BIHAR'S EXPOSURE TOWARDS THE BANKING SECTOR

A REPORT OF THE SPECIAL TASK FORCE ON BIHAR

GOVERNMENT OF INDIA
NEW DELHI

JULY, 2007

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

Executive Summary

Bihar's exposure to the banking services is very limited and hence, per capita availability of financial services in Bihar is considered to be lowest in the country. To push Bihar on sustained economic growth momentum, there is an urgent need to expand the base of financial services, with a particular focus on the rural economy and the small and medium entrepreneurs. The expanded financial services must be cost effective and their delivery should be of high quality.

Thus, a strategy for universal access to financial services has to address two key challenges – ubiquity and comprehensiveness of range of financial services. Ubiquity refers to financial services that are easily accessible to individuals in terms of geographical proximity and the ease with which the services can be procured. For long, this was pursued in India through commercial banks opening branches in rural areas and Regional Rural Banks (RRBs). However, this infrastructure was unable to address the demand for financial services in a comprehensive manner for a number of reasons, including high costs of services delivery and exclusive focus on credit.

In order to achieve meaningful ubiquity, models of outreach must have ability to leverage local information while being cost-effective. A two-pronged strategy to deliver comprehensive financial services is proposed. These are:-

(i) Delivering these services through high quality private sector (both for-profit and not-for-profit) local financial institutions, broadly referred to as Micro Finance Institutions (MFIs).

(ii) Building technology enabled low cost direct service channels. These direct service channels would complement services provided by the MFIs.

In order to meet this, a large number of micro-finance institutions (MFIs) set ups could be formed. These could provide on-lending to self-help groups (SHGs) and individuals. The advantage of this approach could be that it would not require the banks to have a grassroot level presence.

The MFIs would, for cost effectiveness, develop partnership model with the following key characteristics: (i) Loans are contracted directly between banks and borrower. The MFIs would be responsible for group formation, loan origination and recovery of dues from the borrowers; (ii) The MFI would provide a guarantee (typically a first loss default guarantee (FLDG) through which it shares the risk of the portfolio with the Bank up to a certain pre-determined limit (usually the first 10-20 per cent of loss on the portfolio). The MFI would collect a 'service–charge' from the borrowers to cover its transaction costs and margins; (iii) The banks would provide an overdraft (OD) facility to the MFI equivalent to the amount the MFI is liable to provide as the FLDG. The OD represents funds committed but not utilized, and is drawn only in the event of default.

The partnership model attempts to address key gaps that prevented rapid scaling up of financial services by: (i) Separating the risk of the MFI from the risk inherent in the micro finance portfolio; (ii) Providing a mechanism for banks to continuously incentivise partner MFIs, especially in a scenario where the role of the MFI is closer to that of an agent; and (iii) Overcoming MFIs' inability to provide risk capital in large quantum which limited the advances from banks despite a greater ability of the latter to provide implicit capital. With this structure, financing ceases to be a binding constraint for MFIs, and limits to growth are purely posed by MFIs' capability to grow field operations in a sustainable manner. The partnership model also facilitates securitizing of micro-finance loans.

SHG Bank linkage program in the State was accorded top priority by NABARD and several steps have been initiated in upscaling the program :- (i) Identification of good NGOs / agencies and sanction of Self Help Promoting Institutions (SHPI) projects on an ongoing basis , (ii) Organizing capacity building programs for NGOs, Branch Managers of Cooperative Banks/Regional Rural Banks , (iii) Synergy of efforts with all partner agencies for expediting linkage process. Banks to identify stock of eligible but unlinked SHGs and link them on priority basis. It is expected that the initiatives taken by NABARD shall result in creating a favorable environment towards the up scaling of SHG movement in the State. It is desired that State Government should work in tandem with the Bank for promoting the micro finance activities.

Apart from helping existing MFIs to scale up operations, the challenges of achieving ubiquity also necessitates an increase in the number of MFIs. Two models that have the potential to create additional micro-finance outreach are: (i) the entrepreneur-led model that offers support to entrepreneurs to start MFIs in under-served areas; and (ii) the corporate partnership model that involves embedding micro-finance within the community development activities of corporates that have a presence in rural areas and/or are engaged in community development activities. To create an enabling environment to support the growth of the MFIs, the banks could follow these steps:-

(i) Partnership with venture capital funds engaged in the task of identifying and providing equity finance and mentoring new entrepreneurs desirous of creating such entities.

(ii) Launch of Financial Information Network & Operations Ltd (FINO), an application services provider that seeks to offer front-end (smart card, point-of-sale terminals), back-end (banking software, performance management and reporting, MIS) and information services (credit bureau) to MFIs.

(iii) Launch of web portals like microfinancejobs.com to provide access to human resources to these entities so that their expansion is unconstrained.

Non-financial interventions have proven to be crucial in order for MFIs to sustain growth and meet a larger share of client requirements. These include:

(i) Meeting demand for non-cash credit: For example, Spandana, an MFI, offers clients various commodities/durables through its consumer store, exploiting economies of scale to get a cheaper rate for the products.

(ii) Enhancing enterprise return through targeted business development services. For example, improving returns on livestock rearing through productivity improvement.

(iii) Develop viable ways of delivering products that have high social returns. For example, the distribution of smokeless chulhas that was undertaken by two NGOs in partnership with Shell Foundation.

Over and above MFIs, new service delivery configurations that combine a local agent and various technological advancements for easing transactions can also be used. The emergence of connectivity and transaction devices has increased the scope for agent-based models, the role of the agent being largely in assisting the customer through the various steps of the transaction. Internet connectivity can be leveraged to reduce potential for fraud while devices such as Automated Teller Machines (ATMs) enable the provider to disburse and collect cash at a non-provider location while minimizing the risk of fraud.

The benefit of agent models vis-à-vis other dedicated channels like rural branches is that the agent represents a multiple service channel and can distribute various fixed costs of operation over several services which has implication for channel viability.

Well-designed products that cater to various needs of the poor are important to achieve universal access to finance. While much of the work that has happened in India has been geared towards increasing access to credit, there are gaps in access/availability of other financial services including insurance (life and non-life), investment, remittance and derivatives.

Providing weather insurance to farmers and the rural poor has been another key area. Index based insurance products, where payouts are based on a verifiable index, provide an opportunity to insure without incurring the high overheads of loss adjustment and supervision typical of traditional crop insurance products. The index is created by assigning weightages to critical time periods. The past weather data is mapped on to this index to arrive at a normal threshold index. The actual weather data is then mapped to the index to arrive at the actual index level. In case there is a material deviation between the normal index and the actual index, compensation is paid out as per a pre-agreed formula.

There are now several national level institutions, i.e. National Commodities and Derivatives Exchange (NCDEX) – promoted by NABARD, National Stock Exchange, Life Insurance Corporation of India, and ICICI Bank to provide a variety of services at the farm level and Bihar should derive services from these institutions. The exchanges represent a serious effort at developing an integrated price discovery process in commodity markets and attempt to offer the farmer instruments to institutions. The exchanges represent a serious effort at developing an integrated price discovery process in commodity markets and attempt to offer the farmer instruments to hedge both pre and post-harvest price risks. Combined with efforts on warehouse receipts would considerably improve the collateral value of commodities, thus making it easier and cheaper for farmers to seek credit. The banks should explore the possibility of collaborating with commodity exchanges, NGOs, MFIs, and farmer cooperatives, who could facilitate the participation of small farmers in the commodity exchange.

Back end infrastructure can also be improved by developing a state-wide biometric identity system as well as credit bureaus which would help reduce problems of information asymmetry and adverse selection throughout the State. MFIs could work with partners such as FINO to source the appropriate technology. On the policy front, it would be important to:-

(i) Work with NABARD, RBI, IRDA and SEBI to make it mandatory for all banks, insurance companies and mutual funds to work with this common identity.

(ii) Install an Electronic Funds Transfer at Point of Sale (EFTPOS) terminal at least at every post-office in the state for 'dematerializing' cash locally.

Recommendations

In the light of inadequate access to financial services in Bihar, combined with poor socio-economic conditions and the problems of adverse selection, it would be imperative to evolve solutions that address all dimensions of banking operations – front-end, back-end, as well as, deepening of the financial system. To develop an effective front end system, it would be essential to facilitate the growth of high quality, autonomous, local financial institutions of Micro Finance Institutions (MFIs). These MFIs would tie up with a national financial institution and serve as the local client interface, thus helping the national financial entity to operate without having to invest in rural branches and in turn reduce costs. Bihar must aim at expanding the financial services base throughout the State particularly in rural areas. These should be of high quality, technology based micro-financing, and cost effective.

For developing high-quality LFIs/MFIs, the following steps are recommended for Bihar:

(i) A review and modifications are needed of guidelines for investment into/licensing for non-deposit taking NBFCs which are engaged in the business of micro-finance.

(ii) There is a need to modify minimum capitalization and SEBI guidelines to allow inflow of FDI and venture capital funds into non-deposit taking NBFCs, particularly for those that are created in under-served areas.

(iii) RBI should take steps to modify guidelines for investment by banks into these NBFCs for augmenting Bihar's financial resources.

(iv) To meet the requirements of Bihar, RBI should provide financial sector plan on the pattern of North-Eastern Region.

(v) Banks in Bihar should work with army officers to encourage officers who retire early from service to create these LFIs/MFIs.

(vi) Steps should be taken to revisit the Local Area bank (LABs) regulation, with perhaps a higher level capitalization say Rs. 25 crore- and allow creation of several LABs that have the capacity to offer full-service banking.

(vii) Cooperative Sector must be revitalized following the Vaidyanathan Committee recommendations.

(viii) Develop partnership with other rural financial institutions, including scheduled commercial banks in order to reach to the people at large.

(ix) Urgent attempts should be made to amend the Business Correspondent (BC) guidelines to: a) include sole proprietorships, NBFCs and internet kiosks; b) allow full recovery of all costs incurred from the customer; and c) relax the requirements of the latest next day deposit of cash.

(x) Banks in the State should adopt SHG-Bank linkage approach for increasing their credit outreach. State Government may constitute a working group comprising Officials from NABARD, RBI , State Government and Banks , to evolve a strategy for promotion of about five lakh additional SHGs in the State and up scaling SHG-Bank linkage programme.

(xi) Cluster approach should be adopted for accelerating flow of credit in sectors viz.weaving, handicrafts, fisheries, food processing, dairy development, ready-made garments.

(xii) An effort has to be made by State government for revival of co-operative credit institutions. Acceptance of terms and conditions for release of financial assistance under co-operative revival package may be conveyed by the state government to NABARD at the earliest.

(xiii) State government may take effective steps for correcting financial, managerial and governance related impairments in Co-operative credit institutions at the earliest.

In Bihar, registered cooperative societies that have deep rooted networks in villages as well as farmers clubs could be tapped for providing financial services with appropriate training and capacity building efforts.

While establishment of rapidly growing MFIs would help increase access to finance in rural areas, these MFIs would need to be supported by good quality back and front infrastructure, especially adequate cash handling facilities, namely currency chests. This would involve the following course of action.

Better utilization of the existing infrastructure of currency chests can be accomplished by:-

a) Allowing banks to provide a list of bank branches and currency chest branches with which it has worked or would like to work out linkage agreements.

b) Allowing banks to propose the average cash inflow and outflow to be transacted with each currency chest along with its indent for fresh currency during the year

c) Increasing the frequency of currency movement of soiled notes, from the currency chest to RBI offices, to at least twice a month.

d) Treating private banks at par with nationalized banks in term of permissible monetary limits for currency chests or increasing the monetary limit of private banks to meet local requirements.

e) Mandating processing of cash at a currency chest as per the clean note policy and mandating an incentive charge of Rs. 1 per packet to be paid by the linked-up branch to the currency chest branch. Also mandating a cash processing fee within a pre-determined range depending on the denomination of the cash.

f) Promoting negotiation of cash-in-transit charges between the linked-up branch and the currency chest branch to promote joint responsibility.

Warehouse receipt based financing is also being offered for various farm products across the country. This may also be vigorously pursued.

The banks in Bihar should try to design remittance products to cater to the needs of migrants, especially the inter-state migrants who are in large number and generate large amount of funds every month. This fund could be effectively utilized for a variety of development activities in Bihar. So far, this has remained rather untapped. In recent years, for example, ICICI Bank has developed institutional remittance products. The presence of local institutions like MFIs in the places of origin and destination would be leveraged to deliver such a product. This product is offered at the village level through Internet kiosks. The sender remits to the beneficiary's ICICI account through an exchange house. The details of the transaction can be viewed online by the beneficiary through the Internet Banking facility available at the kiosks. Once the money is credited to the beneficiary's account, the capacity building efforts.

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Preamble

It is universally well established that in the process of economic development, banking sector plays a pivotal role. It is due to this factor that this sector occupied a central place in India's economic reforms agenda initiated by Prime Minister Dr. Manmohan Singh in 1991 as the then Finance Minister. Since then the banking sector has performed exceedingly well by international standards and bringing in of private sector banks has brought high degree of competitiveness with increased efficiency, improved delivery system, enhanced level of banks net worth, asset valuation, profitability, and increased people's access to financial resources. Today, India's economic performance at 8-9% GDP growth could partly be attributed to expanded and diversified operations in the banking sector. Unfortunately, this record performance of banks has not been visible in Bihar. Thus, Bihar still remains confined to a very low level of economic growth. It is high time now for Bihar to open and rejuvenate its exposure to the banking sector. There are a number of opportunities to seek benefits from the banking sector so that Bihar's economic growth process gathers momentum. How Bihar should move in that direction is the main theme of this Report.

CHAPTER-1

BANK OPERATIONS IN BIHAR

1. Available field survey and research reports reveal that Bihar's exposure to the banking sector has so far been limited. As a result, various sources of informal credit occupy the central place and farmers' ineffectiveness increases. Inadequacies in availability of credit from the banking sources have also led to low level of productive asset creation and entrepreneurship development. All these have had bearings on Bihar's economic growth.

2. Public sector banking operations still carry predominance. Table-1 in **Annexure- 1** shows that out of a total of 3,989 branches of various banking entities, the branches of public sector and regional rural banks comprise almost 90% of the total branches operating in Bihar. Out of the total branches, 65% were in the rural areas. Bihar has a total of around 45,103 villages **(See Annexure-8**). This translates to one branch around the cluster of 13 villages, based on the total branch estimates of 2006. In terms of population, estimates suggest that the branch population per bank in Bihar is approximately 23,000 (Table-2) in comparison to the national average of 15,000. The rural urban divide in Bihar is also very stark with each rural branch serving estimated 31,000 people as compared to 18,000 people in urban areas.

3. Given a rural area of about 94,000 square kilometers, this translates to a bank branch on an average of every 35 square kilometers (given a 1,000 square kilometer urban area - the urban ratio is less than 1 square kilometer per branch). This suggests an inter-branch distance of at least 6 kilometers on an average in rural Bihar. However, there may be relatively higher density of branches near Block Headquarters and semi-urban centres. Outside these locations, the distance between bank branches may be as high as 18 to 20 kilometers. This may be disturbing for production centres being far away from banking hubs. Even to provide basic access to financial services, this is clearly insufficient and the target number of access points would need to be increased to at least 12,000 to give coverage of at least one financial service access point in every three to four villages. One immediate question that arises is that of the viability of such a banking infrastructure and how, considering that it has been difficult to manage the personnel challenges faced even by the existing low density of rural branches, these branches would be staffed.

4. In addition to the existing low density of branch presence, there is the added issue of the nature of services provided by the banking system as a whole. Table-3 in **Annexure-1** provides a break-up of the depository and advances for Scheduled Commercial Banks (SCBS), Regional Rural Banks

(RRBs), and Cooperative Banks (CBs). The average deposit per individual is estimated at Rs.55, 000 (against the national average of Rs.1, 95,000), which is consistent with the low-per capita average income of Rs.5, 700 per year. The situation on advances is even worse with Rs.18,000 per capita, in which the effect of the low per capita deposit base is compounded by an unusually low credit-deposit ratio of 34.8% (in 2007) relative to the national average of over 70% **(Annexure-9).** Interestingly, CBs had a very high credit deposit ratio of 77% which, while below the national average of 100% for cooperatives, can still be considered very good relative to the banking sector average for Bihar. However, Table 5 in Annexure-1 clearly suggests that a very large part of this credit has turned out non-performing. The performance of Primary Agricultural Credit Societies (PACS) also reflects a similar state. While there are almost 6,000 PACS in Bihar, only 19% of them showed a profit in the year 2004-05 as compared to 43% nationally **(Table 6 in Annexure-1).** The deposit base of Bihar is also very low **(Annexure-9**).

5. Overall, all the available information clearly reveals the following:

i) There is a gross inadequacy in the density of financial services access in Bihar. However, it is possible that the cost and viability considerations may make it unviable to significantly expand the presence of branches in the State.

ii) The extreme poverty levels of the State are reflected in the aggregate deposit base. It is possible that this combined with the low branch density has led to a much larger base of non-financial assets such as gold jewellery and a few others. This means that at the State wide level, there is improper allocation of financial resources taking place because of a wide-spread failure of financial intermediation.

iii) Problems of adverse selection and moral hazard seem extreme (as is reflected in the Non-Performing Asset Ratios of Cooperative Banks and PACS).

6. The key challenge ahead then is to attempt to discover solutions to these seemingly intractable problems. The broad contours of the solutions explored in the following paragraphs include:

i) Front End: Development of a hybrid intermediation approach using new models of intermediation and new design principles.

ii) Back End: Rapid improvement in the back-end infrastructure of cash handling, cash movement and clearing of cheques designed to support these new models of access and to address key drivers of high costs of financial intermediation.

iii) Deep End: A systematic attempt to eliminate the problems of information asymmetry and adverse selection throughout the State through the use of universal biometric identity cards and credit bureaus in which all financial services providers are mandatorily required to participate.

CHAPTER-2

DELIVERING COMPREHENSIVE FINANCIAL SERVICES TO THE POOR

A. The Approach

Bihar, which has remained behind in banking services in all its aspects (**See Annexures-9 and 10)**, requires comprehensive financial services to reach out to the vast poor segments of population. A strategy for universal access to financial services has thus to address two key challenges – ubiquity and comprehensiveness of range of financial services. Ubiquity refers to financial services that are easily accessible to individuals in terms of geographical proximity and the ease with which the services can be procured. For long, this was pursued in India through commercial banks opening branches in rural areas and Regional Rural Banks (RRBs). However, this infrastructure was unable to address the demand for financial services in a comprehensive manner, suffering from high delivery costs, exclusive focus on credit, and neglect to maximize outreach. In order to achieve meaningful ubiquity, modes of outreach must have the ability to leverage local information while being cost-effective. Some Indian banks, like NABARD, ICICI Bank and others, have taken initiatives to enlarge their presence in the rural areas of Bihar.

B. Micro-finance Initiatives

1. Initiatives taken by ICICI Bank

1. ICICI Bank's micro-finance initiative in Bihar took-off in early 2007 through disbursement of Rs.5 Million & Rs.0.5 Million to NIDAN & Centre for Promoting Sustainable Livelihood (CPSL) respectively for on-lending to SHGs[1]. The ICICI Bank, has followed a two-pronged strategy to deliver comprehensive financial services which include:

   (i) Delivering these services through high quality private sector (both for profit and non-profit) local financial institutions, broadly referred to as Micro Finance Institutions (MFI), and

   (ii) Building technology enabled low cost direct service channels. These direct service channels would complement services provided by the MFIs.

2. Under this model, the MFIs would take on the risk of the financial performance of the groups/individuals that were being lent to, which ensured that good quality group formation was built in. The MFI would undertake the task of group formation, cash management, disbursal and recovery,

1. Before that, the Bank had worked with Cashpor, a large MFI that works in the state.

and record keeping. The Bank would lend to the MFI on the basis of its balance sheet and portfolio performance and MFI would repay the bank. Also, this channel was better at leveraging large amount of funds without necessarily having a grass root level presence for the Bank.

3. Under the above model, it was observed that most MFIs were unable to increase the size of the operations. An analysis in 2002 revealed that despite consistent evidence of viable demand from clients, exposure of MFIs was constrained due to the organization-based financing model adopted. Adequate quantities of risk capital to provide the degree of coverage required absorbing inherent risks and adequate debt funds was lacking. Other key ingredients lacking included long-term finance for creation of required infrastructure and pre-operative expenses, well-trained staff in adequate numbers at all levels, and technological support.

The Partnership Model

4. To address the above issues, ICICI Bank launched the partnership model which was conceptualized and executed with the following key characteristics:

(i) ***Loans contracted directly between the bank and borrower:*** The structure primarily attempts to separate the risk of the MFI from the risk of the underlying portfolio. By lending directly to the borrower without the funds entering the MFI's balance sheet gives the bank recourse to the borrower. Hence, in theory, even if the MFI goes bankrupt or closes down, the Bank can appoint another agency to recover the dues from borrowers. In addition, since the loan is not reflected on the balance sheet of the MFI, its requirement for capital ceases to exist. The lending paradigm thus shifts to being asset-based rather than the earlier organization-based which had crucial implications for rating, pricing and consequent marketability.

(ii) ***Alignment of incentives with a first loss guarantee structure:*** The structure requires the MFI to provide a guarantee (typically a first loss default guarantee (FLDG)) through which it shares the risk of the portfolio with the Bank up to a certain pre-determined limit. The limit could be say first 10 per cent or 20 per cent of loss on the portfolio. The MFI collects a 'service-charge' from the borrowers to cover its transaction costs and margins. The lower the defaults, the better the earnings for the MFI as it will not incur any penal charges vis-à-vis the guarantee it provides.

(iii) ***Transfer of explicit capital to the MFI through an overdraft facility:*** An innovative structure was evolved that combines the provision of both debt as well as mezzanine finance that helps MFIs provide the risk capital required as implied in the FLDG. Along with advancing credit to meet the demand of the clients, the Bank provides an overdraft (OD) facility to the MFI. The OD facility is equivalent to the amount the MFI is liable to provide as the FLDG. The OD represents funds committed to be a binding constraint for MFIs, and rather a limit to growth is purely posed by the MFIs capability to grow field operations in a sustainable manner. Given this structure, it is interesting to note that an MFI that expects to have very low rates of default can grow operations even being a "Shell company" with no equity. All it needs is a robust operating methodology and long-term funds to finance field operations until it breaks even.

5. The partnership model attempted to address the following key gaps:

(i) Separating the risk of the MFI from the risk inherent in the micro finance portfolio;

(ii) Providing a mechanism for banks to continuously incentivise partner MFIs, especially in a scenario where the borrower enters into a contract directly with the bank and role of the MFI was closer to that of an agent; and

(iii) Inability of MFIs to provide risk capital in large quantum which limited the advances from banks despite a greater ability of the latter to provide implicit capital.

6. The partnership model, as experienced so far, helps existing MFIs to increase their scale of operations. This could be done by two approaches:-

(i) *Entrepreneur-led model:* The banks could offer support to entrepreneurs to start MFIs in under-served areas. Though, the critical elements for the success, the model could explore the following:-

- Organizational and staff incentives structure
- Finance related-break even, source of funds, capital structure
- Legal issues – form of incorporation, regulation on various products
- Business plan related – scale, outreach strategy

(ii) *Corporate partnership:* Corporates have a significant presence in rural areas by virtue of their plants and projects, and engage in community development activities. Embedding micro finance within the community development activities of these companies provides an additional track to build access.

Services for Credit Deepening

7. Non-financial interventions have proven to be crucial in order for MFIs to sustain growth and meet a larger share of client requirements. MFIs that have already attained a large geographical presence need to balance the twin objectives of scale and not losing local information advantages. Deepening of services entails:

(i) Meeting demand for non-cash credit: If MFIs can offer competing financing products, clients may switch borrowing. For example, Spandana offers clients various commodities/durables through its consumer store, exploiting economies of scale to get a cheaper rate for the products. This combined with building of credit offers superior options for clients

(ii) Substituting other financial service providers: MFIs may progressively seek to increase share of client's total borrowings by changing credit limits.

(iii) Enhancing enterprise returns through targeted business development services. For example, improving returns on livestock rearing through productivity improvement.

(iv) The MFI may develop viable ways of delivering products that have high social returns. For example, the distribution of smokeless chulhas that was undertaken by two NGOs in partnership with Shell Foundation.

Alternate Direct Service Channels

8. Though MFIs have been recognized as the purveyors of micro-finance in India, new service delivery configurations that combine a 'local agent' and various technological aids for easing transactions can be explored. The emergence of connectivity and transaction devices can increase the scope for agent-based models. For example, Internet connectivity enables third-party agents to offer 'transaction fulfillment' at a non-bank/provider location. The agent is responsible for the entire transaction, and not parts of it. A key challenge in developing scaled agent-based model is to be able to control agent fraud and create incentives for the agents that are aligned to the objectives of the provider. Internet connectivity can be leveraged to reduce potential for fraud; the agent has to update the providers' databases online and make payments immediately. Similarly, devices such as Automated Teller Machines (ATMs) enable the provider to disburse and collect cash at a non-provider location while minimizing the risk of fraud. The role of the agent in these models is largely in assisting the customer through the various steps of the transaction.

9. The benefit of agent models vis-à-vis other dedicated channels, e.g. the rural branch of

commercial bank is that the agent represents a multiple service channel. The agent can distribute various fixed costs of operation over several services which would have implications for channel viability. Two models that combine agents with Internet connectivity and other devices that ICICI Bank has worked on and other banks could emulate are:

(i) *Internet Kiosks*: ICICI Bank has partnered with a number of organizations that are involved in promoting village-level kiosks. In partnership with these kiosk network owners, ICICI Bank proposes to finance individual entrepreneurs (usually high-school graduates) who own and operate the kiosk. The entrepreneur invests around Rs. 5,000 and ICICI Bank finances the remaining Rs. 55,000 (at 2004 prices) to purchase the operating license and equipment from the Internet service provider. In the Bank's experience, a kiosk needs a catchment of about 5,000 people to be a financially viable unit with the current applications, translating into one kiosk in every cluster of four to five villages. The strategy is to reach the poor at their doorsteps by delivering a suite of financial services through these kiosks.

(ii) *Credit Franchisee:* In this model, the franchisee is envisaged to provide asset-backed loans (auto, gold, fixed deposits) and other financial services. The credit franchisee is an entrepreneur who contributes equity, has a good understanding of the local market conditions, credit needs and credit history of individuals and who is willing to enter into risk-sharing arrangements with the bank.

Comprehensive Financial Services

10. Development of well-designed products that cater to various needs (both risk management as well as growth) of the poor is an important aspect of universalisation of access. Much of the work that has happened in India has been geared towards increasing access to small amounts that may be used either for consumption or for enterprise purpose (typically livestock). While this is a critical need, there are gaps in access/availability of other financial services including insurance (life and non-life), investment, remittance and derivatives.

11. There are certain key field examples that need to be examined by Bihar and these are as follows:-

(a) **Individual Loans*:*** The ICICI experience is that small amounts of credit available through group-based lending could be insufficient for those who have passed through several loan cycles and require large amounts of credit. Data on borrower behavior through three or more loan cycles with an MFI could serve as the deciding factor to graduate members to an individual lending design. One format to experiment with for individual loans could be to provide dynamic repayment incentives – say every individual who successful repays becomes automatically eligible for a larger loan. Another format would be to offer individual loans against gold or jewellery, where the value of the collateral takes care of information asymmetry issues. The key challenges in scaling an individual loan programme are: i) absence of fundamental insights in identifying the right borrower, ii) inability to uniquely identify an individual and iii) absence of credit information sharing between various lenders in any systematic manner.

(b) **Health Insurance:** Similarly, ICICI Bank has worked with a set of innovative models to deliver customized health insurance products through multiple channels such as kiosks, MFIs and health provider networks in Orissa, Andhra Pradesh, Konkan coast in Maharashtra and Punjab. The Bank has explored the feasibility of providing insurance through kiosks. Some important models for delivery of health insurance include:

(i) *Benefit payout model for critical illness:* A pre-fixed payout is made to the member on the occurrence of any of the pre-listed diseases on production of a diagnostic report.

(ii) *Reimbursement model:* This model reimburses actual costs incurred on accessing health services from a health provider. It involves an insurer, an aggregator of the insured (or direct individuals), an identified network of health service providers (hospitals, clinics), and a third party administrator (TPA). The insured is covered for a specific pre-defined illness, the TPA identifies hospitals in the catchments regions, standardizes hospitals procedures, and ensures quality of services delivered. The insured incurs the initial cost of hospitalization and later applies to the insurer for settlement of claims.

(iii) *The Cashless model:* This covers health risk most comprehensively and eliminates the need for emergency cash. The insurance company directly reimburses the health provider for the services received to the members. This model is critical for the poor as it protects the household from any financial shock due to the medical emergency.

(c) **Livestock Insurance:** Design of livestock insurance products must tackle critical issues that lead to high moral hazard and reduces the viability of the product. These include:-

(i) **Identification of livestock during claim settlement** – the insurer is unable to ascertain that the livestock insured is one for which the claim is being settled.

(ii) **Basis risk** – designing products which accurately reflect loss of income/investment in case of death of cattle

(iii) **Confirmation of cause of death** – a veterinary doctor can confirm natural cause of death which adds to supervision cost, but does not rule out the possibility of collusion

(iv) **Use of technology** – new designs of livestock insurance are examining use of technology to uniquely identify the animal, use local institutions such as MFIs to reduce supervision costs and develop products that minimize basis risk. To manage risk, the insurer could be exposed to initiatives such as collaboration with health care providers and provision of livestock vaccines are being planned.

(d) **Weather Insurance:** Index based insurance products, where payouts are based on a verifiable index, provide an opportunity to insure farmers and the rural poor without incurring the high overheads of loss adjustment and supervision typical of traditional crop insurance products. Since the index provides a transparent mechanism to compute payouts, claims settlement can be immediate. Moreover, it takes care of the moral hazard challenge as rainfall, unlike yield, is not affected by the actions of the insured. The claim is settled on the basis of a transparent index. The index is created by assigning weightages to critical time periods. The past weather data is mapped on to this index to arrive at a normal threshold index. The actual weather data is then mapped to the index to arrive at the actual index level. In case there is a material deviation between the normal index and actual index, compensation is paid out to the insurer on the basis of a pre-agreed formula.

(e) **Commodity Price Derivatives:** There are several other national level institutions which can plan a variety of farming rules in Bihar to help the farming community. Some of these are National Commodities and Derivatives Exchange (NDEX) - promoted by NABARD, National Stock Exchange, Life Insurance Corporation of India and ICICI Bank. The exchange represents a serious effort at developing an integrated price discovery process in commodity markets and will attempt to offer the farmer instruments to hedge both pre and post-harvest price risks. Establishment of commodity exchange along with efforts on warehouse receipts will considerably improve the collateral value of commodities thus making it easier and cheaper for farmers to seek credit. Attempts should be made to link Bihar with these initiatives.

The Bank is exploring the possibility of collaborating with commodity exchanges, NGOs, MFIs and farmer cooperatives, who could aggregate and facilitate the participation of small farmers in the commodity exchange.

C. Initiatives taken by NABARD

12. Micro-finance has emerged as an effective instrument for poverty alleviation, and Self Help Groups (SHGs) as efficient vehicles for delivery of credit to the rural poor in a transparent and cost-effective manner. [Bihar has a cumulative total of 1.25 lakh SHGs, of which only around 51,921 were credit-linked as on March 31, 2006.] Bihar largely has small MFIs mostly dependent on grants from external agencies or *Rashtriya Mahila Kosh* (RMK) funding. As on March 31,2007, a cumulative number of 72638 SHGs were credit linked to banks and the total credit flow to these SHGs worked out to Rs. 202.98 crore.

The SHG-Bank Linkage Model of NABARD

13. With a view to evolving supplementary credit strategy for financial inclusion in rural areas in a transparent and cost effective manner, during 1992-93 NABARD had introduced a pilot project for linking Self Help Groups. The SHG - Bank linkage programme has significantly contributed to strengthening a sustainable financial infrastructure for the informal sector and for the people who did not have access to formal financial services before. The experience in India has shown that Banks, including Commercial Banks, can serve the poor on a commercially viable basis through savings and credit services. Government should advertise the importance of savings through radio and hoardings. This helps people reduce conspicuous consumption.

14 Bihar being a developing state with 46% poor people (as against 26% all India level), there had been a need to multiply the efforts to reach out the huge unreached population. The SHG - Bank linkage programme has recently gained a momentum and during 2005 - 06, 18206 SHGs have been credit linked by different agencies in the state of Bihar as against target of 17000 SHGs. This number has risen to 26417 in 2006-07. The total no. of SHGs credit linked in the state as on 31 March 2006 was 46221 and the year-wise position thereof vis - a - vis the position of the country is indicated below:

	All India Position		Position in Bihar		% share of Bihar in All India
Year	During the year	Cumulative	During the year	Cumulative	
2001 - 02	197653	461478	1046	3957	0.86
2002 - 03	255882	717360	4204	8161	1.14
2003 - 04	361731	1079091	8085	16246	1.51
2004 - 05	539000	1618091	11769	28015	1.73
2005 - 06	539365	2238200	18206	46221	2.06

Within a six years period, the percentage share of credit linked SHGs in Bihar vis- a vis All India has grown by less than one per cent to about two per cent. This shows the favourable response credit linked SHGs get in rural Bihar and the immense potential of using micro finance as a means for alleviating poverty and promoting livelihoods standards. In the field of micro-credit innovations in general and credit linking with banks of Self Help Groups in particular, the progress made in Bihar state, at the best, can be termed as modest. With second largest concentration of poor and landless in the State comprising 85 percent of the rural population, the only known and tested instrument for supporting such marginalized groups is the promotion through Self-Help Groups. This is thus a major challenge before us. A case in point is Bangladesh experience of microfinance through its Grameen Bank , which would be replicated in Bihar.

15. However, the experience with SHG - Bank linkage programme has brought certain areas, which require more attention to improve the performances of the Self Help Groups in the State in tune with the requirements of the changing economic scenario. Some of these are:

- Although, substantial numbers of SHGs have been promoted by various agencies, all the eligible SHGs have not been credit linked.
- There was a need for large scale sensitization of villagers particularly rural female, NGOs and Bankers on SHG - BPL.
- Banks need to compile information on SHGs promoted, saving linked and credit linked from branches in order to prepare a systematic plan for their credit linkage and subsequent monitoring.
- Need for simplifying and compiling of instructions, guidelines, application forms, appraisal format and documentation procedure for SHGs is also felt.
- More efforts need be geared towards Institution building including the strengthening of groups functioning in existing setup as well as the promotion of federal structures of the SHGs.
- Need to develop more effective Management Information Systems (MIS) to promote further consolidation of sustainable financial service delivery through the SHG mode. Biometric card under experiment can be very useful in this regard.
- Focus more on training and capacity building of SHG members to improve productivity of financial service delivery.

- SHGs to be used as a platform for all development programs especially in the rural areas.

16. In order to achieve the target for more SHG-linkage with the help of NGOs/MFIs, collaborative synergy among the NGOs, Civil society organizations and Banks needs to be reinforced. The strategy could comprise one, more, or all of the following:

(i) Designing, funding and participating in training and exposure programmes for all stakeholders at all levels;

(ii) Providing promotional assistance;

(iii) Encouraging stakeholders to devise ways and means of rating of SHGs before financing;

(iv) Widening the range of SHG promoting agencies by dovetailing SHG approach in social sector programmes of the Panchayati Raj Institutions (PRIs); and

(**v)** Large-scale dissemination of the concept of SHG among the rural people.

D. Banks and Other Agencies as Self Help Promoting Institution (SHPI)

17**.** The promotion of SHGs is primarily undertaken by NGOs / VAs operating in the districts of which more than 130 NGOs have so far been supported by NABARD. After merger, three RRBs are also acting as Self Help Promoting Institutions (SHPIs). In order to accelerate the SHG formation in the State, Individual Rural Volunteer (IRV) scheme of NABARD has been sanctioned to Samastipur RRB , State Bank of India (11 Districts) and Uttar Bihar Kshetriya Grameen Bank (Gopalganj District). SBI is the first commercial bank to be assigned the status of Self Help Promoting Institutions (SHPIs) by NABARD. SBI marked the year 2005 as the “International Year of Micro Finance”.

E. Government's Role in Micro-finance in Bihar (SJSY Schemes)

18. The Swarn Jayanti Swarozgar Yojana (SJSY), a scheme financed on a 75:25 cost sharing basis between the centre and the state government, focussed towards self-employment of rural poor. The Government agency, DRDA (District Rural Development Authority), present in each district, also partners with local NGOs for the formation of SHGs (below poverty line). After the formation of SHGs with BPL members, these SHGs are rated by the Block Development Office (BDO) and the loan proposal is forwarded to commercial banks and RRBs. The BDO office and SHG follow-up with the bank for getting the loan sanctioned. Of the total loan disbursed, a sizeable amount of subsidy is provided to SHG members, which is passed by the bank. Total disbursement under SGSY schemes in Bihar in the financial year 2006-07 was Rs.248 crore.

F. Scope for Possible Improvements in State Government's Efforts

i. To further enlarge the scope of micro finance to more sustainable levels in Bihar, the Government could gradually shift from the subsidy micro-finance model to a commercial micro-finance model.

ii. Government should focus on developing stronger institutions at the village/panchayat level like PACS, which can act as an intermediary in the commercial micro-financial model. Their role must be enhanced for improving financial services to people with the help of MFIs.

iii. Government should make necessary amendments, whereby, the village/panchayat level institutions become legal entities providing financial services to people in their region. The system of accounting can be standardised and made more transparent.

iv. Government should provide MFI status to society/Trust/Co-operatives for financial intermediation.

G. Micro-finance – What Banks Can Do Further?

19. Over the last decade, MFIs/NGOs have proven their strength in mobilisation and management of poor clients in the field. They have created innovative group based methods to reach out to the hitherto unserved poor with credit and other services. Recognising this, private sector bank like ICICI Bank has in the past provided term loans to well-performing MFIs. However, it was realised that one of the key hindrances to scaling up for these MFIs has been lack of access to mainstream capital and high cost loans from banks, because of perceived credit risk, both of the ultimate client, and the balance sheet of the MFI.

20. In order to tap the unexplored potential for lending in the area of micro-finance, different banks have evolve several innovative models for lending through MFIs/NGOs interested in working in this area with their communities. The rationale/intent of these structures is to:

I. Provide assured source of funding to MFI/NGO so that scaling-up is not restrained for lack of resources

II. Separate the credit risk of the portfolio of loans from the credit risk of the MFI/NGO as an entity, thereby making available funding at lower costs and of the quantum that is required

III. Leverage the inherent strength of the operations of the NGO/MFI such as social intermediation, origination and collection capabilities

IV. Ensure built in collection incentives and review triggers related to portfolio performance

V. Build safety nets through non-financial products like insurance (life, health, weather etc.).

The models introduced by different Banks[2] have been highly successful in enabling them to reach out to a large number of poor people in the State. These models have been widely accepted by the MFIs, which have been able to achieve scale and sustainability due to the inherent robustness of the models.

H. Developing Partnership with Leading NBFCs in the State

21. An MFI-NBFC combined along with Banking Correspondent capability could create a structure that could be explored to operate on corporate principles and provide stability and longevity. These institutions could form groups or interact directly with SHGs for funding.

(a) *Through Co-operative Societies*

22. There are a number of registered societies in Bihar like PACS (Primary Agriculture Credit Society), milk co-operative societies, honey co-operatives, vegetable and fruit producer's co-operative societies, fisheries societies. Some of these societies like milk co-operatives have very deep-rooted networks in the villages, which could be easily tapped for providing micro-loans to their members.

At present, these societies are focussed towards collective marketing of their products and are dependent on external sources for the financing of their members. A Partnership model can be instrumental in developing a business model for these co-operatives. However, training to their representatives for undertaking such operations will be necessary prior to starting the micro-loan portfolio with them.

(b) *Through Farmers' Clubs*

23. Farmers' Clubs have also been playing an important role in promoting SHGs under different programmes of the Government. These Farmers' Club could be tapped for undertaking micro-loans operations in their region. A major challenge to undertake micro-loan activities through Farmers' Club would be capacity-building of the members, which will have to be addressed before planning micro-loans through this route.

24. During 2005-06, 90 clubs had been launched resulting cumulative number of Farmers' Clubs in Bihar at 748 as on 31 March 2006. Of these, RRBs account for 551 FCs (74%) and CBs account for 172 Clubs (23%), DCCBs and others account for 25 Clubs (3%). In the year 2006-07, the banks have been allocated targets for launching of 800 Farmers Clubs against which approval for opening of 120 clubs has been given to different banks and 90 clubs have been launched there against as at the end of November 2006.

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[2] For instance the MFI intermediation and Bank-MFI linkage models developed by ICICI Bank

CHAPTER -3

PROPOSED FINANCIAL DESIGN

25. The banking system in Bihar at a minimum must provide every individual access to basic financial services which includes savings, loans and insurance in a manner that is reasonably convenient and flexible in terms of access and design and reliable in the sense that the savings are safe and that insurance claims will be paid with certainty. The provision of these services would require innovative design principles irrespective of whether the provider is a cooperative bank, regional rural bank, scheduled commercial bank, non-bank finance company, or non-profit civil society organization.

26. Some of the major elements of these new design principles are outlined as below:

i) There would be a thrust on separate customer handling, risk origination, risk measurement, risk transfer and risk aggregation using technology for existing networks, and various financial instruments including securitization and credit derivatives. This is principally because entities differ markedly in their ability to manage each of these risks and processes. The current bank-branch led model requires each entity to be entirely self-contained in terms of deposit taking, lending and risk management. This requirement is one of the principal reasons why institutions such as cooperative banks have failed to deliver on their promises despite having a very strong reach in rural India for example.

ii) The focus would be on using institution agonistic approaches, starting from first principles, identify entities (who may, to begin with, be non-financial entities) who are best suited to perform these functions. It is possible, for example, that the best organization to handle the customer and to perform functions such as risk origination (not underwriting) of a loan, offer a transaction platform to handle cash and sell an insurance policy or a mutual fund, may be a local pharmacist or a grocer who already has all the requisite infrastructure on the ground and knows the customer well.

iii) Attempts would be to ensure that for each function, there is a complete clarity on the manner in which risks are being transferred and warehoused. For example, in a loan since the customer is receiving money and not giving it, it may be acceptable to have very limited regulation (other than registration and adherence to some broadly defined transparency guidelines) and allow the provider to use their best judgement on how they wish to manage their risks. In savings, investment or insurance product, on the other hand, since the customer is assuming the risk of failure of the provider, it will be imperative to ensure that there are very strongly defined "fitness" and "capital adequacy" criteria and "regulatory capacity" before such an entity is allowed to operate and accept deposits (or offer thrift services).

iv) Attempts would be to allow all local credit institutions, such as the Primary Agricultural Credit Societies, Cooperative Banks and Regional Rural Banks, to freely partner with all types of local and national partners so that the existing infrastructure that has already been built can be fully utilized.

v) Operational mechanism will be developed with a back-end partner such as FINO[3], which offers an end-to-end solution to a local financial services partner and acts as a bridge between a mainstream bank and the local entity.

27. The Microfinance Partnership model[4] pioneered by ICICI Bank on the lending side, the Direct Business Catalyst (DBC) model[5] on the investment side, the Corporate Agent model[6] on the insurance front, and the Business Correspondent Model on the Savings front are already well established models. This hybrid model has the potential to both expand rapidly to cover the entire state and offer a full range of financial products.

28. In order to operationalize the financial model, it is proposed to have a spread of Local Financial Institutions (LFIs) serving as the client interface **(Exhibit 2 in Annexure-1)**. These LFIs would be allowed to interact with entities forming a part of the payment system, which includes cheque clearing, currency handling and technologically sound support systems for their front end and back end

[3] For details refer Annexure-1.

[4] In the partnership model the bank lends directly to clients, bears the credit risk and only uses the distribution and credit information assets of the MFIs. This is a relatively high-yield rural lending model.

[5] The DBC model allows the retail investor in remote areas to experience the same level of access to remote multiple investment opportunities across two large exchanges, NSE and BSE, and Mutual Funds and IPOs through a local partner called Direct Business Catalyst. The DBC will have the flexibility to view, monitor, analyze, and act on real-time market related information. This will help customers and DBCs react quickly to changing business conditions and make informed decisions.

[6] The Corporate Agent model is based on the idea that microfinance institutions can serve as agents of pooling and exporting risks of underserved sections located in difficult geographies. The underlying idea being that Micro-entities such as microfinance institutions and non governmental institutions usually have appreciable level of risk hedging and mitigation wherewithal for non-systemic risks, which are less damaging financially and scale wise. However, such entities are not equipped to deal with larger risks such as systemic risks, in which the financial loss is huge. In such a scenario, these entities act as corporate agent for insurance company. This is a symbiotic relationship in which the insurer brings along with it financial expertise and capabilities (in terms of large cash reserve) to deal with both systemic and non-systemic risk. On the other hand, the MFIs and NGOs bring the knowledge of context and local reality which is useful in overcoming implementation challenge.

solution requirements and would be capable of effectively performing financial functions of a rural branch. The LFI may also tie up with partner financial institutions such as a nationalized or a private bank by forming mutually beneficial linkages to insure themselves against idiosyncratic risks relating to the specific geographical area in which they happen to be operating. Such a model based on the mutually beneficial relationship between the LFI and a national financial entity is expected to address many complexities of providing universal access to financial services.

29. On the one hand, the LFI ties up with a national financial entity, strengthens its own financial health. On the other hand, the national financial entity also overcomes the problem of proximity and accessibility faced by the rural population by operating through its partner LFI. This model ensures that the national financial entity is able to lower its cost of provision of financial services by allowing it to operate without having to invest in opening new rural branches. Even the issue of security may be addressed to some extent by arrangements that minimize movement of cash, circulate the same cash in a well defined geographical area or bypass the payment system completely. Such new models can be tweaked to suit the local conditions of Bihar, which would be unique to Bihar even at this stage of low development.

30. A key and immediate challenge, however, would be to facilitate the development of high quality LFIs by taking a number of steps. These steps would be as follows:

i) Review the guidelines for investment and licensing for non-deposit taking Non-Bank Finance Companies (NBFCs), which are engaged in the business of microfinance. There is a need to provide explicit institution neutrality and focus only on desired outcomes. This is clearly not the case now.

   a) While an RRB is able to operate as a full-service bank with only Rs.1 crore of capital, a Non-Deposit taking NBFC licence is not automatically given even if NBFC starts with even Rs.2 crore of capital.

   b) A co-operative bank can be set up with almost no capital. Short-term refinance support from NABARD is provided only to co-operative institutions and not to any other rural financial institution or LFI, no matter how much more effective and better performing, they are in terms of indicators.

ii) Modify minimum capitalization and SEBI guidelines to allow investment by venture capital funds and FDI into Non-Deposit taking NBFCs, particularly for those that need to be created in underserved geographical areas such as Bihar or for serving a particularly disadvantaged group such as low-income households (via MFI-NBFCs)[7].

iii) Modify RBI guidelines for investment by Banks into these NBFCs[8].

iv) Waiver of stamp duties[9]. There are two important reasons why this should be done. Firstly, poor availability of stamped papers due to the absence of adequate availability of stamping and franking locations has led to a situation where a person may have to pay Rs.100 to get a Rs.20 stamp paper. Secondly, there are substantial opportunity costs especially for stamp duty payment on micro loans (of say Rs.10,000 to Rs.50,000), which may require the single earning member family to travel long distances in order to ensure stamp duty is duly paid.

v) Improving Internet connectivity in rural areas – particularly at the Gram Panchayat Level so that these LFIs may be able to access national back-end infrastructure with ease. This could be done through the use of USO funds. The State of Bihar has more than 9000 Panchayats whose offices can act as nodal points for connectivity which then the LFI located anywhere in the village can access by drawing a wire to the nodal point.

vi) Working with the Army (the Bihar regiments, for example) to see if the Officers that take early retirement from the Army would be prepared to create these LFIs[10]. An example of

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[7] Current SEBI guidelines do not allow venture capital funds to invest in NBFCs. NBFCs are also subject to minimum capital requirements for raising capital from foreign investors. According to SEBI guidelines (a)For FDI up to 51% - US$0.5 million to be brought upfront (b) For FDI above 51% and up to 75% - US$5 million to be brought upfront (c) For FDI above 75% and up to 100% - US$50 million out of which US$7.5 million to be brought upfront and the balance in 24 months. For details refer Government of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion's Press note no.4 (2006 Series).

[8] According to the current RBI guidelines, Investment by a bank in a financial services company should not exceed 10 per cent of the bank's paid-up share capital and reserves and the investments in all such companies, financial institutions, stock and other exchanges put together should not exceed 20 per cent of the bank's paid-up share capital and reserves. Banks in India are required to obtain the prior approval of the concerned regulatory department of the Reserve Bank before being granted Certificate of Registration for establishing an NBFC and for making a strategic investment in an NBFC in India. However, foreign entities, including the head offices of foreign banks having branches in India may, under the automatic route for FDI, commence the business of NBFI after obtaining a Certificate of Registration from the Reserve Bank.

[9] This recommendation of exemption of stamp duties has also been made by the RBI to encourage farmers avail higher loan limits under KCC in Bihar.

[10] Management Development Institute (MDI), Gurgaon offers an "Armed Forces Program" to army personnel. ICICI Bank is in talks with MDI to formulate strategies to attract ex-army men especially from the Electrical and Mechanical Engineering (EME) Wing to help not only in creating LFIs but also in suggesting creative solutions to constraints such as lack of power, water and skills Retired personnel from the EME Wing are believed to bring both technical capabilities and discipline.

such a network of army personnel is the Rakshak Rural Services that links all retired personnel starting from the village to Taluka to District level.

vii) Providing incentives for local co-operative bank to go for complete automation of their operations using either in-house IT systems or back-end Banking ASPs such as FINO (Financial Information Network & Operations Pvt. Ltd). FINO seeks to provide front-end (smart card, point-of-sale terminals), back-end (banking software, performance management and reporting, MIS) and information services (credit bureau) to these institutions.

viii) Revisiting the Local Area Bank (LAB)[11] regulation, with perhaps a higher level of capitalization (say Rs.25 crore) and allow more LABs to be created which have the capacity to offer full-service banking. Potentially the Non-Deposit taking NBFCs that prove themselves could be permitted to seek these licenses.

31. There is an opportunity for opening of Cooperative Sector for partnership with other Rural Financial Institutions including Scheduled Commercial Banks. The mutually beneficial tie up with Scheduled Commercial Banks and other facility providers with Cooperatives can directly benefit the members of the cooperatives by way of increased lending, receipt of non-financial services like insurance, remittances, access to commodity exchanges and higher dividends. These provisions would include:

a) According to the Bihar State Cooperative Act, 2003, there are no restrictions on borrowing per se. The byelaws or rules of Section 15 of the Act permits borrowing from any member or non-member. Since byelaws of the Cooperative Society (including banks) are approved by Registrar, it makes borrowing dependant on approval from the Registrar of Cooperatives in the State. Hence, to expedite the process and avoid approvals, the State Cooperative regulation must clearly state that cooperative societies are allowed to borrow with or without security (movable or immovable) from any commercial bank.

b) The Cooperative Societies (including banks) should be permitted to assign or sell their portfolio to commercial banks on commercial terms. This can help these societies to increase lending by churning the funds received for further onward lending and to diversify out of local area idiosyncratic risk.

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[11] There are geographical limitations on Local Area Banks (LABs) now. They can operate in only 3 districts and have a required captalization of 5 crores. Since LABS are local entities that are allowed to collect savings – the current required capitalization is low and needs revisiting. For more details refer Mor and Ananth (2006).

c) The Section 19 of the Act permits investments in any bank as approved by Registrar. The permission need to be built in the Act and made automatic and not left to the discretion of the Registrar.

32. To strengthen the institutional base, there would be a need to amend the Business Correspondent (BC) guidelines **(Annexure-3).** These would include:

a) i) Sole proprietorships (like grocery stores); ii) NBFCs; and iii) Internet Kiosks.

b) Allow full recovery of all costs incurred from the customer in the BC model. Under present interest rate guidelines, Banks are in any case not allowed to charge above the benchmark lending rates for loans below Rs.2 lakhs. Further, the Business Correspondent (BC) is also not allowed to charge additional service fee from the clients. As a result, banks can cover only the cost of funds and loan loss by lending within the benchmark lending rates. They are unable to cover the marginal cost of lending to un-reached segments due to high transaction costs. To promote lending to low-income clients in rural areas of Bihar, it is suggested that the BCs may be allowed to charge a service fee separately from clients to ensure sustainable service delivery. This will enable some of the mature MFIs, which have been working with low-income clients with substantial scale and outreach, to act as BCs. These MFIs have built supportive infrastructure to service the low-income rural client base. The same customers are desirous of additional financial services besides credit linked savings and insurance, which cannot be offered under present MFI operations. If the MFIs are able to charge fees, a large part of their client base may be brought within the ambit of financial inclusion.

c) Relaxation of the requirement of the latest next day deposit of cash may also be considered by the regulator in case of BCs.

33. In addition, if automatic approval for all bank branches in the State of Bihar is made possible, it will allow Banks to put in place suitable hubs for managing the partnerships. A parallel may be drawn for Bihar from similar recommendation for the North East by RBI's Committee on Financial Sector Plan for the North East. The report identifies un-banked or under banked areas in the North East, for which it recommends automatic approval scheme for any bank desirous of opening branches in such areas. It also recommends a favourable review of applications for any other unidentified areas in the North East[12].

[12] RBISs Committee on Financial Sector Plan for North East Region. Refer Annexure 5 for summary.

CHAPTER- 4

FEATURES OF IMPROVED BACKEND BANKING INFRASTRUCTURE

34. Often in debates about the issue of access to finance, the discussion tends to focus exclusively on the need for more bank branches but the importance of a high quality back-end infrastructure which supports the key functions of banking is not seen. In the words of S.C. Jha (2002)[13].

"….It is noteworthy that all banks are operating at financial losses and yet they keep on opening new branches. Their operational expenses are met by Corporate Fund from savings generated in other States from investments in corporate sector. This practice needs re-examination for injecting financial prudence for each bank."

35. There are several improvements that are needed in Bihar on this issue which specifically deal with issues relating to Cheque clearing, cash handling and electronic clearing capabilities within the State. This would help improve the access to better financial services. The focus, thus, needs to be placed on better use of existing infrastructure **(Exhibit 3 in Annexure-1)** of currency chests and also increase in the number of currency chests. This would be to improve currency chest branch and linked-up branches linkage to facilitate use of existing infrastructure. The RBI has the Linkage Scheme, under which bank branches not having a currency chest can be linked up with the currency chest belonging to a branch of another bank. However, due to lack of adequate guidelines for such linkages, the linked up branch gets a non preferential treatment. The following suggestions are made to improve the linkage relationship:

(i) Allow banks to provide a list of its bank branches and currency chest branches, with which it has worked or would like to work out linkage agreements.

(ii) Allow banks to specify proposed average cash inflow or outflow to be transacted with each currency chest along with its indent for fresh currency in the year. This will also help RBI in gauging and extending corresponding additional support to those currency chests during any given year.

(iii) Increase the number of dates of currency movement of soiled notes from the currency chest to RBI offices. Currency movement should be at least twice a month to completely offload soiled cash to help the chest avoid exceeding its currency monetary limits.

[13] S.C. Jha, Bihar State Finance: Issues and Perspective, Final Report of the Bihar State Finance Commission, February, 2002.

(iv) Allow road travel for movement of cash not on a case by case basis but on a regular basis in Bihar to avoid the difficulty of arranging railway space and police security on the same day[14].

(v) Treat private banks at par with the nationalized banks in terms of permissible monetary limits for currency chests or increase the monetary limit of private banks to meet region specific requirements. In such cases linked currency chests of private banks should be given additional limit.

(vi) Request RBI to process the linked up branch and currency chests branches cash separately to address the likelihood of risk arising from mixing up of cash discrepancies detected when cash from both entities is submitted to RBI.

(vii) Mandate processing of cash at a currency chest as per the clean note policy and mandate an incentive charge of Rs.1 per packet to be paid by linked up branch to the currency chest branch.

(viii) Mandate cash processing fee within a predetermined range-depending on the denomination of the cash. In the event of discrepancies arising upon submission of cash to RBI, even when the incentive charge and cash processing fee has already been paid by the linked up branch to the currency chest branch, the penalty levied by the RBI should be borne by the currency chest branch.

(ix) Promote negotiation of Cash-In-Transit charges between linked up branch and currency chest branch to promote joint responsibility.

(x) Mandate no restriction clause to ensure that a currency chest branch accepts linked up branch's cash of any denominations on any given day.

(xi) Allow LFIs to link with the currency chest branches through their partner banks that are linked to such currency chest branches. Following provisions are proposed:

(xii) Allow LFIs to link with their partner bank's existing currency chest branch.

(xiii) Allow private banks not having their own currency chests to link with existing currency chests branches of others bank on behalf of their partner LFIs.

[14] Even though train transportation is cheaper, coordinating availability of railway bogey space and police security is difficult. The RBI in principle allows road transportation only on a case by case basis and reimburses the cost of road transportation only post facto. As for external cash movement to and from RBI if the mandatory police escort and insurance cover is insufficient, the State government may provide the police escort for road movement on demand and the RBI may accord approval prior to the movement and reimburse the expenses accordingly, especially in Bihar.

(xiv) Allow LFIs to have cash processing infrastructure, which may be transferable to their partner banks in case they decide to open a branch and a corresponding currency chest in the same area. This would also support the Clean Note policy in a big way.

(xv) Promote CIT (cash in transit) agencies to utilize infrastructure of LFI and convert it into the agency's hub. In this case, the agency would save capital costs and LFI would get the required expertise in currency handling.

36. There is a need to increase the number of currency chests by the following steps:

i) Allow opening of C-class currency chests, which by design are cost efficient, portable, and ideal for small and remote towns of Bihar – with the security beefed up by electronic surveillance and alarm systems appropriately.

ii) The government may also meet some part of security costs, especially in cases where currency chests are used predominantly for government transactions.

37. It is proposed to have better use of existing infrastructure of clearing houses **(Exhibit 4 in Annexure- 1)** and also increase in the number of clearing houses:

i) Improve the number of clearing houses, especially automated ones at places such as Siwan, Chapra and Bettiah having heavy transaction volumes[15].

ii) Allow private banks to own or manage clearing houses[16] in Bihar.

iii) Improve accountability of staff in clearing houses by requiring them to frame, publish and circulate conduct guidelines. ISO Certification may also be obtained as a next step to improve accountability.

38. It is proposed to allow LFIs to link with the clearing house through their partner banks:

i) Allow private banks to participate in clearing house activities on behalf their partner LFIs.

ii) Allow LFIs to participate in clearing house activities through the correspondent bank network of their partner private banks that do not have a branch in a particular area served by the LFI.

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[15] Exhibit 5 identifies some possible clearing house locations based on current and projected volumes.

[16] Currently only Patna participates in ECS clearing. The current coverage of Real Time Gross Settlement System (RTGS) integrated bank branches is also less than 10% of the total number of Bank branches existing in the state of Bihar. RTGS is a payment system, in which both processing and final settlement of funds transfer instructions take place continuously in real time. It is a gross settlement system where transfers are settled individually, that is, without netting debits against

39. Another focused area proposed is to increase the scope and coverage of Electronic Clearing Service (ECS)[17] - both Credit Clearing and Debit Clearing in Bihar. Out of the 60 centres that provide ECS services across the country, only one is located in Bihar in Patna. ECS benefits all the parties involved in the transaction, be it the ultimate beneficiary, corporate bodies or the banks because it reduces the costs associated with handling physical documents, fraudulent and erroneous transactions. Increase in the number of centers participating in ECS clearing will improve the efficiency of the payment system in Bihar tremendously.

40. Investing in the Cheque Truncation System (CTS)[18], which allows image based cheque clearing, is also likely to speed up clearing operations in Bihar and would be particularly helpful in remote areas. RBI may implement CTS on a nationwide basis and Bihar should take advantage of it.

41. Some of the current financial entities present in Bihar lack the requisite technological capability to serve as correspondent banks for an efficient cash management network. Very few locations such as Siwan & Sitamarhi have presence of local courier services. Even in these locations the couriers do not observe any standard Turn Around Time (TAT). Thus, the time taken to physically transfer documents to and from remote locations is very high. This directly affects the realization pattern of financial instruments. Delayed realization also hampers the working capital cycle of the corporates and ultimately affects their growth prospects in Bihar.

42. Thus, implementation of Real Time Gross Settlement System (RTGS) is imperative. RTGS is a payment system, in which both processing and final settlement of funds transfer instructions take place continuously in real time. It is a gross settlement system where transfers are settled individually, that is, without netting debits against credits **(Table 7 in Annexure- 1)**. The current coverage of RTGs integrated bank branches is also less than 10% of the total number of Bank branches existing in the state of Bihar. RTGS for branches having commercial transactions in phased manner will eliminate even the requirement of having a large network of clearing houses.

43. There is a great scope for improving the efficiency of payment systems within the region by increased computer and telephone connectivity. Bihar's banking system has to usher other technological path, both from efficiency and cost effectiveness point of view, particularly considering the size of the State.

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[17] As per RBI guidelines, ECS is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This is normally for bulk transfers from one account to many accounts or vice-versa. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax, etc. or for loan instalments of financial institutions/banks or regular investments of persons.

[18] It is believed that CTS can reduce the clearing time of outstation cheques from 15-20 days normally to merely 48 hours.

CHAPTER -5

TECHNOLOGY BASED FINANCIAL SERVICES

44. Bihar needs a variety of technology based services to make the banking sector dynamic and within the affordable reach of the common people in remote parts of the State. One such proposed technological innovation relates to the promotion of use of smart cards[19] that work on mobile devices such as Personal Digital Assistants (PDAs), handled simputers and cell phones. Smart cards have a microprocessor-based chip with memory that holds unique customer identity in the form of a biometric thumbprint image[20]. This obviates the need for online verification through a huge database and also does not require any PINs / passwords to be issued. The smart card also serves as an e-passbook that can hold information about balances and transactions done in any particular account. The availability of such a card on a state-wide basis in Bihar could enormously facilitate access to financial services for all segments of society in Bihar. The following steps need to be taken to make this operational:-

i) Developing a State wide bio-metric identity system and working with NABARD, RBI, IRDA and SEBI to make it mandatory for all banks, insurance companies and mutual funds to work with this common identity.

ii) Installation of an EFTPOS [21] terminal at least at every post-office in the State for "dematerializing" cash locally and

iii) This identity system also facilitates the creation of a credit bureau [22]. A credit bureau can then help convert repayment history to "virtual collateral" which in the absence of any physical collateral is an enabler to access finance. Existence of credit bureaus can result in a significant decline in arrears of Financial Institutions[23]. Financial history of client allows more efficient and cost efficient client screening processes. A credit bureau will also help in developing individual lending model.

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[19] Though several card technologies are available, smart cards allow offline usage that enables them to work in locations that do not have connectivity, it also helps reducing connectivity costs as one does not need to be connected to the central server at all points of time.

[20] In other card technologies, this is managed by connecting to a central server to gather this information, instead of using the data store on the card itself.

[21] Electronic Funds Transfer at Point of Sale. Usually, payment by debit card results in Electronic Funds Transfer at Point of Sale. EFTPOS provides the means for retailers to process sales and payments automatically.

[22] Jha (2002) points out that there exists a dearth of studies that systematically examine people's credit behaviour, their absorptive capacity, their need for credit, their repayment capacity factor etc., in Bihar.

[23] In the context of microfinance clients accessing multiple sources of credit and in the absence of information sharing among MFIs, credit bureau can also play a significant role in improving repayment rates and avoiding extreme indebtedness while improving access to finance and reducing pricing through high levels of competition between MFIs. See Banerjee (2001). Similarly, Rajan and Zingales (2003) also emphasize the role of initiatives like credit bureaus expanding access to finance, especially for those who cannot afford to provide collateral.

CHAPTER-6

CONCLUSIONS

45. Bihar's financial services (including all banks) base is very thin, service delivery is poor, operations are limited, and institution's quality is below standard. Hence, a major segment of Bihar's population has been deprived of the development opportunities which emanate from a developed network of banking sector . On a comparative basis, per capita financial availability to people of Bihar is lowest in the country.

46. Hence, expanded and improved quality of financial services can be considered a major pre-requisite for Bihar's sustained socio-economic development. To help and improve access to finances in Bihar, following sets of measures are necessary.

(i) Facilitate the creation of large network of high quality Local Financial Institutions (LFIs) linked to scheduled commercial banks.

(ii) Work closely with the RBI to improve the quality of the back-end infrastructure made available to Banks so that they (along with the LFIs) may offer more efficient and cost-effective financial services.

(iii) Enable the issuance of a biometric identity card to every citizen in Bihar so that the associated number and card may then become the basis of every financial transaction within the State.

47. It is believed that if these three steps are taken, the state of access to finances may be rapidly improved in the State of Bihar. Access to financial services for the poor is a critical part of the growth and development process of any country. In order to achieve rapid advances in providing access, efforts of several players are required. Banks in Bihar need to develop several approaches. Some of the key areas of developing ideas and collaboration for expanded financial services in Bihar are: -

(i) Design of new products for micro finance clients
(ii) Design of individual lending methodologies
(iii) Investment in training and technology
(iv) Participation in providing mezzanine finance to MFIs under the partnership structure (v) Advisory support for micro finance entrepreneurs
(vi) Formulation of credit bureau, design and,
(vii) Micro finance programme evaluation.

Tables and Exhibits

Table 1: Branch Network in Bihar as on March 31, 2006

Category of Bank	Category of Branch			Total
	Rural	Semi-urban	Urban	
Public Sector Banks	1,255	441	405	2,101
Private Sector Banks	-	1	11	12
Foreign Banks	-	-	2	2
Regional Rural Banks	1,276	176	34	1,486
Co-operative Banks	53	266	69	388
Total	2,584	884	521	3,989

Source: State Level Bankers Committee, Bihar, RBI

Table 2: Population per Branch, Bihar 2006

Area	Population'000	Branches	Density (Population Per Branch)
Urban	9520	521	18000
Rural	81232	2584	31000
Total	90752	3989	23000

Source: Census of India, 2001 and State Level Bankers Committee, Bihar, RBI
Notes:

- Population projection for year ending 2006
- Number of Branches as on March 31, 2006

Table 3: Trends in Credit and Deposit (INR Crore)

Bank Category	2003-04		2004-05		2005-06	
	Deposit	Advance	Deposit	Advance	Deposit	Advance
Commercial Banks	3,06,405.0	78,296.3	3,40562.0	96,657.7	3,91,770.0	1,19,880.0
Regional Rural Banks	44,215.4	12,533.7	54,751.5	17,959.9	61,820.0	22,250.0
Cooperative Banks	7,620.8	5,208.6	7,635.3	5,694.4	7,750.0	5,950.0
Total	3,58,241.0	96,038.6	4,02,949.0	1,20,312.0	4,61,340.0	148.080.0

Source: State Level Bankers Committee, Bihar

Table 4: Credit-Deposit Ratio as on March 31,2006 (percentage)

Banks	Bihar	National
Commercial Banks	31	70
Regional Rural Banks	36	54
Co-operative Banks	77	100
Total	32	73

Source: State Level bankers Committee, Bihar and Trend and Progress of Banking in India 2005-06, RBI

Table 5: Select Financial Indicators of Some rural Cooperatives, 2005(Percentage)

Parameter	SCB@		DCCB@		SCARDB@	
	Bihar	National	Bihar	National	Bihar	National
NPA as a % of loan outstanding*	29	16	57	20	85	31
Recovery Percentage to demand**	43	84	40	71	25	44

Source: Trend and Progress of Banking in India 2005-06, RBI
Notes:
@ State Cooperative Bank (SCB); District Central Cooperative Bank (DCCB): State Agriculture and Rural Development Bank (SCARDB)

* End March
** End June

Table 6: Select Financial Indicators of PACS, 2005

Region	Number	Average deposit (Rs. Lakh))	Societies in Profit		Societies in Loss	
			Number	Amount (Rs. Lakh)	Number	Amount (Rs. Lakh)
Bihar	5,936	0.8	1,120	5,07	4816	6,416
National	108,779	17.4	47, 015	72,802	61323	198,905

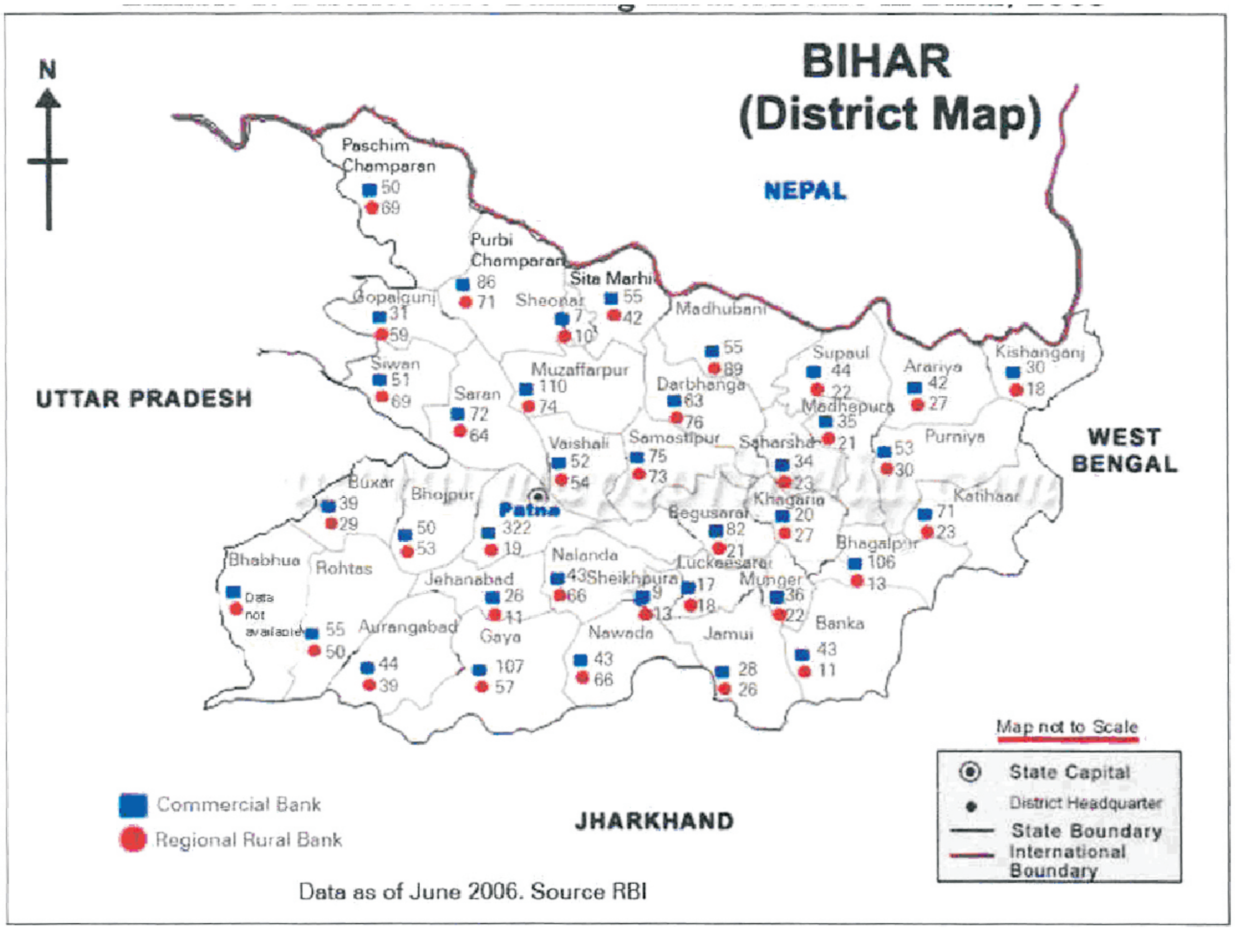
Source: Trend and Progress of Banking in India 2005-06, RBI

Table 7: RTGS System vis-à-vis Present Clearing System

	Present Clearing System	RTGS System
Settlement Basis	Net	Gross
Time of Settlement	At specified times	Transactions are settled on continuous basis
System based on	Physical instruments	Electronic messages
Transaction initiated by	Person receiving payment (payee)	Person making payment (payer)
Receipt of funds	High Value: Day 0 Local Instruments: Day 1 Outstation Instruments: Depends upon the location	Day 0
Finality of Settlement	Only after return clearing	Settlement is immediate, final and irrevocable
Returns	Can result from: Insufficiency of funds Instrument being stale	Can result from: Incorrect account details, etc.

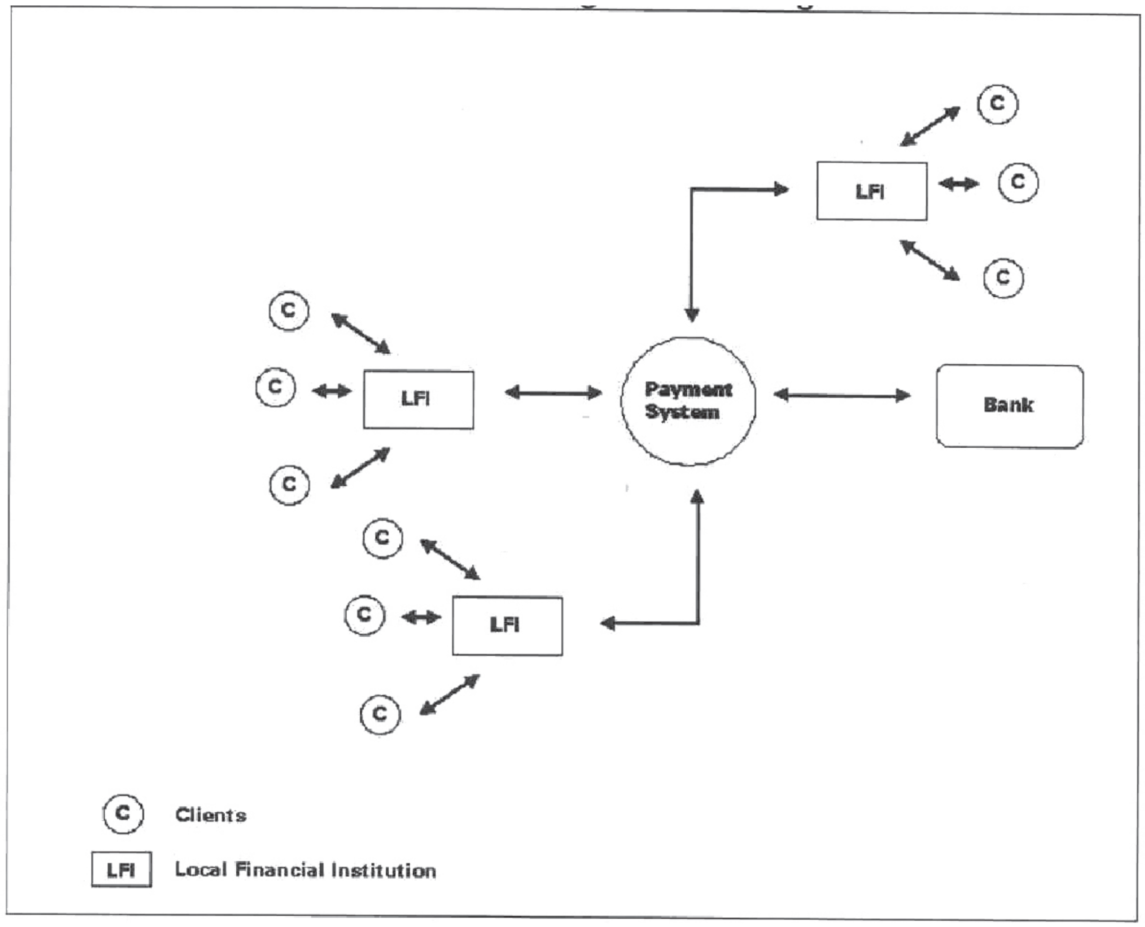
Source: ICICI Bank Research

Exhibit 1:
District-wise Banking Infrastructure in Bihar, 2005



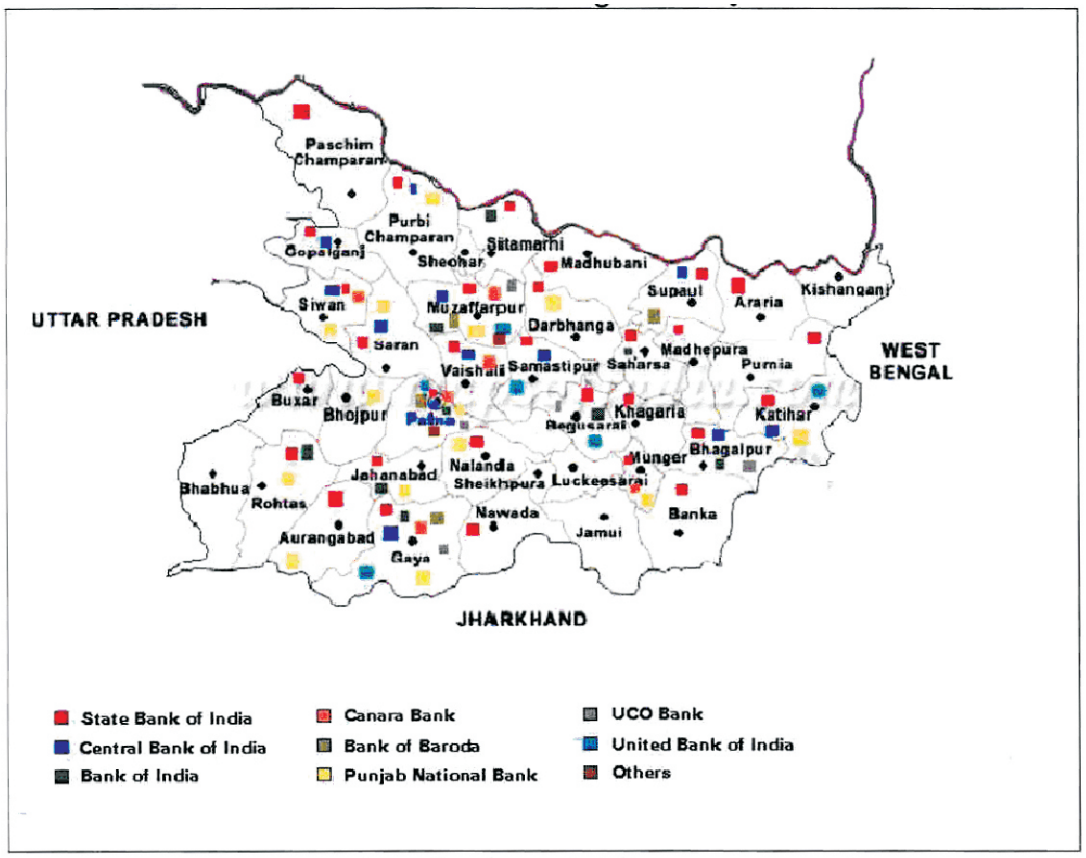
Source : RBI, Maps of India and ICICI Banks Research

Exhibit 2:
Building the New Design



Source : ICICI Banks Research

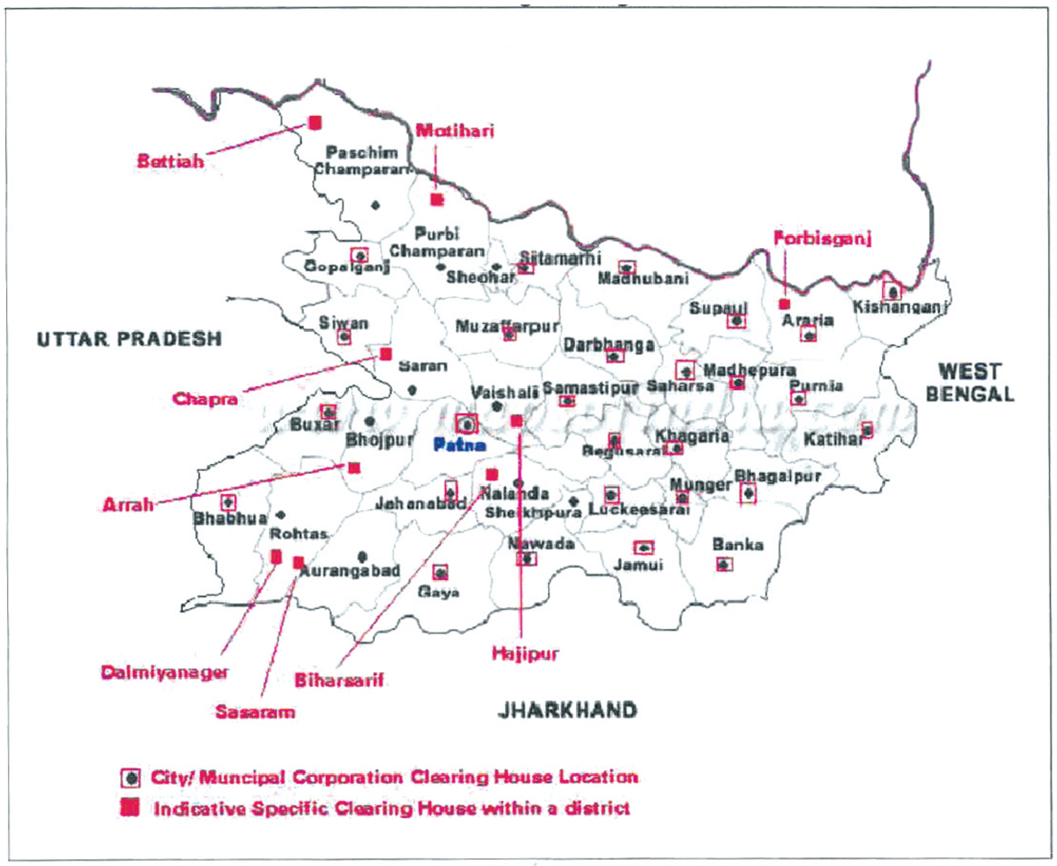
Exhibit 3:
Some Indicative Existing Currency Chests in Bihar



Source : Maps of India and ICICI Bank Research

Notes : The location of a currency chest, depicted by a square box within a district is at best indicative. The graph depicts presence of not more than one currency chest per bank per district to maintain visual clarity. Thus, even if a bank has more than once currency chest in a district, this represented only by one square box.

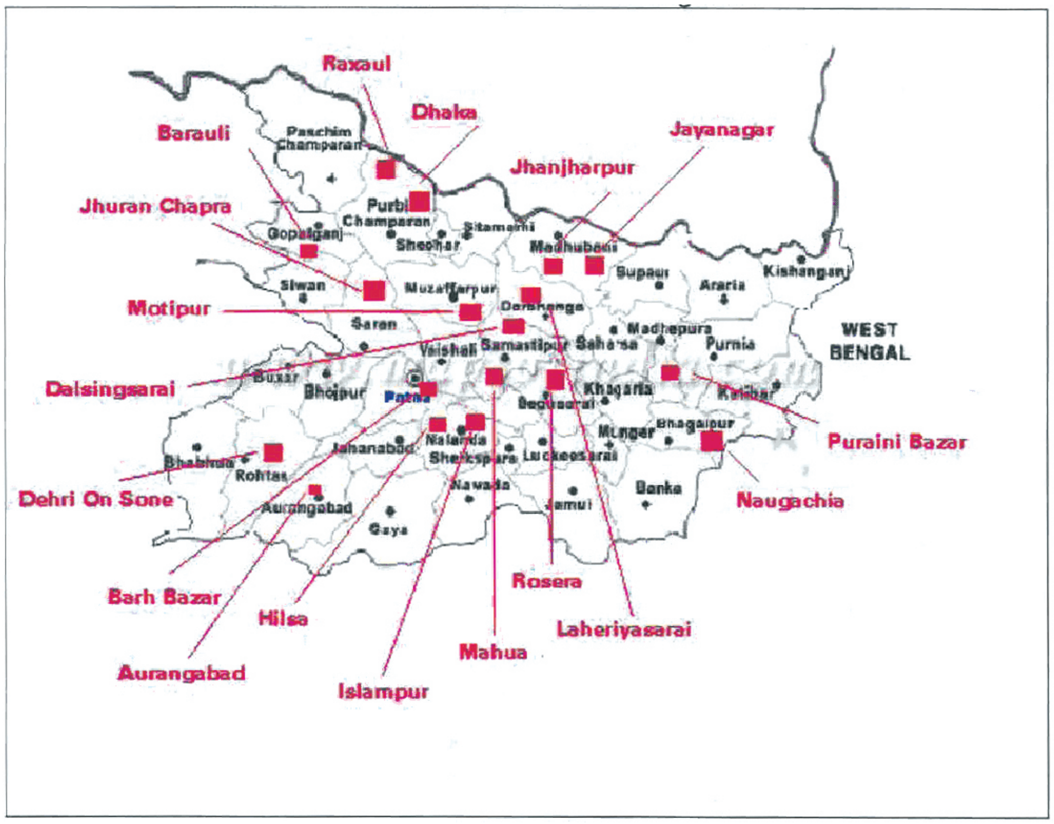
Exhibit 4:
Some Indicative Existing Clearing House Locations in Bihar



Source : Maps of India and ICICI Bank Research

Notes : The location of a clearing house, depicted by a square box within a district is at best indicative.

Exhibit 5:
Some Possible Locations of Clearing House in Bihar



Source : Maps of India and ICICI Bank Research

Notes : The location of a clearing house, depicted by a square box within a district is at best indicative.

Annexure-2

FINO

Financial Information Network & Operations (FINO) aims to build technologies to enable Financial Institutions (FIs) to serve the underserved and the unbanked sector. The company has been developing Financial Services Delivery Systems to enable financial intermediaries to:- Lower transactions costs, increase their outreach and bring more transparency in their business.

FINO is currently working with 20 micro-finance partners of ICICI Bank in India and enabling them to run their businesses smoothly. FINO is also executing pilot projects for various institutions like United Bank of India, Central Bank of India, Union Bank of India and Corporation Bank. Apart from the banking sector, FINO is also working on other verticals like insurance and e-Governance.

FINO works well with the business correspondent model. As mentioned in Annexure-2, NGOs/MFIs set up under the Societies / Trust acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies, registered Non-Banking Financial Corporations (NBFCs) can partner with banks and operate as a business correspondent.

Annexure – 3

Financial Inclusion by Extension of Banking Services – Use of Business Facilitators and Correspondents Models

With the objectives of ensuring greater financial inclusion and increasing the outreach of the banking sector, it has been decided in public interest to enable banks to use the services of Non-Governmental Organizations / Self Help Groups (NGOs/SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services through the use of Business Facilitator and Correspondent models as indicated below.

2. Business Facilitator Model: Eligible Entities and Scope of Activities

a) Under the "Business Facilitator" model, banks may use intermediaries, such as, NGOs/Farmers' Clubs, cooperatives, community based organizations. It enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics / Agri Business Centres Krishi Vigyan Kendras and KVIC/KVIB units, depending on the comfort level of the bank, for providing facilitation services may include (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counseling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/ Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups / Joint Liability Groups/Credit Groups/others; and (viii) follow-up for recovery.

b) As these services are not intended to involve the conduct of banking business by Business Facilitators, no approval is required from RBI for using the above intermediaries for facilitation of the services indicated above.

3. Business Correspondent Model: Eligible Entities and Scope of Activities

a) Under the "Business Correspondent" Model, NGOs/MFIs set up under Societies/Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters given in Annex 3.2 of the Report of the Internal Group appointed by Reserve

Bank of India (available on RBI website:www.rbi.org.in) to examine issues relating to Rural Credit and Micro-Finance (July 2005). In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

b) In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include (i) disbursal of small value credit, (ii) recovery of principal / collection of interest (iii)collection of small value deposits (iv) sale of micro insurance / mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances/ other payment instruments.

c) The activities to be undertaken by the Business Correspondents would be within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. Accordingly, in furtherance of the objective of increasing the outreach of the banks for micro-finance, in public interest, the Reserve Bank hereby permits banks to formulate a scheme for using the entities indicated in paragraph 3.1 above as Business Correspondents. Banks should ensure that the scheme formulated and implemented is in strict compliance with the objectives and parameters laid down in this circular.

4. Payment of commission / fees for engagement of Business Facilitators / Correspondents Banks may pay reasonable commission / fee to the Business Facilitators / Correspondents, the rate and quantum of which may be reviewed periodically. RBI Master Circular DBOD.Dir.5/13.07,00/2005-06 dated July 1, 2005 may be treated as modified to that extent. The agreement with the Business Facilitators/Correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

5. **Other Terms and Conditions for Engagement of Business Facilitators and Correspondents:**

a) As the engagement of intermediaries as Business Facilitators/Correspondents involves significant reputational, legal and operational risks, due consideration should be given by banks to those risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner. In formulating their schemes, banks may be guided by the recommendations made in the Khan Group Report as also the draft outsourcing guidelines released by Reserve Bank of India on December 6, 2005 (available on RBI website:www.rbi.org.in).

b) The arrangements with the Business Correspondents shall specify:

i) suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts,

ii) the requirement that the transactions are accounted for and reflected in the bank's books by end of day or next working day, and

iii) all agreements/contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the Business Facilitator/Correspondent.

6. **Redressal of Grievances in regard to services rendered by Business Facilitators/Correspondents:**

a) Banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by Business Correspondents and Facilitaors and give wide publicity about it through electronic and print media. The name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicized. The designated officer should ensure that genuine grievances of customers are redressed promptly.

b) The grievance redrssal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank's website.

c) If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the complaint, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.

7. **Compliance with Know Your Customer (KYC) Norms**

Compliance with KYC norms will continue to be the responsibility of banks. Since the objective is to exend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. The KYC guidelines issued vide our circulars dated November 29, 2004 and August 23, 2005 provide sufficient flexibility to banks. In addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as Banking Correspondent, Block Development Officer (BDO), head of Village Panchayat, Post Master of the post office concerned or any other public functionary, known to the bank.

Payment System, Frequently Asked Questions, RBI

The central bank of any country is usually the driving force in the development of the national payment system. The Reserve Bank of India (RBI) as the central bank of the country has been playing this developmental role and has taken several initiatives for a safe, secure, sound and efficient payment system. Some of the questions frequently asked in this regard are presented below in the form of an FAQ.

1. What is a Payment System?

A Payment System is a mechanism that facilitates transfer of value between a payer and a beneficiary by which the payer discharges the payment obligations to the beneficiary. Payment system enables two-way flow of payments in exchange of goods and services in the economy.

2. What are the components of any payment system?

Payment systems include instruments through which payments can be made, rules, regulations and procedures that guide these payments, institutions which facilitate payment mechanisms and legal systems etc. that are established to facilitate transfer of funds between different participants.

3. Who can use payment systems to make payments?

Payment systems are used by individuals, banks, companies, governments, etc. to make payments to one another. In other words, any body who has to make a payment to any one else can use one or the other form of payment system to make such a payment.

4. What are the ways in which a customer can make payments through banks?

Payments can be made in India in the form of cash, cheque, demand drafts, credit cards, debit cards and also by means of giving electronic instructions to the banker who will make such a payment on behalf of his customers. Electronic payments can be made in the form of Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS) for small value repetitive payments and through Real Time

Gross Settlement (RTGS) System for large value payments. A few banks in India have begun to offer certain banking services through Internet that facilitate transfer of funds electronically.

5. How is the payment made when a payer issues a cheque to the payee?

The process of cheque payment starts when a payer gives his personal cheque to the beneficiary. In order to get the actual payment of funds, the receiver of the cheque has to deposit the cheque in his bank account. If the beneficiary has an account in the same bank in the same city then the funds are credited into his account through internal arrangement of the bank. If the beneficiary has an account with any other bank in the same or in any other city, then his banker would ensure that funds are collected from the payer's banker through the means of a clearing house.

6. What is a Clearing House?

A clearing house is an association of banks that facilitates payments through cheques between different bank branches within a city / place. It acts as a central meeting place for bankers to exchange the cheques drawn on one another and claim funds for the same. Such operations are called as clearing operations. Generally one bank is appointed as in-charge of the clearing operations. In the four metros and a few other major cities, the RBI is looking after the operations of the clearing house. Each clearing house has uniform regulations and rules for the conduct of its operations as prescribed by RBI. There are more than 1000 clearing houses operating all over the country facilitating cheque payments. These are managed by the RBI, State Bank of India (SBI) and other public sector banks.

7. What is the time taken for this clearing process?

Generally, if a cheque is to be paid within the same city (local cheque), it would take 2-3 days. In some large cities, there is a system called High Value Clearing which facilitates completion of cheque clearing cycle on the same day and the customer depositing the cheque is permitted to utilize the proceeds next day morning. However, coverage of this High Value Clearing is very limited and usually available at the branches in the main business area; say Fort and Nariman Point area in Mumbai and Connaught Place in New Delhi.

In the case of outstation cheques, the time taken would vary from three to ten days. RBI has advised all the banks to publicise their cheque collection policy so that customers have an idea as to when the proceeds would be available for utilisation by the customer. For delay beyond the normal period, the banks are required to compensate the customer (even without customer asking for the same).

8. Would a bank customer incur any charges by using cheques for payments?

The person receiving payment by means of cheques would incur some charges to realize the funds through this bank. In case of local cheques, no charges are levied. In case of outstation cheques, the bank would take some processing / collection charges depending upon the amount of the cheque and the place from where it has to be realized. The charges levied by the banks are generally decided by the Indian Banks' Association or the banks themselves. Banks are also required to publicise the schedule of service charges.

9. How can payments be made without use of cheques and cash?

Payments can be made between two or more parties by means of electronic instructions without the use of cheques. Retail payment mechanisms available to facilitate such payments are the Electronic Funds Transfer, Electronic Clearing Service, credit / debit cards etc.

10. Can a customer of a bank use the ATM of some other bank?

Yes, if the customer's bank has an arrangement with the bank owning the ATM. Presently, stand alone ATMs are very few and usually such stand alone ATMs are installed at the branch premises. In case ATM of another bank is used, normally a service charge called “inter-change fee” is levied on the customer.

11. Are ATMs used only for cash withdrawal?

In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry and several other banking transactions which the bank/s owning the ATM's might want to offer.

12. What is the role of credit / debit cards in payment systems?

Credit/ Debit cards are being widely used in the country as they provide a convenient form of making payments for goods and services without the use of cheques and cash. Banks issue credit cards to their customers. The merchant establishment who accepts credit / debit card payments will claim the amount from the customer's bank through his own bank.

13. How is a Debit Card different from Credit Card?

Debit Card is direct account access card. (Amount transacted gets debited immediately). The amount permitted to be transacted in debit card will be to the extent of the amount standing to the credit of the card user's account. On the other hand, a credit card involves provision of credit to the card user which is paid by the card user on receipt of the bill either in full or partially in instalments.

14. What is EFT?

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person / company etc. can approach his bank and make cash payment or give instructions / authorization to transfer funds directly from his own account to the bank account of the receiver / beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider for EFT.

15. Can I use EFT to transfer funds anywhere in India?

As of now, EFT facility is available for transfer of funds between bank branches in about 15 major cities and towns across the country. Under another special scheme called as Special major cities and towns across the country. Under another special scheme called as Special EFT, many more select branches (which are on the computer network of the banks) in over 200 cities have been brought into the fold of funds transfer electronically. The details of the cities and branches can be had from the respective banks as also from the RBI website.

16. How long does it take to transfer funds through EFT?

Funds transfer normally takes place on the same day or at the most the next working day depending upon the time of requesting / effecting such funds transfers. The customer should confirm this aspect from his bank at the time of requesting the funds transfer.

17. Are there any charges for transferring funds through EFT?

The banks generally charge some processing charges for EFT just as in the case of other services like demand drafts, pay orders, etc. The actual charges depend upon the amount and the banker-customer relationship. However, for the present, the RBI has waived all its charges on EFT that were being recovered from the banks for processing such funds transfer transactions at the clearing houses run by RBI. This has certainly reduced the processing cost for the banks also.

18. How can I make use of Electronic Clearing Service for receiving funds / making payments?

Electronic Clearing Service (ECS) is a retail payment system that can be used to make bulk payments / receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfer by individuals. The ECS facility is available in 47 centres across India operated by RBI at places where it manages the clearing houses and by SBI and its associates in other centers. The ECS is further divided into two types – ECS (Credit)to make bulk payments to individuals/vendors and ECS (Debit) to receive bulk utility payments from individuals.

19. What is ECS (Credit)?

Under ECS (Credit) one entity / company would make payments from its bank account to a number of recipients by direct credit to their bank accounts. For instance, companies
make use of ECS (Credit) to make periodic dividend / interest payments to their investors. Similarly, employers like banks, government departments, etc. make monthly salary payments to their employees through ECS (Credit). Payments of repetitive nature to be made to vendors can also be made through this mode. For this purpose, the company or entity making the payment has to have the bank account details of the individual beneficiaries. The payments are affected through a sponsor bank of the Company making the payment and such bank has to ensure that there are enough funds in its accounts on the settlement day to offset the total amount for which the payment is being made for that particular settlement. Sponsor bank is generally the bank with whom the company maintains its account.

20. What is ECS (Debit)?

ECS (Debit) is mostly used by utility companies like telephone companies, electricity companies etc. to receive the bill payments directly from the bank account of their customers. Instead of making electricity bill payment through cash or by means of cheque, a consumer (individuals as well as companies) can opt to make bill payments directly into the account of the electricity provider / company / board from his own bank account. For this purpose, the consumer has to give an application to the utility company (provided the company has opted for the ECS (Debit) scheme), providing details of bank account from which the monthly / bi-monthly bill amount can be directly deducted. Such details have to be authenticated b y the bank of the customer who opts for making payments through this mode. Once this option is given, the utility company would advise the consumer's bank to debit the bill amount to his account on the due date of the bill and transfer the amount to the company's own account. This is done by crediting the account of the sponsor bank, which again is generally the bank with whom the company receiving the payments maintains the account with. The actual bill would be sent to the consumer as usual at his address as before.

21. Are there any charges for using the ECS?

As in the case of EFT, RBI has waived all its processing charges to the banks for the present. The banks, however, are free to charge a fee from their corporate customers for use of this facility.

22. How can an NRI remit money into India?

As an NRI, an individual can remit funds into India through normal banking channels using the facilities provided by the overseas bank. Alternately, an NRI can also remit funds through authorized, Money Transfer Agents (MTA). Of late, a good number of banks have launched their inward remittance products which facilitate funds transfer in matter of hours.

23. How do banks make payments for their own transactions?

Ordinarily, the transactions among banks (not pertaining to customer transactions) would be for large values. Hence such transactions are called as large-values. Hence such transactions are called as large-value funds transfers. The actual transfer of funds will take place through the accounts which the banks maintain with the RBI. For this purpose, banks can give cheques drawn on their account maintained with RBI to one another, which will then be processed through the clearing house. Alternatively, they can also make use of large value payment system called as Real Time Gross Settlement System where funds transfer takes place instantaneously, based on electronic instructions just like EFT in the case of individuals and companies.

24. What is Real Time Gross Settlement System?

Real Time gross Settlement (RTGS) system, introduced in India since March 2004, is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'real time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

25. Can individuals make payments through RTGS system?

Yes, individuals can transfer funds through RTGS system through their banks. Though the system is primarily designed for large value payments, bank customers have the choice of availing of the RTGS facility for their time critical low value payments as well. There is no definition of “low value” or “large value” for the purpose of RTGS transaction. As on 31 July 2005, RTGS facility was available at more than 7500 bank branches at 401 cities and towns in India. RBI plans to make the facility available at a minimum of 10,000 branches by March 2006. At present, not all bank branches are enabled to process RTGS system funds transfer. A customer who desires to use this facility should approach his bank to find out whether his own bank branch as well as the beneficiary's bank branch is enabled to transfer funds through RTGS system. Banks may levy charges for such funds transfers at their discretion and based on the customer-bank relationship. The customer, in turn, is entitled to claim interest for delay in credit of funds into the beneficiary's account.

26. Whom should I approach in case of any complaints relating to customer services under payment systems?

The customer may approach the bank concerned to redress the complaint. In case of lack of response / satisfactory redressal by the bank, the customer may approach the

Grievance redressal Cell in the local RBI office, if any. The customer may also approach the office of the Banking Ombudsman for redressal of his complaint.

27. What is Cheque Truncation?

Cheque Truncation is a system of cheque clearing and settlement between banks based on electronic data / images or both without physical exchange of instrument.

28. How would Cheque Truncation benefit the bank customers?

The bank customers would get their cheques realized faster as T+0 local clearing and T+1 inter-city clearing is possible in Cheque Truncation System (CTS). As straight through processing and automated payment processing are enabled by CTS faster realization is accompanied by a reduction in costs for the customers and the banks. It is also possible for banks to offer innovative products and services based on CTS. The banks have additional advantage of reduced reconciliation and clearing frauds.

29. What is the role of RBI in payment systems?

The RBI, apart from the role of regulator and supervisor of payment systems, plays the role of a Settlement Bank apart from being a catalyst, an operator and a user. The RBI has been taking initiatives in introducing new modes of more efficient and safe means of effecting payments in the country on a continuous basis. The RBI introduced the system of Magnetic Ink Character Recognition (MICR) based cheque clearing during late 80's for four metropolitan cities (Mumbai, New Delhi, Chennai and Kolkata). During mid 90s, electronic payment systems like ECS and EFT were introduced. During 2004-05, RTGS was introduced. Besides introducing these newer mechanisms or systems, the RBI has also been constantly ensuring that the existing systems are upgraded / refined to increase their efficiency and to meet the requirements of customers. Taking advantage of dvancements in technology, the RBI has brought in additional safety measures in these systems to make them secure and also to maintain the integrity of such transactions. Besides operating the various components of payments systems, RBI also participates in these systems as a user. RBI acts as a service provider and after the system stabilizes, the
responsibility is handed over to other banks / institutions for further development. RBI also has the role of regulating and supervising the various payment systems.

30. How does RBI regulate payment systems?

The Board of regulation and supervision of Payment and Settlement Systems (BPSS) is a sub-committee of the Central Board of the RBI and is the highest policy making body on payment system. The Board is assisted by a technical committee called National Payment
to Council (NPC) with eminent experts in the field as members. The Board as well as the council are assisted by a newly created department the Department of Payment and settlement Systems (DPSS). The Board has been entrusted with the responsibility to authorize, prescribe policies and set standards for all existing and future payment systems in the country. The Board also has the powers to determine membership criteria to these systems and related policies.

31. What were the major developments in payment and settlement systems in India during the last decade?

During the last decade, payment system services offered by banks to the common persons as well as the corporate bodies have improved substantially. It is partly due to increased use of technology in service delivery and partly due to procedural changes necessitated in the wake of competition amongst the banks.

Changes visible are the following:

(a) Cheque clearing system has vastly improved. Time taken for collecting a local cheque has now reduced to two or three days. It used to take 4 or 5 days earlier. At 42 large cities automated cheque processing centers have been set up where cheques received by all bank branches in the city are processed at night. Time taken for collection of outstation cheques has also been reduced. Now it takes 4 to 10 days depending on location of the paying centers. It used to take 10 days to one month earlier.

(b) During the 90s, a few variants of electronic payment products were introduced. Electronic Clearing Service (ECS) helped large corporate bodies to pay their dividend, interest and refunds electronically on the due date. Not only the investing public could get the payment on the due date, but also the corporates could save substantial substantially by not having to print paper instruments. One can imagine the extent of savings from the fact that 36 million of such transactions were routed through ECS during the year 2005-06. Similarly, the utility bodies are now in a position to collect their bills through ECS right on the due date. Cash flow management is getting easier. There were 16 million such transactions during 2004-05.

(c) Extension of electronic funds transfer (EFT) facility by the banks has altered the money transfer scenario. Using the EFT infrastructure laid by the Reserve Bank, commercial banks have started offering same-day funds transfer facility to their customers. Bank customers at 15 major centers can transfer funds to one another using this facility. A variant of EFT called Special-EFT has been designed specially for the networked branches which facilitates funds transfer on the same day within the closed group of computerized and networked branches located any where in the country. Banks with internet banking infrastructure are receiving requests from their customers for EFT and executing the requests in a straight-through manner.

(d) Launching of Real-Time Gross settlement (RTGS) system by RBI has added a new dimension to EFT scenario. Corporate bodies and other bank customers have now the option to transfer funds to designated branches (around 9600 at present) instantaneously. As per the RTGS operating rules, if the credit can not be applied, it should be returned within 2 hours-meaning thereby that the maximum delay can be 2 hours.

(e) There has been a rapid growth in installation of ATMs in the country. Bank customers can now access their accounts for withdrawal of cash, deposit of cash, balance enquiry, requisition of cheque books, issue of stop-instruction etc. on 24X7 basis. ATM population is around 16,000 in the country at present and in increasing by a few hundreds each month.

(f) In the last three or four years there has been a phenomenal growth in use of payment cards (debit and credit cards) as a payment medium in the country. As at the end of December 2004 there were 4.33 crore payment cards in the country. The increasing use of cards is not only due to the safety and convenience aspect but on account of retail consumer boom which has taken place in the country.

Annexure - 5

Cost Estimation of Rural Branch Set up

Setting up of rural branch is perceived to be unviable for several reasons. In a state like Bihar, small and marginal farmers usually cultivate only one crop, have low yield and irregular income stream which is unable to cover the variable and fixed cost of laying down the branch infrastructure. It is estimated that the total cost to the bank of a small loan on INR 10,000 is 33% (Table A).

Table A : Cost of Small Loans (based on 2005 prices)

Nature of cost	Commercial Bank Loan size INR 1000	MFI Loan size INR 1000	Commercial Bank Loan size INR 25000	MFI Loan size INR 25000
Cost of funds	9.50%	10.00%	9.50%	10.00%
Transaction cost	21.6%	8.7%	8.6%	3.5%
Loss provisioning	2.00%	4.00%	2.00%	4.00%
Total Cost	33.1%	22.7%	20.1%	17.5%

Source: Centre for Micro Finance, Institute for Financial Management Research

Annexure-6

Summary: Report of the RBI Committee on Financial Sector Plan for North Eastern Region

RBI's report on the Financial Sector Plan for the North East Region (NER) makes the following key recommendations to improve financial services in the NER:

1. In the area of financial inclusion, the report recommends:

   a) Setting quantitative targets to increase deposit accounts – providing at least 50 new households per branch each month with deposit accounts for the next 4 years.

   b) Improve flow of credit through GCC – treat 100 percent of advance under GCC at rural and semi-urban branches as priority sector, and forgiving overdue loans upto Rs.25000.

   c) Improving financial sector services through increased business correspondents and business facilitators – using post offices, respected local persons to offer these services.

   d) Improving linkages with self-help groups, increasing coverage of ATMs and other IT based solutions.

   e) Expanding the range of services offered to include forex services, insurance and capital markets products where needed.

   f) The report also recommends measuring performance of efforts to promote financial inclusion, sensitizing all stakeholders to ensure their commitment to financial inclusion, and creating awareness and financial literacy to promote the goal of financial inclusion.

2. In the area of currency management and funds transfer and payment the report recommends:

a) Increased currency chests and improved security for currency chests

b) Improving the efficiency of payment systems within the region by increased computer and telephone connectivity and an automated clearing house in Guwahati, as well as other smart/mobile card based solutions.

3. Another key recommendation is to strengthen regional rural banks and cooperative banks. This includes:

a) Strengthening manpower, capacity and IT facilities in the RRB branches – including recruiting managers on contract basis with clear targets.

b) Facilitate grassroot associations to form cooperatives and avail of credit from a variety of sources depending on their credit rating.

4. In the area of land tenure and collateral, the report recommends:

a) Encourage use of alternative collateral instruments for agricultural loans, especially in areas where land possession certificates may not be available

b) Similarly not turn down viable loans for industrial projects for want of immovable property as collateral.

5. In the area of human resource development, to encourage high quality development bankers to go to the region by:

a) Providing higher compensation for a limited time for bank officers in public sector banks to work in the region;

b) Training and sensitizing officers to work in this area.

6. Finally, the report also offers recommendations to increase real sector activity. These include:

a) Using NABARD to kick-start the Rural Sector Credit Plan

b) Using banks and SIDBI to identify opportunities in the SME sector.

c) Using CIBIL to provide credit information about borrowers in the area to potential financiers.

Annexure-7

Teba Bank – Smart Card

Project Start Date: March 2002 Funding: FDCF 997,000 ponds (35%): Teba Bank: 1,853,000 ponds (65%). What is it?

- Using the existing cell phone network (South Africa has one of the highest cell phone per capita ratios in the world) the Teba Bank Debit Card provides low-cost electronic banking services to poor rural and urban communities.

Who benefits?

- Poor people in areas without basic financial services.
- Low waged who wish to save securely.
- Local small merchants and their employees who provide the service benefit from increased business.
- Approved agents (including government, associations and employers) can use the card to pay or receive monies.
- The bank increases the market for its services and products Implementation.
- The card is simple to operate and has some important benefits:
- The card is topped up at an approved issuing agent. Funds are transferred electronically.
- The card has a wireless switch making it independent of landlines.
- A safety card enables users to easily replace lost or stolen cards.
- The card is accepted at all debit card facilities, ATMs, Easy pay outlets and the South African Post Office.

Innovation

- Despite initial delays Teba bank believes that the use of 'unstructured supplementary service data' for the provision of electronic card services is a world first.

Annexure-8

Banking Profile of Bihar State

(Number of Bank Branches)

Bank	Rural	Semi-Urban	Urban	Total
(a) Comm. Banks Out of Which	1260	455	447	2162
Public Sec. Bank	1260	455	428	2143
Pvt. Sec. Bank	-	-	19	19
(b) Co-op Bank	80	316	50	446
(c) RRBs	1263	164	39	1466
Total	2603	935	536	4074

* 87% of total Bank branches in the States are in rural & semi urban areas.
* 59% of total branches of Commercial Bank and 86% of total of RRBs are in rural areas.

Annexure-9

Banking Key Indicators : 31.03.2007

Indicator	Status
Total Deposits (in crores)	56342
Total Credits (in crores)	19048
RIDF (in crores)	325
C.D. Ration (Including RIDF)	34.38
Priority Sector to Total Advances (Bench Mark - 40%)	58.93%
Agri-Advances to Total Advances (Bench mark - 18%)	32.67%
Dir Advances (Benck Mark - 1%)	0.09%
Recovery Percentage	46.53%

Annexure-10

Pattern of Financial Assets Holding of Banks

(Rs. in Crores)

As on 31.03.2007

Banks	AGL	SSI	OPS	TPS	NPS	Total
PSBs	4256	866	3335	8457	6359	14816
Pvt. Banks	01	01	1	3	161	164
Comm. Banks	4257	867	3336	8460	6520	14980
Co-op. Banks	272	1	16	289	374	663
RRBs	1694	141	641	2476	930	3406
Total	6223	1009	5003	11225	7824	19049

OPS - Other Priority Sector

TPS - Total Priority Sector

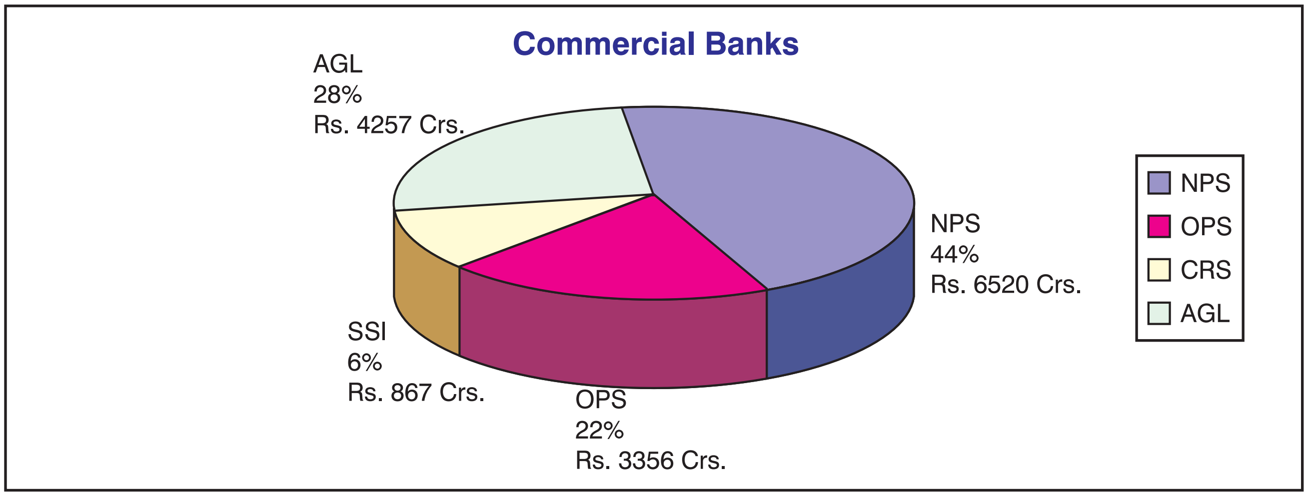
NPS - Non Priority Sector

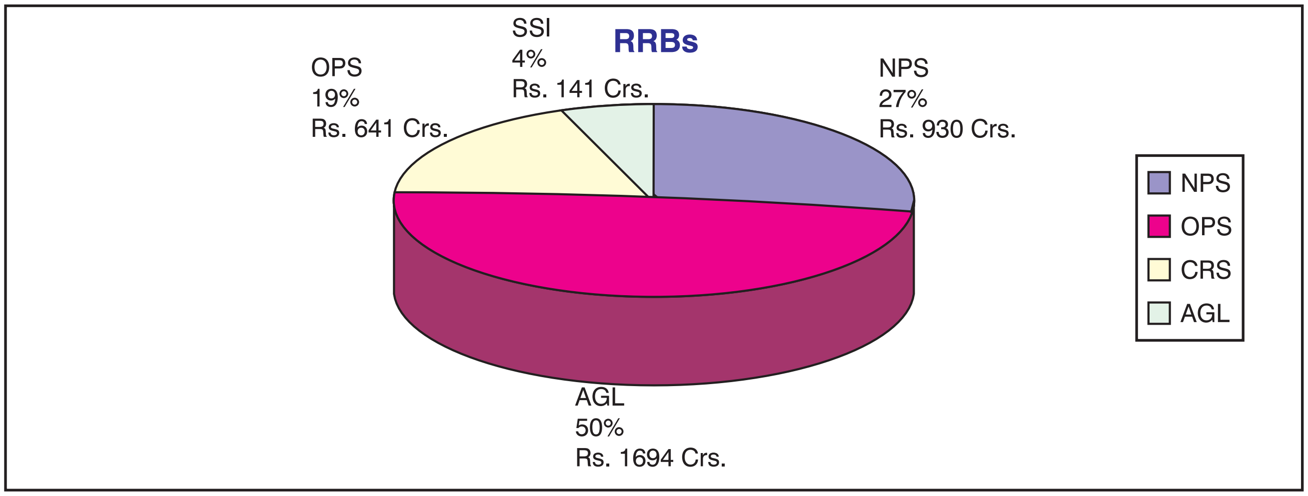
AGL - Agricultural Sector

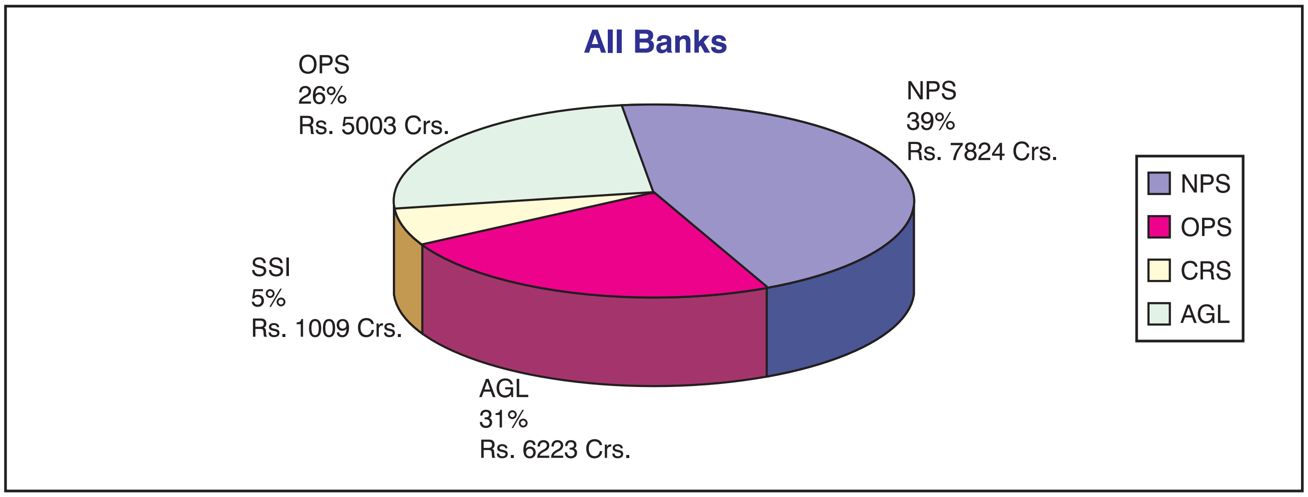
SSI - Small Scale Industry

Annexure-11

Pattern of Financial Assets

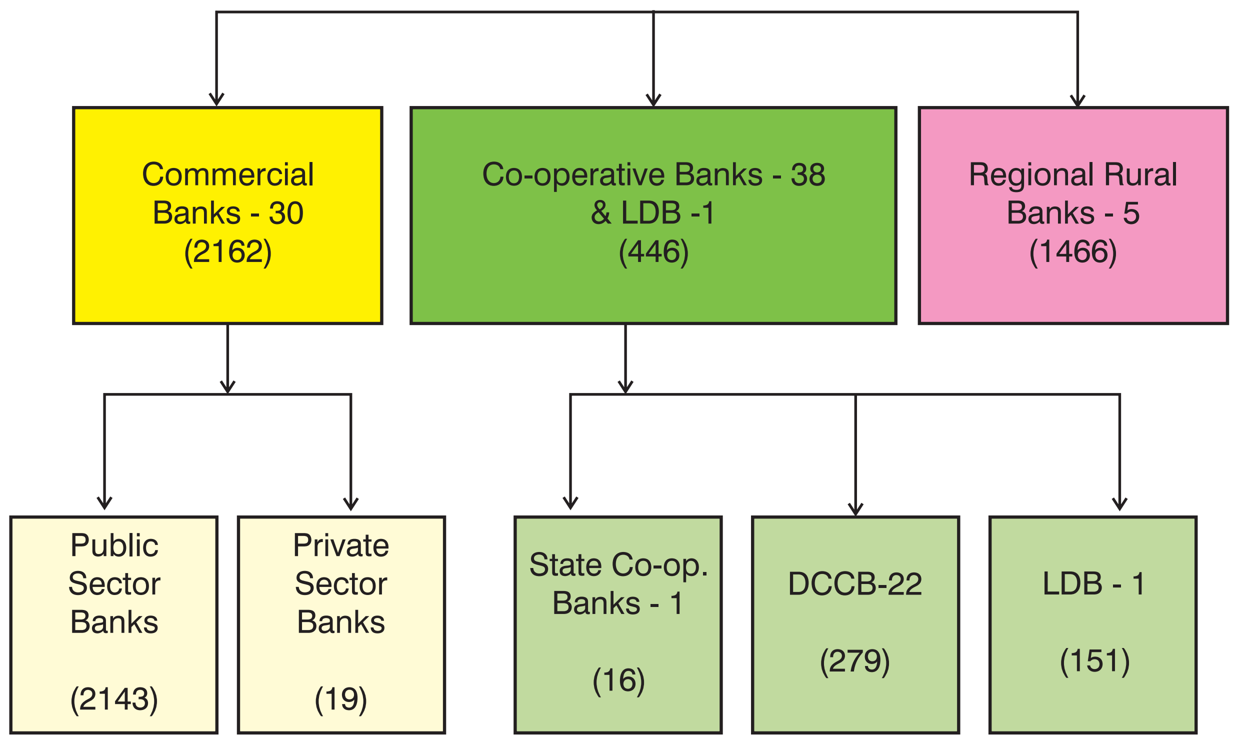






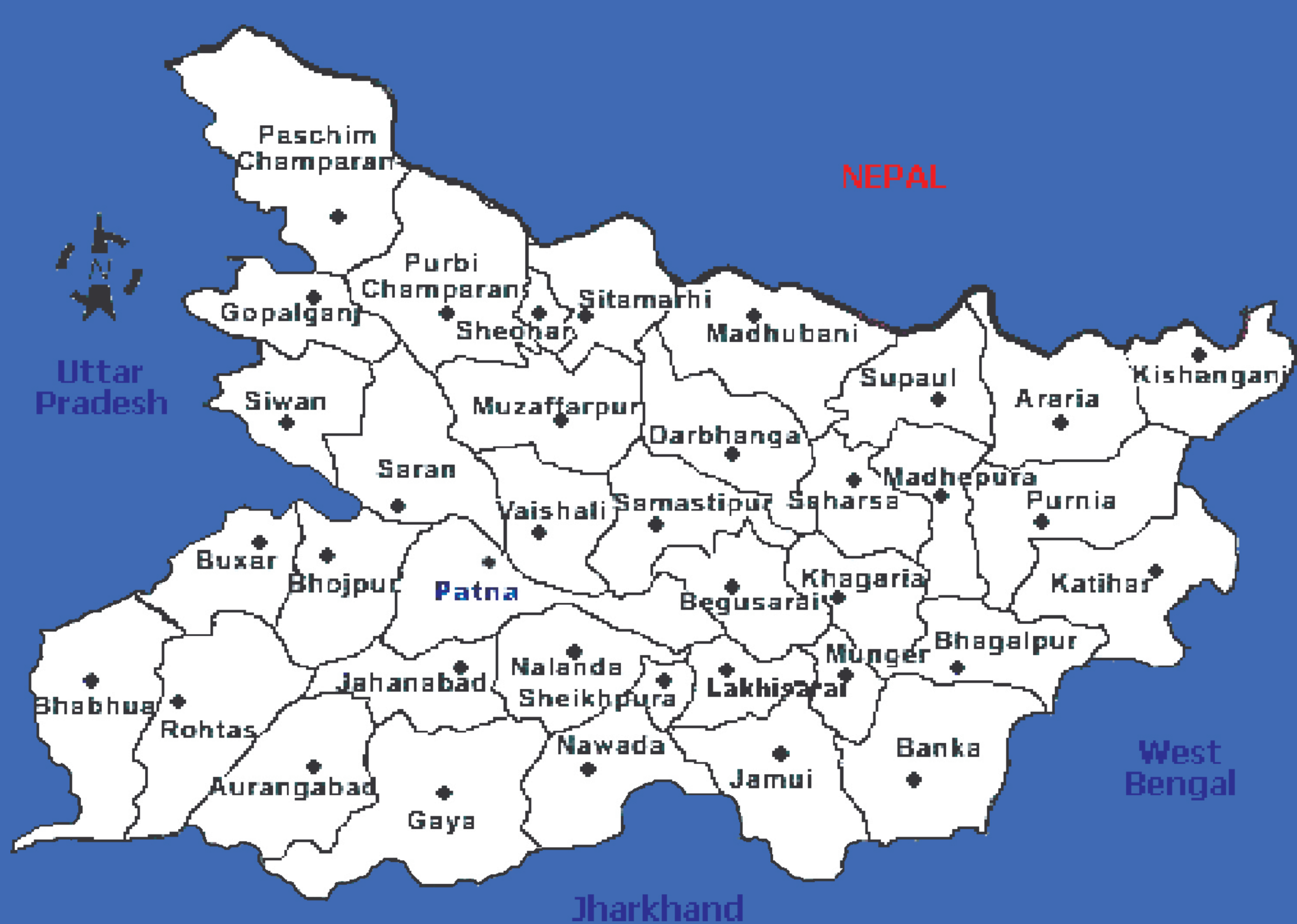
Annexure-12

Structure of Banking in Bihar



Figures outside the bracket denotes number of Banks and inside the bracket denotes number of branches

MAP OF BIHAR



N
NEPAL
Uttar Pradesh
West Bengal
Jharkhand
Paschim Champaran
Purbi Champaran
Gopalganj
Sheohar
Sitamarhi
Madhubani
Supaul
Araria
Kishanganj
Siwan
Muzaffarpur
Darbhanga
Saran
Madhepura
Saharsa
Purnia
Vaishali
Samastipur
Buxar
Bhojpur
Patna
Begusarai
Khagaria
Katihar
Munger
Bhagalpur
Nalanda
Jahanabad
Sheikhpura
Lakhisarai
Bhabhua
Rohtas
Nawada
Banka
Jamui
Aurangabad
Gaya