

Report Summary

Committee on Comprehensive Financial Services for Small Businesses and Low Income Households

- The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairperson: Dr. Nachiket Mor) submitted its final report on December 31, 2013. The Reserve Bank of India (RBI), on September 23, 2013, had appointed the Committee to propose measures for achieving financial inclusion and increased access to financial services.
- The Committee proposed the following to be achieved by January 1, 2016 : (i) provide each Indian resident above the age of 18 with an individual, full-service electronic bank account, (ii) set up widely distributed Electronic Payment Access Points offering deposit and withdrawal facilities at reasonable cost, (iii) provide each low-income household convenient access to formally regulated providers that can provide suitable: (a) credit products, (b) investment and deposit products, and (c) insurance and risk management products at a reasonable price, and (iv) to provide every customer the legally protected right to be offered suitable financial services.

The major recommendations of the Committee are:

- **Wide-spread payment network and universal access to savings:** The Committee recommended that every resident receive a Universal Electronic Bank Account at the time of registering for an Aadhaar card. It recommended that RBI prohibit banks from refusing to open an account and that Aadhaar be made the universal basis for authentication.

The Committee proposed the setting up of Payments Banks whose primary purpose will be to provide payments services and deposit products to small businesses and low income households. These banks will be restricted to holding a maximum balance of Rs 50,000 per customer and will be required to have a minimum entry capital of Rs 50 crore.

It further proposed the setting up of Wholesale Banks which will lend to corporates and purchase securitised retail and small-business loans. These banks will only accept deposits larger than Rs 5 crore and will require minimum entry capital of Rs 50 crore.

- **Sufficient access to affordable formal credit:** The Committee recommended a number of steps to be

taken to help banks manage their credit exposures effectively, including allowing banks to purchase portfolio insurance. Universal reporting of information with credit bureaus should be mandatory for all loans, especially kisan credit cards and general credit cards.

Further, it recommended that banks price farm loans based on risk and that any waivers be provided by the government through direct benefit transfer and not through interest subsidies or loan waivers.

The Committee proposed that a State Finance Regulatory Commission be set up into which all state level financial regulators will be merged.

It recommended that the Non-Performing Asset reporting provisions and other regulations for Non-Banking Finance Companies (NBFCs) be aligned with those of banks. It also suggested measures to ease funding constraints of NBFCs including relaxation of External Commercial Borrowings and equity investment rules. Further, it proposed the removal of barriers to the transition of NBFCs into banks by including more sectors in the Priority Sector Lending (PSL) classification.

- **Priority Sector Lending:** The Committee suggested that investment by banks in bonds and equities and provision of guarantees to PSL beneficiaries be counted towards meeting the banks' PSL targets.

It recommended the removal of the cap on interest rate on loans at the base rate plus 8% per annum. It also recommended that the PSL target be revised from 40% to 50% of credit provided.

- **Customer protection issues:** The Committee proposed that financial service providers be required to commit capital against customer protection risk.

It proposed that firms be made liable to ensure suitability of products issued to customers and that RBI frame regulations regarding the same.

It proposed the setting up of a unified Financial Redress Agency (FRA) that will handle customer grievances across all financial products in coordination with their respective regulators.

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