

Credit Plus Services – Riding on ICT

Presentation by

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- Financial Access for Inclusive Growth
- Challenges to Financial Inclusion
- Enabling Environment for Financial Inclusion

Financial Access for Inclusive Growth



Quote from Annual Policy Statement (2005-06) of Hon'ble Governor of RBI

“there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis. Banks to review their existing practices to align them with the objective of FINANCIAL INCLUSION”

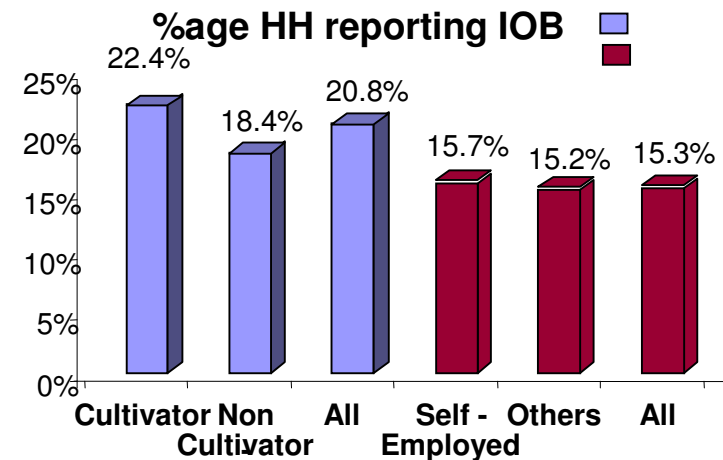
- An Inclusive Financial sector is one that *helps people help themselves* to increase incomes, acquire capital, manage risk and work their way out of poverty through:
 - Safe savings
 - Appropriately designed loans for poor and low-income households and micro, small and medium enterprises
 - Appropriate insurance and payment services

Gaps in Organised Finance in India



High levels of Unbanked Population

- ✓ Out of 203 Mn HHs in India, 73% are in Rural Areas, 27% in Urban areas
- ✓ 165 mn HHs have Zero IOB (81% of Total HHs)
- ✓ AOB of HHs in the highest asset class is about 27 times and 17 times that of lowest asset class in Rural & Urban areas respectively



Gaps in Organised Rural Finance

- ✓ Low income households with assets valued up to INR 200000 depend largely on non institutional agencies for cash borrowings - from 60% to 82% as the asset holding decreases to less than INR 15000
- ✓ 43% of borrowings in Rural India comes from informal sources
- ✓ 70% of that from money lenders

- Informal credit in Rural India - Rs. 23600 crores
- Conservative Estimate of 40% demand from Low Income HHS depicting Incidence of Borrowing (IOB) = Rs.10,000 crore

Gaps in Organised Urban Finance

- ✓ In urban India there is growing incidence of institutional credit in middle income groups - up to 66% in HHs with AHC from INR 100000 to INR 150000
- ✓ However, self employed HHs (36% of total Urban HHs) depend largely on informal sources of funding

- Informal credit in Urban India - Rs. 8500 crores
- Conservative Estimate of 40% demand from Low Income HHS which have IOB = Rs.3,400 crores

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Challenges to Financial Inclusion



Challenges of Delivery

- Under utilisation of Physical & Banking Infrastructure
 - ✓ High delivery costs, legacy systems, inflexible procedures
- Information Asymmetry
 - ✓ No credit history, willful defaulting

Challenges of Product Design

- Lack of Collateralizable Assets
 - ✓ No ownership documents, illiquid assets, inaccurate valuation

Addressing Challenges to Financial Inclusion



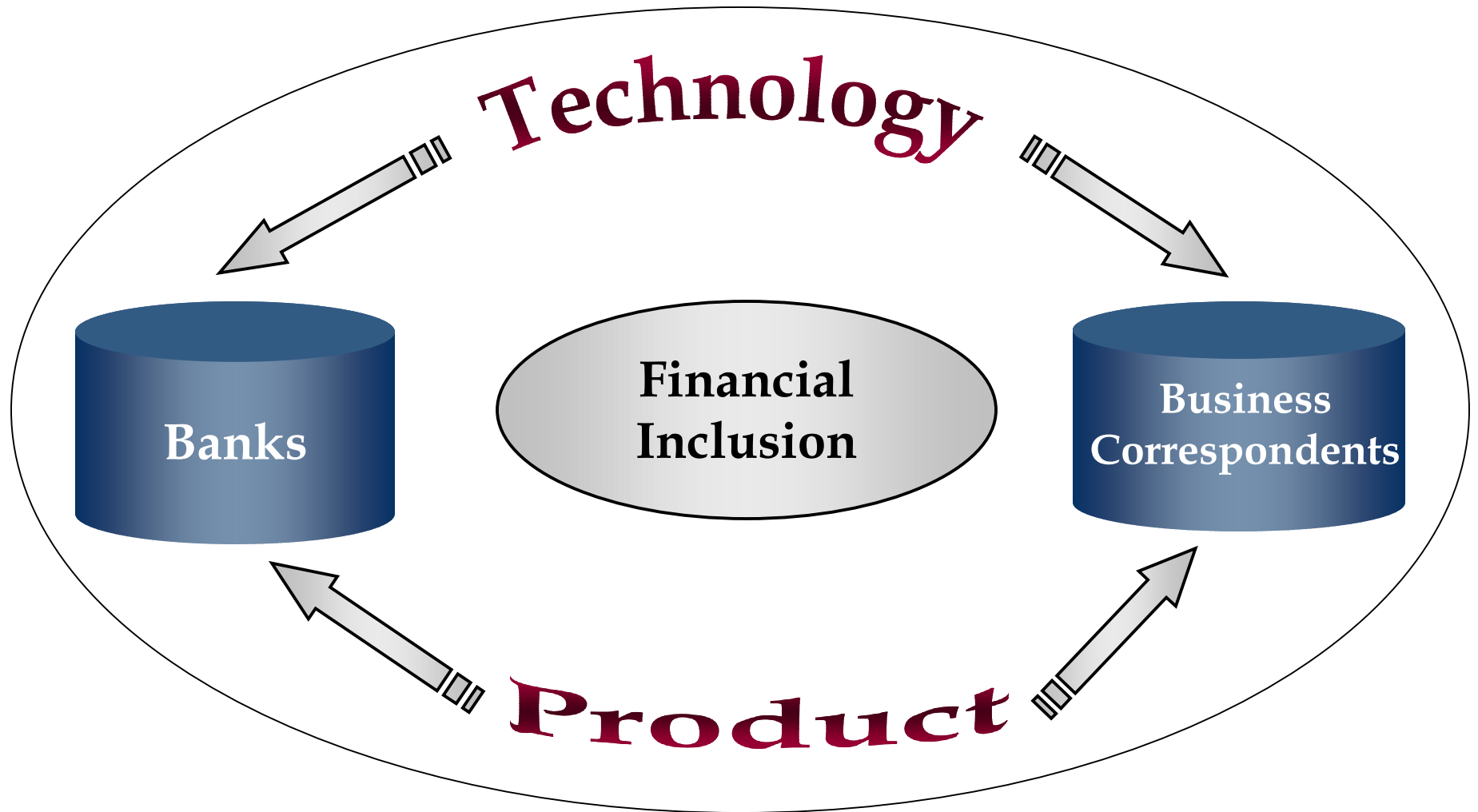
- Addressing these challenges requires reorientation of mindsets and innovative practices to:
- Leverage Existing Banking Infrastructure
 - ✓ Mindless investment in branch network without optimal utilisation will not help solve the problem of financial exclusion
 - ✓ There is a need to:
 - ~ 'Sweat' existing branch infrastructure
 - ~ Extend outreach
- Evolve customised products tailored to meet the requirements of low-income clients
 - ✓ Microfinance is an efficient tool Inclusive Growth
 - Leverage Partnerships
 - Leverage Technology

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Enabling Environment for Financial Inclusion



ENABLING INFRASTRUCTURE



Innovative Solutions: For extending Deposit Products



Challenges

- ✓ Dispersed client based with poor access
- ✓ Limited electricity supply and access
- ✓ Limited telecom/broadband connectivity
- ✓ ATMs may not be viable and maintainable in erratic power situations
- ✓ Cash collection points – customers like to deposit at a fixed location
- ✓ Banking service – delivery of information, statements, etc
- ✓ Access to account in nearby cities, towns villages

Mitigation

- ✓ Mobile Branches covering select geographies
- ✓ Self generated - Diesel, Solar, Battery
- ✓ Online/Offline and Pseudo online data capture and updation systems. Leverage Mobile networks
- ✓ Cash dispensing partners e.g. Post offices who can deliver cash like money orders
- ✓ Cash can be deposited at partners like Post offices/Mobile Branches
- ✓ Information dissemination through partners, Internet kiosk enabled, Toll Free Call centre in local language
- ✓ ATM cards for such customers

Innovative Solutions: For extending Loan Products



Challenges

- ✓ Loan delivery - Cash is preferred form at Village Level
- ✓ Loan servicing- Payments collection to suit every form of repayment from daily, to weekly to seasonal
- ✓ Loan Management and updation of information of payments and collections and sharing update with every borrower at village level

Mitigation

- ✓ Loan can be delivered on Card; customer can avail cash from nearest partner - Post office/ ATM/ Cash advance terminal like POS
- ✓ Enlisting partners like Post offices and Roaming agents who can use offline/ online handheld devices to update loan repayments on the field
- ✓ Deliver the loan history on a smart chip card. Information on the same can be read off and printed off handheld readers

Leveraging Technology: Enhancing reach and convenience through customer choice



▪ Role of Technology

- ✓ Information Dissemination Technologies
 - ~ Information Kiosks
 - ~ Call Centers using vernacular toll-free IVR Systems
- ✓ Business Processing Technologies
 - ~ Simputer
 - ~ Mobile Phone Banking
 - ~ Automated Teller Machines
 - ~ Smart Cards
 - ~ Personal Digital Assistants

Leveraging Technology: Common Platform - Sharing Resources



Financial Inclusion initiative by IDRBT

- Multi-application smart card system
 - Store of electronic cash, data repository for essential information relating to the card holder
 - Biometric identification, doubling up as an entitlement identifier/social security card
 - For government payments like pension, subsidies, utility payments – healthcare, crop insurance, life insurance
 - Banks can use for 'No Frills Account', prepaid cards for rural credit

Creation of a National Platform on "One Open Standard" will enable Inter-Operability across various National Payments Networks like NFS etc giving customers reach across the nation. The various service providers and banks will then be able to plug-in services at an affordable cost.

Payments System's Vision



- Objective : “To Provide A Safe, Secure, Sound and Efficient payment and settlement system for the country”
- Increase Efficiency of the Payments systems
- Customer Facilitation for each of the payment system products

ePayments Landscape



RTGS	NEFT	ECS
Paperless/Inter-Intra Bank, Inter/Intra city	Paperless/Inter-Intra Bank, Inter/Intra city	Paperless/Inter-Intra Bank, Inter/Intra city
Within 2 hours	Settlement Time: T+0, T+1 (for last cycle)	Settlement Time: T+2 (depends on locaiton)
Real-time, Continuous	4 settlements/day (9.30, 10.30am, 12 noon, 4pm)	Continuous
2300 centres, 26000+ bank-branch locations	12000+ locations, aiming to reach the same no. as RTGS soon	45 locations, 16 RBI locations
Positive, Negative Confirmation	Positive, Negative Confirmation (similar to RTGS)	Only Negative Confirmation

Leveraging Technology: Sharing information, common standard for evaluation



- **Credit Information for...**
 - ✓ Funded credit facilities
 - ✓ Non-funded credit facilities
 - ✓ Security/collateral for the credit facilities
 - ✓ Antecedents & credit history of borrower
- **The envisaged role of CRB is to make available...**
 - ✓ Complete and reliable Credit Information
 - ✓ In the form of reports on borrowers, Individuals or businesses
 - ✓ From a centralized database
 - ✓ As a neutral service provider

Creation of a National Credit Reference Bureau through IDRBT or like organisations Can deliver "Real Time" Credit information to support Micro Credit decisioning and ratings.

Enabling Environment for Financial Inclusion



“A loose credit policy lost money. A tight credit policy lost business. Intelligence, judgment and good information - these were what made the crucial difference”

- Lewis Tappan (Founder of Dun & Bradstreet)



THANK YOU