the credit risk with the Bank. A variant of the securitisation model is 'on-tap securitisation', wherein the MFI receives an advance purchase consideration to create a portfolio of loans that could then be periodically sold to ICICI Bank.

The guiding principles on the basis of which these models have evolved have been to separate the MFI's balance sheet risk from its operational risk, and leveraging the core competencies of a Bank (financial strength) and an MFI (social mobilization, client management) to achieve scale.

Technology

The Bank has been actively looking at technology solutions to scale up the micro finance portfolio. Further, the Bank has been considering adopting a 'Core Banking System' (CBS) for managing the loan portfolio generated under the partnership model. In this regard, the Bank has found an able partner in FINO to provide technology solutions to the micro finance sector. The technology solution comprises of core banking and smart card systems. In light of the technology solutions available through FINO, the Bank has designed a new process for delivering loans under the partnership model.

Some of the key aspects where a strong technology platform will add value to the micro finance operations include reduction in transaction cost; better data management and reporting capacities and capability to interface with multiple peripherals, etc. This will also enable enhanced disclosure and transparency in the operations of MFIs, setting a platform for robust securitisation / buyout opportunities to meet the priority sector lending objectives of the regulator.

Business Correspondent

In line with the RBI guidelines ICICI Bank employs Business Correspondent (BC) model to extend financial services, especially the much-needed savings services to rural customers.

In the pilot stage, the transactions by BC are being done with the help of an 'e-Passbook' and an Authentication Device (AD). The e-Passbook can display and store the customer KYC information, customer account details and the transactions in each account. It also has a unique feature of biometric authentication by the way of fingerprints, thereby mitigating the risk related to PIN (Personal Identification Number) in the rural scenario.

ADs provide Customer interface with user-friendly menu options, enabling transactions. An authorized operator is enrolled by capturing the fingerprints of all

the 10 fingers to mitigate fraud risk, can operate each AD. The transaction is recorded on the AD, which at specific intervals would be uploaded and updated in the Bank's system through a normal telephone line, which is a widely available infrastructure even in remote rural areas. Further connectivity through GSM and CDA would also be made possible to ensure that the transaction details are updated in the Bank's system at higher frequency.

How does this Align with the Overall Rural & Agri Strategy of ICICI Bank?

ICICI Bank has adopted inclusive banking strategy to provide financial intermediation to farmers, traders and processors as well as the underserved segments. The elements on which the Bank's rural strategy is based are multiple products that meet customer requirements, offered through technology-based channels.

Multiple products

ICICI Bank offers a complete suite of products and services to meet the individual financial requirements of customer segments. Savings, investments and insurance products are made available to its rural and agri customer base. The Bank also offers microfinance services to low-income households and crop loans, farm equipment loans, commodity based loans to farmers.

Hybrid channels

ICICI Bank employs delivery channels backed by technological innovations to achieve scale and outreach in a sustainable manner. The Bank's channel architecture includes branch and non-branch channels. Branches act as a business hub providing banking services on the one hand, while facilitating the fulfilment of products that have been sourced by the business facilitators and business correspondents.

Non-branch channels are of two types, business facilitators and business correspondents. Business facilitators, referred to as '*Vikas Sahyogis*', are outsourced channels that generate business opportunities for the Bank. Network of *Vikas Sahyogis* has been set to act as referral or sourcing agents for loans, insurance and investment products such as mutual funds. These centres are operated by local people with existing relationship with the Bank's customer segments. *Vikas Sahyogis* include agri input dealers, tractor dealers, automobile dealers and diesel dealers.

Annexure: I

Financial Information Network & Operations Ltd

Solution for the rural masses

The FINO team has developed a platform using a biometric enabled multi-application hybrid smart cards and biometric enabled handheld devices to cater to the needs of Local Financial Institutions (LFIs) serving the rural masses. The platform has been sized for 12 - 50 mn customers at the moment but can easily be expanded if the needs are larger. FINO's solution is a comprehensive solution which encompasses three key components:

1. Core banking system component which is built as a shared back end banking engine that provides accounting, MIS, reporting and monitoring facility for all asset and liability products that the micro sector requires.
2. Distribution component that enables "offline" data capture from end user specific unique, biometric enabled hybrid multi-application Smart Cards. These smart cards can hold upto 15 different types of end consumer financial and non-financial relationships on a single card. In the field, these cards can interact with various offline channel enablers like FINO's biometric enabled Point of Transaction devices (POT), Mobile POS/PDAs etc. and existing mag-stripe based on-Line networks of ATMs, PCs, POS and Kiosks. Captured end consumer data is periodically transferred to a centralized location using connectivity options like PSTN (GSM/CDMA options are being planned). Authentic identification and non-repudiation of transactions is achieved through the biometric finger print templates stored in the card of the end user. The finger print verification is done at the device level where a live fingerprint of the end user is captured and verified using against the stored fingerprint template on the card.
3. Credit Bureau component which enables creation of knowledge base and financial credit worthiness, credit rating profile of the end user.

Benefits of FINO System

Biometric Identity

FINO offers a biometric fingerprint enabled smart card that allows foolproof customer identification without any requirement for a PIN / password as in traditional channel delivery systems. This is a completely offline solution and requires only a smart card reading device and a fingerprint sensor at any point of transaction

De-duplication

By capturing the customer's fingerprint for each smart card that is issued, FINO's robust fingerprint identification engine ensures that there will be no duplicate identity created for the same customer.

Numbering Logic

FINO systems relies on multiple number logic thereby ensuring security and uniqueness of transactions in the system. There are two types of numbering logics that FINO system uses:

URN: Unique relationship number, is a banking bin based number that is unique to a card chip (also called FINO chip number). This number is used for transaction identification over the FINO network.

FID: FINO ID number is a unique geographical locator printed on the facia of the card. This 17 digit number among other data sources is based on census data of India and is structured to capture details like year of birth, gender, state and village codes besides a serial number. Thus FID uniquely identifies the individual belonging to a village.

Besides the above internal numbering logic, FINO systems have a provision of mapping account ID belonging to back-end of a third party entity. For example account ID in core banking solutions of Banks etc. Such a provision ensures that there is a seam less flow of information specific to a consumer not only internal to FINO system but also in third party back ends.

IT Application on Card

FINO's smart card can provide a highly secure off line transaction platform to run any application thereby saving on the costs associated with on line systems. Since all rural transactions are based on "human relationships" and are made possible by "human interactions" (agent based systems), FINO system ensures that that the system does not change the "way of working" for agencies serving the rural sector. Currently FINO smart cards are provisioned to support 15 different types of financial and non-financial applications. These applications can be from a single principle entity or multiple entities.

How FINO Smart Cards can bring down the Cost of credit delivery for agencies

Low cost of ownership

FINO systems have been developed with a perspective of being an "Independent Sectoral resource". The solutions are on offer on a utility model "Pay as you use" concept. Being able to provide an end to end biometric enabled hybrid smart card solution comprising of back end core banking module, distribution module and core banking module ensures that FINO is a one stop shop for all the needs of MFIs, co-op banks, credit franchisees in traditional credit disbursement system in India as well as for Banking correspondents as per the recent guideline by RBI.

With FINO system integration services LFIs can easily integrate FINO system within their existing delivery model. As explained earlier, seamless mapping of third party consumer ID with FINO ID and URN number ensures that data flow is seamless between

the LFI and FINO system. FINO system can also be integrated easily with existing on line channel delivery systems like ATMS, Kiosks, Point of sale etc. FINO's best in class core banking solution is scalable and upgradable thereby ensuring that LFIs can easily design and offer a suite of products to the rural masses.

Shared Demographic Data

FINO smart card ensures that there is one time collection of demographic data for a particular consumer. FINO enrollment application is being designed to cater to one time data collection for all relationships such as savings, loans, insurance etc. This mechanism ensures that once the data is collected for a particular local financial institution the same can be used by other financial institutions serving the same rural geography. Thus for existing FINO consumers other LFIs can just focus on growing their business rather than worry about operational issues of identity creation. FINO will develop the product application specific to the LFI and can port it on the same card. Thus the using the same card the end consumer can interact with multiple LFIs at marginal cost to the new LFI.

Shared Biometric enabled Multi application card

FINO Smart cards are unique IDs for the consumer and hold the consumer demographic data, relationships and finger print on the card.. Consumers are uniquely identified by the biometric finger print authentication at the field level (devices). In addition FINO card can store upto 15 financial and non-financial applications. Thus for every new product/application the LFI only needs to develop a product application which can be remotely ported on the smart card in the field. In addition FINO system also provides for "origination services" in the field thereby ensuring that the communication for new relationship is communicated quickly to the principals.

Low cycle times

With FINO electronic infrastructure cycle times associated with product features like fund transfers, cheque/Demand draft clearing and settlement is greatly reduced. FINO systems are highly flexible, customizable, scalable and ready for deployment keeping in mind the methods of operation adopted by various financial institutions operating in local country.