

INDIAN BANKING STRATEGY TO PROMOTE FINANCIAL INCLUSION

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ABSTRACT

This paper summarizes financial inclusion strategy of Indian banks across India. To accelerate the growth and development and condense the income inequality and poverty, the access to safe, easy and affordable credit and other financial services to the poor and vulnerable groups, are recognized as a pre-condition. The aim of financial inclusion is delivery of banking and financial services in a fair, translucent and impartial manner at reasonable cost to the vast sections of disadvantaged and low income group. Now-a-days, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. The fundamental objective of all these initiatives is to reach the large sections of the financially excluded Indian population. . The Government of India and the Reserve Bank of India have been making continuous efforts like the recent “Jan Dhan Yojana” announced in August, 2014 to promote financial inclusion as one of the important national objectives of the country.

Keywords: Financial Inclusion, Initiatives, Jan Dhan Yojana, RBI.

INTRODUCTION

Around 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. The banking facilities are for public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. The various factors that hamper the process of financial inclusion include socio-cultural, economic issues, etc. For instance it includes lack of awareness and illiteracy among the different group of peoples and the lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. Financial inclusion widens the base of the financial system by inculcating a culture of savings among large segment of rural population and helps in the process of economic development. In rural areas, the Gini's coefficient rose to 0.28 in 2011-12 from 0.26 in 2004-05 and during the same period to an all-time high of 0.37 from 0.35 in urban areas.

STATEMENT OF THE PROBLEM

To achieve greater financial inclusion, financial services should reach the poor of socially excluded group's mostly the banks and other financial institutions have played a vital role in filling up this gap. This study helps us to know the financial inclusion position, awareness level, towards no frills account and saving and credit behavior of the low income groups.

OBJECTIVES OF THE STUDY

1. To give an overview of Inclusive Approach to banking and inclusive growth in India.
2. To know the extent of financial exclusion in India.
3. To highlight the various Policy Initiatives taken by Reserve Bank of India in promoting financial inclusion.
4. To analyze the current status of financial inclusion in Indian economy.

RESEARCH METHODOLOGY

The study focuses on Inclusive approach to banking or financial inclusion initiatives and other interventions by the banks in attaining Inclusive Growth. The Study is based on secondary data compiled from Reserve Bank of India Publications, NABARD, Economic survey of India, various journals, reports, books, magazines, newspapers, e-journals, etc.

FINANCIAL INCLUSION AND INCLUSIVE GROWTH IN INDIA

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. After the globalization, the Indian economy has marked the considerable expansion in different sectors. India has the prospective of becoming the fastest growing economy in the world in the coming decades. The major reasons for the growth are competitive environment, rise in the total productivity, promising of entrepreneurship, etc. Our vivacious democracy is also a primary determinant of rapid growth.

How inclusive is the Indian financial system? Census 2011 shows that out of 24.67 crore households in the country, only about 14.48 crore or 58.70 per cent households had access to banking services. Further, of the 16.78 crore rural households only about 9.14 crore or 54.46 per cent households were availing of banking services. But that is only one aspect of the financial exclusion story. The World Bank Findex Survey (2012) points out that only about 35% of Indian adults had access to a formal bank account and a meager 8% borrowed formally in the last 12 months. If we were to broaden the canvas and examine the exclusion in the other financial segments of insurance and securities market, the situation would be far worse.

Financial Inclusion Indicators for 2011

	Brazil	Russia	India	China	South Africa	United States
Account at a formal financial institution, older adults (% , age 25+)	62.0	51.9	38.0	63.3	59.1	90.7
Loan from a financial institution in the past year, older adults (% , age 25+)	8.1	8.5	8.8	7.9	11.8	21.6

Source: World Bank (Global Findex)

The present extent of financial inclusion does not adequately match up to other BRICS nations. For example in 2011, just 38 per cent of the adults had accounts at formal financial institutions in India as compared to over 50 per cent in other BRICS economies, and even higher in the United States. Clearly, there is a significant distance that we still need to cover to achieve universal financial inclusion.

Banking - key Driver for Inclusive Growth The criticality of the financial sector in ensuring equitable and sustainable development was realized quite early in the post-independence period and there was a focus on channeling credit to the neglected sectors of the economy and weaker sections of the population. Increasing access to credit for the poor has been a core concern for India's planning architecture, in its fight against poverty. The early initiatives like nationalization of banks (1969&1980), outlining priority sector lending requirements for banks, Lead Bank Scheme, Regional Rural Banks (RRBs-1975), Service Area Approach (1989) and Self-Help Group-Bank Linkage Programme (1989-90), all these initiatives were taken with an underlying objective of taking banking services to the masses and making them participate in the developmental process of the economy initiatives were undertaken to expand the outreach of banking facilities and increase the flow of credit to rural areas. However, the broad approach towards financial inclusion followed in 1970s and the 1980s was more oriented towards credit requirements of specific sectors. There was also relatively low emphasis on individual / household level inclusion. The focus of banking policy during 1990s and up to early 2000s was more on creating a strong and efficient banking system. An important step to bring financially excluded people within the fold of formal financial sector was the promotion of microfinance in India. The objective of bringing financially excluded people within the fold of the banking sector received renewed emphasis in 2005-06.

Financial Inclusion in India – Measures taken by RBI and GOI for financial Inclusion All the regulatory blockages have been removed by the RBI for achieving the financial inclusion. The favorable regulatory environment has been promoted to attain the targeted goals. The government of India has been taking efforts for inclusion like creation of State Bank of India in 1955, nationalization of commercial banks in 1969 and 1980, initiating the Lead Bank Scheme in 1970, establishing Regional Rural Banks (RRBs) in 1975, introducing a Self-Help Group (SHG) Bank Linkage Programme in 1992 and formulating the Kisan Credit Card scheme in 2001. The measures taken to structure financial inclusive system by Reserve bank of India and the Government of India since 2005 are as follows: Introduction of ‘No Frill accounts’ The RBI has taken several steps to push up the

financial inclusion drive by giving the permission to banks to offer more products and have easier KYC (know-your-customer) norms to open bank accounts under the Pradhan Mantri Jan Dhan Yojana by allowing acceptance of only one of the documents - proof of address or proof of identity. Intermediaries like non government organizations, Self Help Groups (SHGs) and Micro Finance Institutions (MFI) and other societal association as business facilitator.

Business Facilitator and Business correspondent model.

In the Union Budget 2007-08, the government announced the creation of two funds-Financial Inclusion Fund and Financial Inclusion Technology Development Fund Project Financial Literacy, Financial Literacy and Credit Counseling.

RBI Regional Director for New Delhi Deepak Singhal said "We are furthering financial inclusion in a mission mode through a combination of strategies ranging from relaxation of KYC regulatory guidelines, provision of new products and supportive measures to achieve sustainable and scalable Financial Inclusion" The regulations have been made with a motive of access of banking services to more than 6lakh villages and to make it compulsory for the banks to open 25 per cent of branches in rural areas as the RBI will easily grant the license to the banks. The mobile banking may be expanded as a part of financial inclusion drive to target 7.5crore bank accounts by 2018. All the banks are advised to open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card. The two-phase financial inclusion programme has been constructed by the government wherein an overdraft facility of Rs. 5,000 would be provided to 15crore people by August, 2018. The banks are also encouraged to offer a general-purpose credit card (GCC) facility at their rural and semi-urban branches. The credit to the cardholder will be up to Rs. 25,000 Highlights of Major Policy Initiatives for Financial Inclusion and Inclusive Growth

Credit Linked Government Sponsored Schemes and Inclusive Growth

The Reserve Bank of India monitors the flow of credit under the following credit linked Government Sponsored Schemes implemented by various Ministries of the Government of India RBI issues guidelines / instructions to banks periodically on proper Implementation of Centrally Sponsored Schemes and collates bank Wise/State wise data on achievements made by the banks on these Schemes on the basis of returns submitted by them, few major schemes are:

1. National Rural Livelihood Mission (NRLM): formerly Swarna jayanti Gram Swarozagar Yojana (SGSY) implemented by the Ministry of Rural Development, GOI through Scheduled Commercial Banks, Regional Rural Banks, Co-operative Banks.

2. National Urban Livelihood Mission (NULM) formerly Swarna Jayanti Shahari Rozgar Yojna (SJSRY) implemented by the Ministry of Housing and Urban Poverty Alleviation, GOI through Scheduled Commercial Banks(excluding RRBs)
3. Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS) implemented by the Ministry of Social Justice and Empowerment, GOI through Public Sector Banks
4. Differential Rate of Interest (DRI) Scheme implemented by the Ministry of Finance, GOI through Indian Scheduled Commercial banks Bank credit given to the beneficiaries (weaker sections) under the above Schemes comes under Priority Sector lending. In India, a number of initiatives have been taken by a number of authorities with regard to financial inclusion. These are: a) Rangarajan Committee Report (2008) instituted by the National Bank for Agriculture and Rural Development (NABARD), b) Raghuram Rajan Committee Report (2009) set up by Planning Commission c) Malegam Committee Report (2011) to study issues and concern in the Microfinance Institute (MFI) established by the Reserve Bank of India (RBI) and d) Microfinance Institutions (Development and Regulations) Bill (2012) instituted by the Finance Department, Government of India. The RBI had in September 2013, appointed Dr. Nachiket Mor Committee on Committee on Comprehensive Financial Services for Small Business and Low Income Households to examine the challenges to Financial Inclusion.

Activities undertaken by Financial Literacy Centres

Particulars	During year ended March 2013	During year ended March 2014
No. of Outdoor Activities conducted	40,838	56,985
Outdoor Activities - No. of persons participated	1,733,198	3,178,425
Indoor Activities - No. of persons participated	483,980	647,643
Total No. of persons participated -Outdoor &Indoor activities	2,217,178	3,826,068

Source: rbi.org.in

To achieve meaningful financial inclusion, the financial literacy efforts are primarily directed towards spreading of simple messages of financial prudence, in vernacular languages, through large awareness campaigns across the country combined with strong roll out of financial inclusion plans by banks, insurance and pension funds and others. Financial education can be a social infrastructure facilitating inclusive growth.

Financial Inclusion Plan-Summary Progress of all Banks including RRBs

	March 2011	March 2012	March 2013	March 2014	Progress 2011-2014
Banking outlets-Total	1,16,208	1,81,753	2,68,454	3,83,804	267,596
BSBDAs Total (No. in millions)	104.7	138.5	182.1	243.0	138.3
KCC (in millions)	27.11	30.24	33.79	39.9	12.79
GCC(in millions)	1.70	2.11	3.63	7.4	5.7

Source: Annual Report of RBI (Various Years)

A snapshot of the progress made by banks under the 3-year FIP (April 2010-March 2014) on key parameters is depicted in above table.

- The number of banking outlets has gone up to nearly 3, 83,804. Out of these, 2, 68,454 banking outlets were opened during 2013. This shows bank connectivity has improved.
- More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.
- Numbers of Kisan Credit Cards outstanding have gone up from 27.11 million in 2011 to 39.9 million in 2014.
- Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2014, banks had 7.4 million GCC accounts. Numbers of General Credit Cards outstanding have gone up from 1.70 million in 2011 to 7.4 million in 2014.

Financial Inclusion Plans (FIPs) RBI encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs).

- Board approved 3 Year FIPs- April 2010 to March 2013, Next 3 years FIPs prepared for April 2013-2016.

To be reviewed in SLBCs.

- FIPs of Regional Rural Banks- Prepared after Core Banking Solution (CBS) migration.
- Self-set targets – 46 Parameters-FIPs to be integrated with Business plan of the banks.
- Basic Accounts, Electronic Benefit Transfer, Kissan Credit Card, General Credit Card accounts to be opened including through Business Correspondent model.
- Specific products to be designed to cater to the financially excluded segments.
- Close Monitoring by Reserve Bank of India- Monthly Reporting- Annual Comprehensive Review.
- FIPs Disaggregated - Regional Offices of RBI to review state level FIPs.

Financial inclusion plan and its evaluation The first phase of FIPs was implemented over 2010-13. The Reserve Bank has used FIPs to gauge the performance of banks under their FI initiatives.

A brief of the performance of banks under FIP up to March 31, 2014 is:

- The number of banking outlets has gone up to nearly 3, 84, 000. Out of these, 1, 15, 350 banking outlets were opened during 2013-14.
- Nearly 5, 300 rural branches were opened during the last one year. Out of these, nearly 4, 600 branches were opened in unbanked rural centers (Tier V and Tier VI centers).
- Nearly 33, 500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014.
- More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.

With the addition of 6.2 million small farm sector credits during 2013-14, there are 40 million such accounts as on March 31, 2014.

- With the addition of 3.8 million small non-farm sector credits during 2013-14, there are 7.4million such accounts as on March 31, 2014.
- Nearly 328 million transactions were carried out in BC-ICT accounts during the last year as compared to 250 million transactions during 2012-13.

Challenges and Concerns

- The banks are faced with high working cost in providing the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also creating the problem.
- The problem of high transaction cost and outreach faced by the banks can be dealt with the use Information Technology based solutions, such as mobile phones and smart cards, create data base for credit risk management and pricing.
- There are over 403 million mobile phone users today of which around 187 million (46 per cent) do not have a bank account. The Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) can be used to (i) fund support for capacity building of BCs and BFs and render promotional support for SHGs and other institutions; and (ii) financial support for rural kiosks, IT and such other technological solutions for financial services in rural India.

- Further, reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode.
- The key indicators show that the banks are enabling financial inclusion and promoting inclusive growth though such initiatives are challenges in size and scope.
- Inclusive financial sectors can break the vicious circle of poverty if implemented properly. It can empower the poor and ensure that poor people have access to a wider range of financial services, for this persistent effort from all the stakeholders is required.
- The Reserve Bank remains committed to create a conducive regulatory environment where financial entities can ensure hassle free financial services to the poor without jeopardizing financial stability.
- The level of financial inclusion in the country, both qualitatively and quantitatively can improve substantially by expanding the size and scope of the rural financial system landscape and, thereby, addressing the persistent and emerging challenges relating to rural finance.
- Financial Inclusion has emerged as a tool for the socio-economic development of the society. The basket of financial services under Financial Inclusion will create an opportunity to capture the underserved market fulfilling corporate social responsibility thereby driving the economic growth of the country.
- The underserved population in India needs social improvement and attention to basic needs. Once the underserved are socially and economically stable, financial literacy, formal sources of microfinance and appropriate delivery channels can aid inclusive economic growth.
- Financial inclusion is back in the public interest after Prime Minister of India announced the launch of Pradhan Mantri Jan Dhan Yojana, a scheme to bank the poor. The spirit of pushing economic development agenda by making a mandate of Sabka Saath, Sabka vikas will definitely guide banks towards better stability and growth.
- No doubt the numbers of initiatives have been taken but yet more needs to be done. The policy must encourage private sector banks to open the new branches in rural areas. This will to serve the banking services to the unserved sections of the society.

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