RuPay Enabling Kisan Credit Cards for the Co-operative Credit Structure (CCS) - Challenges & Opportunities

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Background

Adequate and timely access to agricultural credit plays a crucial role in improving farm production and productivity and thereby the livelihood of farmers. Nearly 80% of our farming community are small and marginal farmers who are heavily dependent on credit for carrying on their Seasonal Agricultural Operations (SAO). According to D S Rawat, Secretary-General of The Associated Chambers of Commerce and Industry of India (ASSOCHAM), "It is not enough to raise the credit availability to agriculture. It is equally important to ensure that this credit goes to the needy and also disbursement has a correlation with the farming situation at individual and collective level."

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The over hundred year old CCS in the country has been till quite recently the major provider of agricultural credit, particularly short term loans for SAO. Although the share of cooperatives has reportedly declined below 25%, more than 80% of the disbursements of the cooperatives go for small and marginal farmers, constituting more than 50% of the farming community served by all institutional credit agencies.

The CCS had evolved as a mechanism of wholesaling of credit through the three tier system comprising of the SCBs at the state level, the DCCBs at the district level and PACS at the village level. The extant system for crop loans in cooperatives is substantially based on the Crop Loan Manual prepared by the RBI in the early 60's. The loan eligibility is assessed on Scale of Finance fixed per acre for different crops assessed as per district or even sub-district level requirements by the District Level Technical Committee (DLTC). The loan process consists of preparing a Normal Credit Limit (NCL) statement based on the land holding and per acre Scale of Finance for the individual farmer members at the PACS level. The NCLs are approved by the DCCB and the PACS is sanctioned a consolidated limit as an aggregation of eligibility of each of the individual members. In the earlier loan system, based on the eligibility of new members and of old members who repaid their previous loans, the PACS would submit a drawal application which would be sanctioned by the DCCB and the entire loan disbursed to the PACS either for disbursal at the seat of the PACS or by issue of cheques to individual members by the PACS for drawal at the DCCB Branch. The member's account is maintained at the PACS level and the DCCB only maintains the loan account of the PACS. In effect, the PACS acts as a financial intermediary, with a margin in the loan made to the farmer.

Problem Statement

Although the PACS are affiliated to the DCCBs and are a part of the CCS and for all practical purposes work as the extended arms of the SCBs and DCCBs, they are not a part of the Banking and Payments & settlement System. Historically the PACS evolved as lending institutions and some of them have been taking up some rudimentary banking activity; this on account of the provision excluding the PACS from the purview of the Banking Regulation Act. Not being regular banking institutions, their deposits are not insured with Deposit Insurance and Credit Guarantee Corporation (DICGC) and they are not considered a part of the Banking Payments & Settlements System of the country. The major challenge therefore is that of enabling for the farmer member of a PACS the services as would be available through the CBS of the DCCB via the NFS.

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Cumbersome Systems and Process

The existing processes for farmer loan origination, disbursement and repayment is heavily manual and paper based making it vulnerable to all kinds of errors, inefficiencies and delays, resulting in imbalances in accounts and records. A lot of valuable time of the staff, which would otherwise be available for service to the farmer, is lost in reconciliation and correcting of records and exchanging of information.

Lack of Visibility and Transparency

As a result of the heavily manual and paper based processes, there is a severe lack of transparency and visibility of transactions at various levels of the system that leads to delays in decision making and policy formulation. DCCBs have no real-time visibility into farmer loan account operations at PACS. As a result, there are supervisory bottlenecks and lack of real-time information of transactions between PACS and the farmer.

Problems of the Farmer

Given the actual ground reality of the operational environment, the farmer is seen to be drawing and repaying the loans in one lump sum defeating one of the main objectives of the Kisan Credit Card Scheme under which he is to be enabled to draw funds multiple times in small amounts as per his seasonal needs and repay based on amounts that become available to him during certain periods (post-harvest etc.). Due to the perceived hassles in drawing upon loans he is therefore withdrawing more funds than required for immediate needs or in one lump sum and paying more interest, than if it were as per his cash flow needs. Another aspect is the inconvenience in getting funds due to long distance travel and related expenses and loss valuable time for agricultural operations. There are also undue delays in getting funds due to fragmented and manual disbursement process. All this does not foster the much needed banking habit for encouraging financial inclusion in this crucial segment of our rural population.

The Right Solution

Keeping the above background and the issues involved, an right solution should meet the various operational, regulatory, efficiency and transparency requirements and bring forth the much needed ability to farmers for transacting in a transparent and hassle-free manner, fostering banking habit among millions of small and marginal farmers in the country. The improvements that will flow from the operational efficiencies and accounting are too obvious to require detailed mention. However, the solution should have the following high-level capabilities.

- The on-boarding of the farmer onto the bank's CBS through the opening of a savings account, enables the farmer to be eligible for the RuPay enabled KCC.

- The solution will be a bridge between the banks CBS, the PACS, and the farmer.

- All loan applications details will be captured in this system by the PACS user and these same details are available for the bank user to review and approve.

- The solution will centrally maintain the farmer details, land & crop details, loan application information, sanctioned credit limits, KCC transactions both debit & credit.

- Banks need not maintain shadow accounts in their respective CBS as each KCC transaction is tracked through the solution.

- The solution enables Straight Through Processing where the farmer can withdraw his loan money from an ATM and the related accounting transactions in the banks CBS and the solution are done in real-time.

- The solution would support the ISO 8583 messaging standards which allow for seamless integration to any CBS. This gives the farmer multiple channels for cash withdrawal – either from an ATM or from a POS device at the PACS or DCCB branch.

- Loan repayments are also tracked in real-time, whether done at the PACS or the DCCB branch, and updated in the system.

- There are extensive MIS & operational reports available for the PACS and bank users which allow them a detailed view of the loan cycle.

- Dashboards, which track key lending & recovery parameters, are available for the regulatory bodies and the Government of India.

Expected Benefits

Benefits to farmers

- The digitized loan origination system will speed up loan application and approval thereby speeding up loan availability for the farmer.
- With Rupay enabled card, farmer can get loan funds anytime and anywhere.
- Farmer gets a lot of flexibility in terms of withdrawing any amount and any number of times within his eligible limits and therefore does not have to withdraw more than his immediate needs.
- POS based repayments using Rupay cards will ensure that loan repayments become real-time and transparent.
- As the farmer draws in small amounts and repays as per his funds availability, his interest burden will be significantly reduced.
- The system will support disbursement of B/kind component loans i.e. fertilizers, seeds etc. at designated POS machines of PACS/merchants; it will also hold deductions towards crop insurance premia and facilitate the DCCB in remitting the same farmer-wise.

Benefits to PACS

- Operational accuracy and efficiency through the elimination of manual systems
- Better decisioning through rich MIS reports
- Accurate preparation of interest & subsidy claims to the Govt. of India

Benefits to DCCB

- Complete view on the loan cycle with capability to drill down to individual farmers
- Faster loan approvals
- Improved operations and business decisions

Benefits to Apex Banks, State Governments, RBI, NABARD and Government of India

- Dashboards, which track key lending & recovery parameters, are available for the regulatory bodies and the Government of India
- Detailed view of the loan life cycle through extensive MIS reports and real-time dashboards
- Provides effective analysis of the usage of funds
- Monitoring tools will ensure accurate delivery of funds
- Analysis provides Farmer details, Data segmentation regarding crop cycles, Agro-climatic regions etc.

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