A Study on Workings of Reserve Bank of India New Challenges – a Bird's Eye View

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Abstract

The paper is an attempt to outline challenges faced by Reserve bank of India regional disparity, indebtedness and status of financial inclusion in India. Financial inclusion is required to uplift the poor and disadvantaged people by providing them the customized financial products and services.The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: "...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.". The paper focus on the role of RBI in financial inclusion in India. The United Nations (UN) had raised the basic question, "why so many bankable people in rural and urban areas are unbanked?" NSSO data revealed that 45.9 million farmer households in the country (51.4 per cent), out of a total of 89.3 million households do not access credit, either from institutional or non institutional sources. Various financial experts argue that bank account is the most basic step of bringing such people under financial mainstream. So the primary objective of financial inclusion should be to open bank accounts of unbanked people.

These people have remained aloof from financial and banking mainstream and they don"t possess bank account, don't have knowledge about financial and saving instruments and are unable to reap benefits on whatever large or small amount of money they have at their disposal. In simple language financial inclusion stands for including the people lying on the lowest strata of our social pyramid into the financial mainstream. By financial inclusion, we mean delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups. The concept of financial inclusion is not new in India. The concept has been prevailing in India from past 44 years. Beginning with the nationalization of commercial banks in 1969 and 1980, another major step taken was the establishment of Regional Rural Banks in 1975 and banking sector reforms after 1991. Back in the 1980's, then Prime Minister Late Shri Rajiv Gandhi stated that of every one rupee spent on development only 15 paise reach the poor. Reserve Bank of India set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the Commission were incorporated into the mid-term review of the policy (2005-06) and urged banks to review their existing practices to align them with the objective of financial inclusion. In 2005, the Planning Commission found that for every rupee the government spends on the Targeted Public Distribution System only 27 paisa reaches the poor.

Key words Financial inclusion, RBI, liberalization, UNO, Regional Rural Banks.

Introduction

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades including - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the hitherto financially excluded Indian population. Government of India and RBI have taken various steps to include vast segment of unbanked people in to mainstream banking such as Micro Finance- Self Help Group Model (1992), Kisan Credit Card (1998), No Frill Accounts (2004), Business Correspondents and Business Facilitators (2006, 2009) Swabhimaan (2011) financial inclusion model but the path of financial inclusion is continuous to be challenging.

As a result of these three major policy changes, the number of branches of commercial bank have increased from 8262 in June 1969 to 102343 in 2013 (Economic survey 2012-2013) and population per branches decline rapidly from 65000 to 13756 (RBI 2008). A large numbers of studies have been made so far on financial inclusion in India, yet some gaps still persist. There are still problems of access to finance; credit, poverty and indebtedness have not been adequately examined. Just to open an account in the bank is not the only solution of the problem. Financial literacy is required for the overall achievement of the objective of financial inclusion. This leads to inclusive growth encompassing the deprived and marginalized sections. This study intends to look at the changes occurred in conditions of India by considering the appropriate variables to test. However, the progress is far from satisfactory as evidenced by the World Bank Findex Survey (2012). According to the survey findings, only 35 percent of Indian adults had access to a formal bank account and 8 percent borrowed formally. Only 2 percent of adults used an account to receive money from a family member living in another area and 4 percent used an account to receive payment from the Government. The introduction of a universal and targeted public distribution system (PDS), the provision for employment in rural areas through the National Rural Employment Guarantee Scheme (NREGS), the implementation of the project to bring the population under a unique identification number (AADHAR) and the Direct Benefit Transfer (DBT) Scheme in 2013 are the most recent measures by the government to realize inclusive growth targets. The present study attempts to assess the financial inclusion in India and analyses the trends and patterns of economic inequality across Indian states. The basic objective here is to understand the dynamics of growth in the country.

Objective:

This paper intends to explore and analyze the role and functions of RBI. Also assess the challenges of Monetary Control Methods of RBI.

Evolution of RBI

The Royal Commission on Indian Currency and Finance appointed on August 25, 1925 has suggested the establishment of the Central Bank in India, later the Indian Central Banking Enquiry Committee, 1931 stressed the establishment of the Central Bank in India. The Reserve of Bank was established on April 1, 1935 under the Reserve Bank of India Act, 1934.The m ain object of Reserve o f India is, "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency any credit system of the country to its advantage" The Reserve Bank of India was established as a private share holder‟s bank.

The Central office of Reserve Bank of India was initially located in Calcutta which was later shifted to Bombay. The Reserve Bank of India issued first of its currency notes in January 1938 in de nomination of Rs.5 and Rs.10 and later in the same year denomination of Rs.100, Rs.1000 and Rs.10000 were issued Post Independence The Reserve Bank of India was nationalized in the year 1949 through the Reserve Bank (Transfer of Public Ownership) Act, 1948 and all shares were transferred to Central Government. The Reserve bank of India is constituted for the management of currency and for carrying the business of banking in accordance with provisions of the Act. It is a body corporate having perpetual succession, common seal and can be sued or sue in its name. The general supervision and direction of the affairs of the Reserve Bank is entrusted with Central Board of Directors. International Journal of Business Administration and Management. ISSN 2278-3660 Volume 7, Number 1 (2016), © Research India Publications http://www.ripublication.com 46 Composition of Central Board The Central Board consists of Governor, deputy Gove rnor, Ten Director nominated by the Central Government and two Government official nominated by the Central Government.

The deputy Governor and Director are eligible to attend meeting of the Central Board but are not entitled to vote. The Governor and deputy Governor hold office for term of five years and are entitled for a re - appointment. The Directors are appointed for a term of four and hold office during the pleasure of the president. The meeting of the Central Board is convened at least six times in a year. Composition of Local Board A local board is formed in each four zones consisting of five members which are appointed by the Central Government. There is Chairperson of the Board who is elected among the member. The members of the Board have a hold of fice for a term of four years and eligible for reappointment. The Local Board advice on matters referred to it by the Central Board and performs duties delegated to it by the Central Board.

Qualitative Instruments or Selective Tools

The Qualitative Instruments are also known as the Selective Tools of monetar y policy. These tools are not directed towards the quality of credit or the use of the credit. They are used for discriminating between different uses of credit. It can be discrimination favoring export over import or essential over non - essential credit supply. This method can have influence over the lender and borrower of the credit. The Selective Tools of credit control comprises of following instruments. i. Fixing Margin Requirements The margin refers to the "proportion of the loan amount which is not financed by the bank". Or in other words, it is that part of a loan which a borrower has to raise in order to get finance for his purpose. A change in a margin implies a change in the loan size. This method is used to encourage credit supply for the needy sector and discourage it for other non-necessary sectors. This can be done by increasing margin for the non-necessary sectors and by reducing it for other needy sectors. Example:- If the RBI feels that more credit supply should be allocated to agriculture sector, then it will red uce the margin and even 85-90 percent loan can be given. ii. Consumer Credit Regulation Under this method, consumer credit supply is regulated through hire -purchase and installment sale of consumer goods. Under this method the down payment, installment amount, loan duration, etc is fixed in advance. This can help in checking the credit use and then inflation in a country.

Efforts have been made to provide financial services, especially credit facilities, to the rural population since the 18th century. Taccavi loans were provided to the poor farmers in order to buy seeds and agricultural implements. The institutionalization of systems for financial inclusion in India began with the establishment of credit cooperatives following the enactment of the Cooperative Credit Societies Act in 1904. After Independence, these efforts were intensified, following the recommendations of the All India Rural Credit Survey Committee of 1954. The expansion of the traditional commercial banks to rural areas commenced with the nationalization of the Imperial Bank of India and its conversion to the State Bank of India in 1955.

The nationalization of 14 major commercial banks in 1969 and another six commercial banks in 1980, along with the introduction of the Lead Bank Scheme in 1970, were steps that facilitated rapid expansion of the banking system into „hitherto unbanked areas.‟ Regional rural banks (RRBs) were established under the RRBs Act, 1976, to overcome the difficulties faced by commercial banks, like cultural barriers in dealing with rural people and the high costs involved in the setting up of rural branches. In Bangladesh, Micro Finance Institutions (MFIs), particular "Grameen Bank" is playing a very important role to enhance the financial inclusion. RRBs were envisaged as hybrid banks, incorporating the technical competence and professionalism of the commercial banking system with the local field-level knowledge and lowcost structure of the cooperative banking system. The issues of outreach and credit were fundamental and integral to the concept of RRBs. The creation of the National Bank for Agriculture and Rural Development (NABARD) in 1982 was specifically intended to extend credit and financial services to farmers and the rural population.

Addressing financial exclusion main challenge

The cooperatives, which had made sufficient in Poverty and exclusion, continue to dominate socioeconomic and political discourse in India as they have done over the last six decades in the postindependence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world"s poor. It is widely known that there are pockets of poverty and financial exclusion in both urban and rural areas, particularly among slum-dwellers.

As per the Census of India 2001, India had a slum population of 4.26 crore, which constituted 15 per cent of the total urban population. In the rural areas, the common reasons of financial exclusion include non-existence of bank branches in an area, physical distance of the bank from the people, fixed and limited timings of the banks, lack of awareness of advantages of having a bank account, and above all, low income that made it difficult to save. In the case of the urban poor, the reasons are different. There are lots of bank in the urban areas which are not very far away from the slums. Hence, the distance of the bank from the slums cannot be a factor for financial exclusion. Against this background, it was felt that a study on financial inclusion in India would give important clues to understand the nature, causes and determinants of financial inclusion.

frame the way forward to meet the dream of Financial Inclusion: i) New Bank Licenses ii) Business and Delivery Model iii) Usage of banking services iv) Financial Education v) Collaborative Efforts vi) Electronic Benefits Transfer (EBT) Steps have been taken by the Government for the expansion of banking services and linking of opportunities among various segments of financial sector like capital markets, insurance, etc. to achieve its aim of Inclusive Growth. High GDP growth in India, triggered by an open economy has created job opportunities in urban and semiurban India and it will go further into rural India, increasing the potential for growth to vast sections of disadvantaged and low income groups. Taking into account the achievements stated in the study and based on interactions with the stakeholders during our various outreach programmes, as also the feedback received from our meetings with the frontline managers, the various issues need to be discussed and resolved.

Challenges in rural and payment banks

Addressing financial exclusion requires huge effort and resources, thereby taking a longer time to address these imbalances. Economist assumes that human beings as rational and so would respond to a policy like a rational person. However, Behavioral Science has proved that this has not been the case and humans are shown to be irrational at most times. The behavioral economic experts believe that simple changes can lead to more financial inclusion. Several challenges like large area, cost of small value transactions, weak delivery model, unsuitable products, infrastructure, lack of finances, management support have to be effectively dealt with. The automation of core banking processes with the use of channels such as ATM, IVR based Tele-banking, Internet banking, the banking industry has become more profitable. Banks however, face an uphill task of reaching out to the mass customers in remote areas such as villages. Naxal Movement, low Return-on-Investment (ROI), customer behavior, operating expenses inhibits banks from expansion in rural areas. On the basis of above discussion it may be concluded that despite significant growth of financial sector in India a vast segment of population especially low income groups or underprivileged section of society have not been covered under financial inclusion. Availability of banking services to the entire population without any discrimination is the prime objective of financial inclusion. In India there are many reasons for financial exclusion and it bring many negative effects on individual as well as on the society. The main reason for low financial inclusion are lack of adequate supportive infrastructure, absence of appropriate technology, financial illiteracy, lack of suitable financial products and its inflexibility.

Mobile phones and digital technology are changing how people bank and pay for things, in part by leveraging existing communications infrastructure and retail networks such as stores, airtime agents, post offices, and banks. And financial service institutions are reaching out to clients in new ways, such as through converted trucks with ATMs and tellers that take banking services to remote villages. Financial products for agriculture, health insurance, and others are inspiring scalable solutions through careful design that meet client needs within their local contexts. Governments are encouraging these and other new models through policies that encourage innovation, partnership, and responsible finance. At the same time, new data efforts are enabling countries and service providers to know more about unbanked markets and client needs, and to measure progress against nationally determined targets

Future action plan for RBI

The Reserve Bank of India was established with a view to fostering the banking business and not for impeding the growth of such business. The powers vested in it under Section 22 are not one inve sted with a mere officer of the Bank. The standards for the exercise of the power have been laid down in Section 22 itself. The Reserve Bank is a non-polit ical body concerned with the finances of the country. When a power is given to such a body under a st atute which prescribes the regulations of a Banking Company, it can be assumed that such power would be exercised so that genuine: banking concerns could be allowed to function as a bank, while institutions masquerading as banks or those run on unsound lin es or which would affect the interests of the public could be weeded out.

The Reserve Bank‟s developmental role includes ensuring credit to productive sectors of the economy, creating institutions to build financial infrastructure, and expanding access to affordable financial services. It also plays an active The Reserve Bank of India was established with a view to fostering the banking business and not for impeding the growth of such business. The powers vested in it under Section 22 are not one inve sted with a mere officer of the Bank. The standards for the exercise of the power have been laid down in Section 22 itself. The Reserve Bank is a non-polit ical body concerned with the finances of the country. When a power is given to such a body under a st atute which prescribes the regulations of a Banking Company, it can be assumed that such power would be exercised so that genuine: banking concerns could be allowed to function as a bank, while institutions masquerading as banks or those run on unsound lin es or which would affect the interests of the public could be weeded out. The Reserve Bank‟s developmental role includes ensuring credit to productive sectors of the economy, creating institutions to build financial infrastructure, and expanding access to affordable financial services. It also plays an active

Conclusion

The Reserve Bank of India and Government of India has been making many efforts to increase financial inclusion. The emergence of Self Help Group as financial intermediaries in recent year has raised hopes that excluded people and rural India could be effectively financial linked. The Self Help Group Bank Linkage Programme is playing a very important role in the process of financial inclusion in India. The Reserve Bank of India (RBI) was established in the year 1935 in a ccordance with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India entrusted with the multidimensional role. It performs important monetary functions from issue of currency note to maintenance o f monetary stability in the country.

Initially the Reserve Bank of India was a private share holder‟s company which was nationalized in 1949. Its affairs are governed by the Central Board of Directors appointed by the Government of India. Since its inception the Reserve Bank of India had played an important role in the economic development and monetary stability in the country. This paper is an attempt explore into the role, functions, and contribution of RBI in Indian Economy. Keeping in view the role of financial inclusion in the process of inclusive growth, its effective expansion is a must. When people become aware of the proper use and benefits of the financial services they start getting themselves associated with the development schemes run by the government and others. This has a positive impact on the process of inclusive growth. Financial inclusion is a necessary condition for inclusive growth and in order to achieve it, we should remove or reduce all regional imbalance of financial infrastructure.

Financial inclusion should be used as a tool for inclusive growth and Banks, and Micro Finance Institutions, and Non Government Organisations can play a simultaneous major role to 15 achieve it. Banks should redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both as a business opportunity and as a corporate social responsibility. Bank should also ensure wide publicity about their financial products and policies to enhance financial literacy. A series of innovations are making it possible to provide low-cost and convenient financial services to all those who need them.

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