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Financial inclusion necessary for sustainable growth: Rajan

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Hyderabad: Making a strong pitch for financial inclusion, Reserve Bank of India (RBI) governor Raghuram Rajan on Monday said that the apex bank is trying to make it attractive for financial institutions to offer services to everyone.

Though the country has come a long way in the process of financial inclusion, it still has a long way to go, Rajan said at a national seminar on 'Equity, Access and Inclusion' organised by the National Institute of Rural Development and Panchayat Raj in the city.

"We are steadily moving from mandates, subsidies and reliance on public sector banks for inclusion to creating enabling frameworks that make it attractive for all financial institutions to target the excluded, even as their interests (the excluded) are protected through education, competition and regulation," he said.

"In the foreseeable future, we will bring financial services to every Indian who wants them. Financial inclusion will be an important element in ensuring access and equity -- the necessary building blocks for sustainable growth. If everyone has the tools and resources to better themselves, it will increase output, growth and economic prosperity," he said, adding that the imperative for financial inclusion is both moral as well as one based on economic efficiency. "After all, should we not give everyone access to services we all in this room enjoy?" he asked.

RBI governor Raghuram Rajan plants a sapling at NIRD on Monday. Addressing a seminar in the city, the outgoing RBI governor said financial inclusion will go a long way in achieving sustainable growth and economy.

Observing that one of the primary motivations for the country to push for financial inclusion is to free the excluded from the clutches of the money lender, the RBI governor proposed three public policy approaches to overcome this problem -- mandates and subventions, transforming institutions and moving away from credit.

Pointing out that bottom line conscious bankers usually focus on large borrowers, Rajan said that the Aadhaar Enabled Payment System (AEPS) will go a long way in taking financial services to those still under-served.

"Easy payments and cash-out will make formal savings more attractive. Further, with expanding cash-in, cash-out points through the soon-to-be-launched Postal Payment Bank and telecom-affiliated payment banks, and making transfers from bank account to bank account easier via mobile through the Unified Payment Interface (UPI), we are on the verge of solving the last mile problem," Rajan added.

Later in the day, speaking at the IDRBT Banking Technology Excellence Awards, Rajan again dwelt on this, pointing out that leveraging the high mobile density, in the coming weeks it will become easier for people to transfer funds between bank accounts via the Unified Payment Interface using their smartphones.

"I am especially enthused by UPI as smartphones become more widely available. Transfers from bank account to bank account will become easier in a few weeks via smartphone through the UPI," Rajan said.

Elaborating, he said: "A villager needing to pay a shopkeeper only needs to know the latter's alias -- say Ram@xyzbank.psp. He feeds that into his mobile app, writes the payment amount, puts in the password and presses send and the payment is made, with both getting messages to that effect. Neither needs to visit the bank to take out or deposit money, no point of sale machine is needed."

Here he mentioned that despite the huge potential, activation rates and usage levels of electronic payment services remain at low levels, though growth is picking up. "No doubt, the fear of taxation as payments move from cash to electronic plays a part in dampening activity. As information technology brings down the possible space to avoid or evade tax, and as the benefits increase...I have no doubt that merchants will push more for electronic payments," he said.

Rajan also stressed on the importance of systems that offer security of transactions even to the unsophisticated user and do not place a huge burden of care on them. "There is no point creating security for the ideal customer, instead the system should incorporate the possibility of mistakes by the actual customer that we have," he said.