INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN 2278 – 0211 (Online)

Contributorial Role of Banks in Financial Inclusion

Dr. Madhu Gaba
HOD, Department of Commerce and Management, Arya PG College, Panipat, India

Abstract:
The high growth rate of Indian Economy indicates that India will become a developed country in a few years. The success of any country depends upon its integration with the world economy in terms of talent, skill, creativity, knowledge and delivering the products and services up to world standard. The accomplishment of this objective requires Financial Inclusion which is dependable upon the sound and equitable financial system. Financial Inclusion is availability of banking services at an affordable cost to the disadvantaged and low income groups. The present paper describes the role of banks in Financial Inclusion under the measures taken by RBI in the form of polices, directions and guidelines. RBI'S contribution in Financial Inclusion is no doubt appreciable. But the inclusive growth of India demands the support of the whole financial system and above all the govt., the policy makers, the media and the public will have to do continuous efforts to make the Financial Inclusion, a great success.

The world is bullish on India these days. A global analyst predicts that India would gain superpower status in few years. All the sections of economy from it to manufacturing are booming. Internet connectivity is exploding creating new opportunities across the country. The growth trend of Indian economy over the last few years gives an indication of beginning of a new phase of higher growth i.e. more than 8% in coming years. This makes the country the second largest economy after China. Foreign investors are always ready to invest their money in India. Indian companies are venturing beyond Indian shores, acquiring global companies. India is the having the youngest population, attracting every country because of potential of big market. Moreover India is always rich in terms of talent, the most precious resource. In this area of LPG, the success of a country depends upon the integration of it with the world economy and application of talent, skill and creativity in the knowledge economy. What we India to be? We must have a very clear vision about it. We want to build a nation in which all the citizens may get equal opportunities to grow. There may not be any concentration of any economic power and fruits of prosperity are equally distributed. For this we must build an infrastructural eco – system that supports entrepreneurs and business to deliver products and services up to the world standard. In order to accelerate the rate of economic growth, government must encourage PPP (Public, Private participation) in the key areas of economy.

The banking sector is the life blood of any economy. Banks play an important role in the success or failure of an economy. They are one of the oldest financial intermediaries in the financial systems. Banks contribute in mobilizing of deposits and disbursement of credit to various sectors of economy. Many research studies reveal that countries having a stronger banking system grow faster than countries having a weaker banking system. Thus banking system reflects the economic health of the country. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low income groups. It is a measure to ensure that each individual is financially literate and has an access to banking system in terms of deposits, loan remittances and insurance and is affordable for the poorest of the poor. It also enables the beneficiaries of govt. welfare schemes to enjoy timely payments. Thus financial inclusion is the inclusion of those excluded from the payment system or from the formal credit system and consequently availability of financial products and resources in a fair and equitable manner and providing services to arrest and deterioration of income, restructuring of debt solution to overcome debt burdens and improve money management skills. As far as the Indian story regarding financial inclusion is concerned, it reveals that out of 6, 00,000 habitations only 30000 have commercial bank branches. Only 40% of population across the country has bank accounts out of which many are dormant accounts. Proportion of people with life insurance and non - life insurance is 10% and 0.6% respectively. People with debit cards are 13% and with credit cards are 2%.51% of 90 million households did not have credit from institutional/non-institutional sources. Financially excluded people are marginal farmers, landless labourers, oral lesser, self employed and unorganized sector enterprises, urban slum dwellers, migrants' ethnic minorities and socially excluded groups, senior citizens, women, the north east, eastern and central regions.

The main reasons for financial exclusion is the lack of regular income and in most of the cases people with low income do not qualify for a loan. The occurrence of transportation cost due to the non-proximity of financial service is another reason. Ignorance of most of the excluded consumers about bank products beneficial for them is the other reason. Moreover, these people get money easily from a moneylender for meeting their financial requirements than a loan from a bank because banks need collateral securities for their loans which are generally not available with them. Banks make more focus on larger accounts due to profitability and these people need small loans, so this is more profitable for the banks and thus these people are excluded. Financial exclusion is a major hurdle in the path of inclusive growth of India. Inclusive growth ensures equal growth opportunities rather than skewed at the top. It is concerned with the reduction of poverty and disparities of income and maintaining the minimum standard of living in terms of education, health, finance, housing and employment and also the Financial Empowerment. The move towards inclusive growth is a big challenge for financial system. Banks and financial institutions need to re-orient their strategies to have an effective reach.RBI is committed to make financial inclusions through banks, in order to make inclusive growth of India, a success. Various measures have been taken by RBI to provide appropriate banking facilities to all habitations having the population more than 2000 State Level Banker Committees (SLBC'S) formulated their road maps for financial inclusion. A planned approach has been followed to make financial products and services available to underprivileged sections at an affordable cost. The steps taken by RBI in financial exclusion are enumerated below –

- RBI advised banks to formulate (FIP) Financial Inclusion Plan themselves by developing their own business model in conformity with the comparative competitive advantage.
- There must be an integration of FIP with the normal business plans of the banks. Banks have been freed regarding interest rates decisions and bank charges. Banks must view Financial Inclusion as a huge business opportunity and perfect their Delivery Models
- Banks must implement CBS (Core Banking Solution) in all their branches and integration of front end devices with the back end systems.
- Banks must increase the rate of offering of products to customers like insurance, mutual funds etc. in addition to saving cum overdraft account, recurring savings account, remittance product to facilitate EBT, GCC (General Purpose Credit Card) or KCC (Kisan Credit Card)
- Villages having population of more than 2000 or less than 2000 must identified and they must have either a bank branch or BC and all this information need to be indicated on the banks' websites.
- RBI gave a special focus on Financial Inclusion at Urban and Metro centre's through functional approach and at the same time efforts have been made to remove all regulatory bottle reeks for facilitating greater Financial Inclusion. All banks have been urged to include criteria relating to financial literacy and financial inclusion performance evaluation of their field staff.

Financial inclusion was explicitly made as a policy objective since 2005 and then the RBI started fulfilling its commitments towards the achievement of its goal in terms of Nationalization of Banks, Lead Bank Schemes, RRB and encouragement to service area. The usage of IT enabled financial inclusion by leveraging on the smart cards/mobile technology. Handheld devices are being used extensively by business correspondents of the banks to reach the banking services to remote villages, Electronic Benefits Transfer of NREGA, wages and social security payments contributed a lot in this context. Pilot projects are also underway in most states of the country. The emergency of Self Help Group concept and Credit Innovations like microfinance has also evolved as socially significant and commercially attractive models of credit delivery. NABARD launched SHG-Bank Linkage Program in 1992 to establish a link between formal and informal financial sectors. Now according to the NABARD report on the status of microfinance more than 86 million poor households are covered under SHG Bank Linkage Program. Moreover, frill account was launched by RBI to offer basic banking with zero or low balance and minimum charges to expand the outreach of such accounts to the low income groups.

Liberalized Branch Expansion Policy of RBI encouraged branches in the rural areas specially 40% of the net credit must be lent to priority sector according to the new guidelines of RBI. Use of information technology is mandatory for speedy financial inclusion while ensuring that inclusion while ensuring that solutions are highly secure ,and enable to audit and follow widely open standards to ensure eventual inter-operability among different systems. RRB'S and co-operative banks are allowed to sell Insurance and Financial products. On the recommendations of RBI ,Financial Literacy Programs have advised the convener bank of each state level to set up a financial literacy cum counseling centre in any one district on a pilot basis and extending this facility to other districts also. Till now, 154 credit counseling centre's have been set up in various states of the country to provide free financial education to people in rural and urban areas on various financial products and services while maintaining a close relationship with parent bank. About 700 financial literacy centers have been set up banks. These are rural Self Employment Training Institutes working towards capacity building for taking up self employment works.

To ensure the access of banking services to the excluded ,banks have now been advised to draw up a fresh 3- year Financial Inclusion Plan for the period 2013-16 covering disaggregation more emphasis is now on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

During 2013-14 RIDF (Rural Infrastructural Development Fund) was set up with NABARD with a corpus of 200 Billion. In the same line the other funds were also established with SIDBI, NHB, and UHF etc. having the budget of 100 Billion, 60 Billion and 20 Billion. The following table reveals the story of progress made by the banks in the field of financial inclusion up to 2013

(Status as on March 31, 2013)					
Particulars	**Year ended Mar 2010**	**Year ended Mar 2011**	**Year ended Mar 2012**	**Year ended March 2013**	**Progress April 2010 - March 2013**
1	2	3	4	5	6
Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459
Banking Outlets in Villages - BCs	34,174	80,802	1,41,136	2,21,341	1,87,167
Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134
Banking Outlets in Villages - TOTAL	67,694	1,16,208	1,81,753	2,68,454	2,00,760
Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696
Basic Savings Bank Deposit A/c through branches (No. in millions)	60.19	73.13	81.20	100.80	40.61
Basic Savings Bank Deposit A/c through branches (Amt. in ` billions)	44.33	57.89	109.87	164.69	120.36
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.30	81.27	68.00
Basic Savings Bank Deposit A/c through BCs (Amt. in ` billions)	10.69	18.23	10.54	18.22	7.53
BSBDA Total (in millions)	73.45	104.76	138.50	182.06	108.61
BSBDA Total (Amt. in ` billions)	55.02	76.12	120.41	182.92	127.90
OD facility availed in Basic Savings Bank Deposit A/c (No. in millions)	0.18	0.61	2.71	3.95	3.77
OD facility availed in Basic Savings Bank Deposit A/c (Amt. in ` billions)	0.10	0.26	1.08	1.55	1.45
KCCs - (No. in millions)	24.31	27.11	30.24	33.79	9.48
KCCs - (Amt. in ` billions)	1,240.07	1,600.05	2,068.39	2,622.98	1,382.91
GCCs - (No. in millions)	1.39	1.70	2.11	3.63	2.24
GCCs - (Amt. in ` billions)	35.11	35.07	41.84	76.34	41.23
ICT A/Cs-BC- Transaction - No. in millions	26.52	84.16	155.87	250.46	490.49
ICT A/Cs-BC- Transactions - Amt. in ` billions	6.92	58.00	97.09	233.88	388.97

Table IV.4: Financial Inclusion Plan - Summary progress of all banks including RRBs

Conclusion

The data in above table reveals that RBI has taken a lot of steps to contribute in Financial Inclusion. New directions, policies and guidelines have been issued to banks to do maximum in this context. The intensity of efforts by banks must be increased in this direction. Banks needed to develop a move sensitive approach in delivering viable financial inclusive products, demanded by the excluded population. Provision of finance for growth is not enough but access to it for those who are getting crowded out of the credit market is equally important. But banks alone will not be able to achieve the goal of Financial Inclusion unless an entire support system helps in this mission. Universal Financial Inclusion is possible only when we are able to attain the support of policy makers, govt., IT solutions providers, media and public at large .The need of the hour is to ponder on this issue that unless it is addressed at gross root level, the performance of all these initiatives cannot be optimized.

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