Financial Regulation and Financial Inclusion-
Working together or at cross-purposes?

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Financial Inclusion Objective

• Financial inclusion
  – Justified on grounds of Growth, Equity and Stability

• Financial inclusion primarily represents affordable access to:
  – Bank Account backed by Deposit Insurance
  – Credit and Payments System

• The key question
  – What should be the regulatory framework to ensure efficient financial inclusion along with acceptable level of safety and reliability?
Issues in focus

- Do financial regulation and financial Inclusion work together?
- Regulatory interventions in India for financial inclusion
- Regulatory approach to non-banking entities providing financial /payments services
- Consumer Protection and financial literacy
Financial Regulation and Financial Inclusion – Is there a trade off

- Ensuring safety of depositors’ funds and deposit insurance requires regulation
- Regulated entities attract investors and lenders and can achieve economies of scale
- Financial Inclusion promotes strong retail base necessary for stability
Regulatory Interventions for Financial Inclusion

- Small and local may not be optimal – merger of non-viable entities encouraged

- Three track approach: Non-Basel, Basel-I & Basel-II

- Indirect access through SHGs combining flexibility with formality

- Directed credit need not be distortive
Regulatory Interventions for Financial Inclusion

• Branch approvals in lucrative areas work as incentive for penetration into underbanked areas

• No frills account mandated for banks

• Simpler KYC for low value accounts/transactions

• Branchless banking – agency risk vs greater outreach

• Interest rate caps abolished for small loans
Non-Banking Entities providing financial services – Regulatory approach

• Regulatory approach not in favour of deposit taking by Non-banking financial entities

• Non-bank financial companies acting as BCs – possible risks of conflicts of interest, co-mingling of funds and misrepresentation

• Non bank non financial companies with wide distribution channels acting as BCs? Currently under examination

• Role of non banks in payments system as partners and service providers
Consumer Protection Issues and Financial inclusion

• ‘Unequal’, uninformed and vulnerable clientele

• Competition does not always ensure best services, especially to such clientele

• Banking Codes and Standards Board of India; Code of commitments to:
  – Individual customers
  – Micro & small enterprises

• Individual complainants on non-adherence to the code and violation of RBI guidelines investigated by Banking Ombudsman
Consumer Protection Issues and Financial inclusion

• Concerns on high interest rates; hidden costs

• Regulatory approach – transparency, awareness, grievance redressal

• Role of financial literacy and grievance redressal
  – Best achieved at grassroots level through regular meetings of communities with people’s representatives, NGOs, Bankers and Banking Ombudsman

• Ultimately, critical requirements for financial inclusion:
  – Responsible borrowing facilitated through financial literacy
  – Responsible lending critical for financial inclusion
Financial regulation and
Financial inclusion - Our take

• Key messages

  – Financial regulation and financial inclusion go together

  – Non-banking players encouraged to be partners and agents of banks rather than principal providers of financial services

  – Financial Regulation to be calibrated in line with significance of risk, national priorities, and effectiveness of safeguards
Thank you