THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Financial Inclusion & Indian Banking Sector

Sahil Mahajan
Assistant Professor, Govt. P. G. College, Dharamshala, India

Abstract:
For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Finance being life blood of any business is an important component during commencement, continuity and closure of any business organization and to provide right type of finance and right time, the role of banks can never be overlooked. The banking scenario in India has travelled by through different phases for its growth, development and sustainable existence. Financial inclusion which is a result of banks consistence efforts to involve all stakeholders from grass root level with a mission and vision of social growth ,involvement and of course expansion in overall banking activities. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many number of challenges in financial inclusion areas to sought out various issues coming up from time to time in changing economic scenario such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improve the financial economic growth. A nation can grow economically and socially if the financially dependent section can turn out to be financial independent. This paper is an attempt to overview the concept of financial inclusion, and its need for social and economic development of the society. The study also attempts to analyze contribution of Indian Banking sector as a whole under the supervision and guidelines of RBI in implementing the financial inclusion through 'No frill accounts' etc. This paper attempt to analyze the role of financial inclusion in Emerging economies(BRICS) & financial inclusion can bring about social inclusion which is the contribution to rural and urban India through the efforts of banking sector by 'banking the unbank' sectors.

Key words: *Financial inclusion, RBI, Financial stability, no frill accounts, stakeholders, BRICS (Brazil, Russia, India, China, South Africa)*

1. Introduction

Banks play an important role in the economic growth of any country. Banking institutions occupy a key position in today's economy. In real sense banking is a life blood of modern commerce. Bank composes the central part of country's financial structure. Despite of the fact that banks creates no wealth, but their lending, investing and related activity facilitates the economy, process of production, distribution and consumption. Banks encourages investment and they buy help in capital formation by mobilizing saving, they collect the funds and rent to entrepreneurs. Thus banks play a dominant and useful role in promoting economic development by mobilizing the financial resources of community and by making their flows into desired channels. The first presidency bank was established in Calcutta in 1806 under the name of 'Bank of Calcutta'. It was later renamed in 1809 as the 'Bank of Bengal'. Other two presidency banks were 'The Bank of Bombay' and the 'Bank of Madras' which were established in 1840 & 1843 respectively. In 1920 these banks are amalgamated and new bank 'Imperial Bank of India' was formed. Several other joint stock banks were established in 1813, but most of those banks did not stay for long and they did not confine themselves to banking business only. During the period of 1913-1917 87 banks failed with the total paid up capital of over Rs.1.75 crores, which was slightly more than half of the total, paid up capital of all the joint stock banks that survived in 1917. This failure did much to weaker public confidence of Indian joint stock banking. The year1949 marks the beginning of a new era in the history of Indian banking for the first time comprehensive legislation was passed to control the activities of the commercial banks. Under the legislation the Reserve Bank of India was given very wide powers to control and supervision. After 1949 smaller and weaker banks either liquidated themselves completely or merged themselves in bigger banks. In 1969 a big change took place when commercial banks were nationalized.

The banking sector in India achieved huge growth in terms of quality of assets and efficiency since economic liberalization in 1991. The Banking system in India is one of the few systems which remained financially safe and sound and was not even affected much by the Global Slowdown in the year 2008. Even though the disversement made by Banks is currently around 50% of the country's GDP as compared to less than 19% at the beginning of the decade. To reach the Door steps of every individual at village level the financial inclusion strategy is adopted by the different Banks to reach and meet every potential customer. Financial inclusion which is process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

As per the census of 2011 a vast section of Indian population is still deprived of Banking facilities as well as still unbanked so far as Banking access is concerned. More than half of the population is still without access to Banking because 55% of the population has deposit accounts while 9% of them have credit accounts. India has the large number of households i.e. 145 million and is excluded from Banking services, 41% of which do not avail formal Banking services. Hence there is a great potential to tap financial resources in unbanked areas in India. Out of 6 Lakh villages only 33,500 villages have Banking facilities which is a great challenge for the Banking sector which can be met by meeting and greeting the unbanked population. The basic reason for such huge unbanked population is their residence in rural areas, difficulty in accessing Banking services, high cost of travel because of non availability of branches in rural areas, long queues, unawareness, lack of ICT etc. etc.

2. Resaearch Methodology

Research methodology is based on descriptive study. This study attempts to analyze contribution of Indian Banking sector as a whole under the supervision and guidelines of RBI in implementing the financial inclusion through 'No frill accounts' etc. The attempt of financial inclusion can bring about social inclusion which is the contribution to rural and urban India through the efforts of banking sector by 'banking the unbank'. The CSR in Indian Banking Sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio economic development of the country by focusing on the activities like, poverty eradication, health and medical care, rural area development, self employment training and financial literacy trainings, infrastructure development, education, and environmental protection etc.

3. Objectives of Study

- To study the banking scenario in India and financial inclusion
- To study the role of Banking Sector in India in implementing the financial inclusion through 'No frill accounts'.
- To study the access of rural people to bank branches and the number of ATM opened in those areas

4. Sources of Data

The study is based on published data available in respect of Indian Banking sector. The sources of data include the annual data of Report on Trend and Progress of Banking India, report of RBI, CSO, World Development Indicators journals etc.The collected data has been examined with the help of statistical tools and techniques such as average, time series, percentage etc

5. Financial Inclusion

According to United Nations the main goals of Inclusive Finance are as follows:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
- Financial and institutional sustainability as a means of providing access to financial services over time
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).
- It is worthwhile to study an international experience in tackling the problem of financial exclusion in India.

5.1. Need of Financial Inclusion

There has been a many objectives related to the need for financial Inclusion such as

- Economic Objectives:
  For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.
- Mobilisation of Savings
  If the weaker sections are provided with the facility of banking services the savings can be mobilised which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.
- Larger Market for the financial system
  To serve the requirements and need of the large section of society there is a urgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
- Social Objectives
  Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.
- Sustainable Livelihood
  Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.

- Political Objectives
  There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

5.2. Initiation of Financial Inclusion Concept in India

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The Reserve Bank of India setup a commission (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). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K C Chakraborthy, the chairman of Indian Bank.

The RBI asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of the campaign states or Union Territories like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture and along with Microfinance, focus on Micro insurance too is needed.

5.3. Process and Phases of Financial Inclusion in India

- 1950-70: Consolidation of the banking sector and facilitation of industry and trade.
- 1970-90: Focus on channeling of credit to neglected sectors and weaker sections.
- 1990-2005: Focus on strengthening the financial institutions as part of financial sector reforms.
- 2005-onwards: Financial inclusion was explicitly made as a policy objective.

The process of financial inclusion in India can broadly be classified into three phases. During the First Phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self- Help Group (SHG)-bank linkage program in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage program was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision making by the poor and provide ‘door step’ banking. During the Third Phase (2005 onwards), the ‘financial inclusion’ was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through ‘no frills’ accounts

Sr. No.	**Particulars**	**Year ended Mar 10 (1)**	**Year ended Mar 12 (2)**	**Growth (2-1)**
1	No. of BCs/BC Agents deployed	33042	96828	63786
2	Banking outlets through Branches	21475	24701	3226
3	Banking outlets through BCs	32684	120355	87671
4	Banking outlets through other Modes	99	2478	2379
5	Total No of Banking outlets	54258	147534	93276
6	No Frill ACs (No. in Millions)	49.33	103.21	53.88

Sr. No.	Particulars	Year ended Mar 10 (1)	Year ended Mar 12 (2)	Growth (2-1)
7	Overdraft –No Frill A/Cs (No. in Millions)	0.13	1.52	1.39
8	BC-ICT Based A/Cs (No. in Millions)	12.54	52.07	39.53
9	EBT A/Cs-through BCs (No. in Millions)	7.48	21.76	14.28
10	KCC (No. in Millions)	17.63	22.34	4.71
11	GCC (No in Millions)	0.45	1.27	0.82

Table 1: Financial Inclusion Programme in India at Glance
Source : www.rbi.org.in

Due to unrelenting efforts of Reserve Bank of India, a significant and positive growth in all aspects of financial inclusion from the year 2010. As in March 2012, about 96,828 business correspondents and customer service providers (CSP) were employed in India. There was a substantial increase of 63,786 business correspondents who were employed from 2010-2012. RBI took special initiatives to promote the financial inclusion programme through ICT based business correspondent (BC) model, which focuses on the delivery of low cost door step banking services in the remotest villages (branchless banking).As per the source from Cellular Operators Association of India number of mobile phone users as on April 30, 2009 is 403 million out of which 46% do not have a bank account. This statistics clearly speak about the necessity to bring in more people into the banking fold. Through this may not sound an appropriate comparison but the people using mobile phones can be brought into the banking fold.

5.4. Outreach Of Banking Sector Country Wise Position :(India Vis-À-Vis The World)

Geographic and demographic penetration indicates the outreach of banking sector. Geographic penetration can be measured in terms of number of bank branches per 1000 sq km and number of ATMs per 1000 sq km. larger number of branches and ATMs per Sq. kms. The following table represents the comparison of Geographic and Demographic penetration of Banking Services of various countries

Country	Geographic Penetration		Demographic Penetration	
	No of bank branches per 1000 sq km	No of ATMs per 1000 sq km	No of branches per 100,000 people	No of ATMs per 100,000 people
Korea	65.02	436.88	13.4	40.03
U.K	45.16	104.46	18.35	42.45
India	22.57	-	6.3	-
Indonesia	10	5.73	8.44	4.84
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.8
Russia	0.19	0.53	2.24	6.28

Table 2
Source: Reaching Out: Access to and use of banking services across countries, Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria, World Bank Policy Research, WPS 3754, World Bank, 2005 # - As per Trends and Progress of Banking in India, RBI, 2006-07 (Appendix Table III.35) , end March 2007 there were 27,088 ATMs of Scheduled Commercial Banks in India

As can be seen from the above table India being the developing nation and having a large number of rural sector still it lags behind in providing the basic facility of opening of number of bank branches in the rural areas. As India being part of emerging economy and part of BRIC (Brazil, Russia, India, China) we can easily analyse that India still lags behind in represent the comparison of Geographic and Demographic penetration of Banking Services of various countries.

6. No Frill Account

The annual policy statement of April 2005, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. With a view to achieving greater financial inclusion, all banks were asked to make available a basic banking 'no frill' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. The nature and number of transaction in such accounts could be restricted, but made known to the customer in advance in a transparent manner. All banks were urged to give a wide publicity to the facility of such 'no frill' account so as to ensure great financial inclusion.

In order to reach the benefit of 'no frill' accounts to low income groups both in urban and rural areas, the KYC procedure for opening of accounts has been simplified for those who intend to keep balances not exceeding Rs.50000/- in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed R. 100000/- in a year.

Category	March 31, 2006	March 31, 2007	March 31, 2008*	March 31, 2009*	Row Total
Public Sector Banks	332878	5865419	13909935	29859178	49967410
Private Sector Banks	156388	860997	1845869	3124101	5987355
Foreign Banks	231	5,919	33,115	41,482	80747
Column Total	489497	6732335	15788919	33024761	56035512

Table 3: Progress of 'No frills' Accounts in the Banking Sector in India

*Source:. Report on Trend and Progress of Banking India – 2007-08 2. Data for 2008-09 are received from banks. *: Provisional.*

7. RBI's Initiatives for Financial Inclusion in India

- No Frill Accounts
- Simple KYC Norms
- Other Rural Intermediaries
- Usage of Regional Language
- Easier Credit Facilities

The number of 'no frills' accounts increased from 489497 at end-March 2006 to 4.15 Cr on June 2009. Notably, the public sector banks account for the majority of these 'no frills' accounts as at end-March 2009. Similarly, the number of credit as well as savings accounts per 100 adults has also shown increasing trend over the period 2002 to 2007.

Category	March 31, 2006	March 31, 2007	March 31, 2008*	March 31, 2009*	Row Total
Public Sector Banks	332878	5865419	13909935	29859178	49967410
Private Sector Banks	156388	860997	1845869	3124101	5987355
Foreign Banks	231	5,919	33,115	41,482	80747
Column Total	489497	6732335	15788919	33024761	56035512

Table 4: Bank Wise No Frill Accounts Status

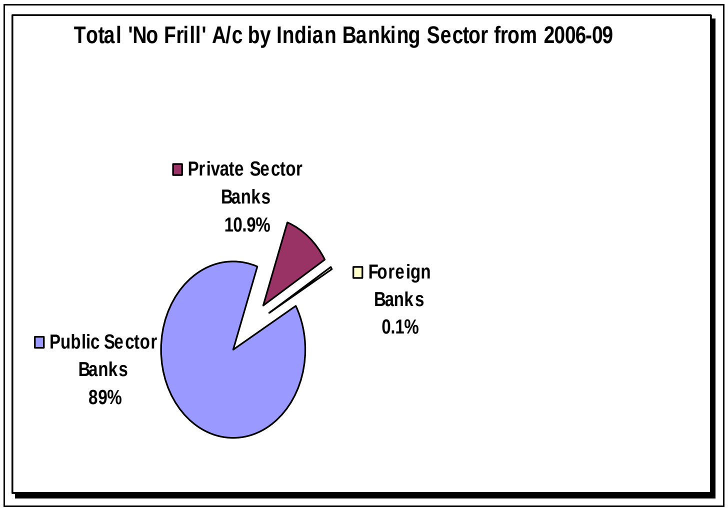

Figure 1
Source: Report on Trend and Progress of Banking India –2007-08

Above figures indicate the significantly major contribution of 89% by Public Sector Banks in order to open 'no frill' accounts to contribute towards financial inclusion followed by Private sector banks up to almost 11% total contribution till 2009 and foreign banks is negligible almost nearing 0% contribution towards 'no frill' accounts which is imp tool for financial inclusion. Also figures show an increasing trend in the growth of 'no frill' account from 2006-2009 in Indian Banking Sector, which is a good sign for financial inclusion in India.

8. Conclusion

Banks play an important role in the economic growth of any country. Banking institutions occupy a key position in today's economy. In real sense banking is a life blood of modern commerce. Bank composes the central part of country's financial structure. According to KC Chakarbarty RBI Deputy Governor "Even today the fact remains that nearly half of Indian population doesn't have access to formal financial services and largely depend on money lenders". The Banking system in India is one of the few systems which remained financially safe and sound and was not evens affected much by the Global Slowdown in the year 2008. To reach the Door steps of every individual at village level the financial inclusion strategy is adopted by the different Banks to reach and meet every potential customer. Financial inclusion which is process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. As per the census of 2011 a vast section of Indian population is still deprived of banking facilities as well as still unbanked so far as Banking access is concerned. More than half of the population is still without access to Banking because 55% of the population has deposit accounts while 9% of them have credit accounts. India has the large number of households i.e. 145 million and are excluded from Banking services, 41% of which do not avail formal Banking services. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders". Indian Banking as a whole as a part of corporate social responsibility should take up issue of opening No Frill Accounts seriously and makes deliberate efforts to achieve financial inclusion. It not only will help Indian society to achieve social inclusion but also helps monetization of Indian Economy and taking bank to unbank. Also RBI has taken various measures to implement financial inclusion more effectively and has recommended it seriously by the private and foreign banks in India. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

9. References

1. Addock, S.A., and Graves, S.B. (1997), "The Corporate Social Performance-Financial Performance Link", Strategic Management Journal, Vol.18 (4), pp. 303-319.
2. Hilmi (2008), "A Conceptual Review on Corporate Governance and its Effect on Firm's Performance: Bangladesh Perspective", AIUB Bus Econ Working Paper Series,
3. Rangarajan C, (2008) 'Report of the Committee on Financial Inclusion', Ministry of Finance, GOI.
4. Dr. Chakarbarty KC, DG, RBI.Keynote address on "Furthering Financial Inclusion through Financial Literacy"
5. Sudha V, Kalidas K, Sampath Kumar R, (2009) edited, 'Financial Inclusion- Aspects, Issues and the Way Forward", Himalaya Publishing House Thorat Usha , 'Financial Inclusion- The Indian Experience', RBI Bulletin , pp 1165-1172

6. Reaching Out: Access to and use of banking services across countries, Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria, World Bank Policy Research, WPS 3754, World Bank, 2005 # - As per Trends and Progress of Banking in India, RBI, 2006-07 (Appendix Table III.35) , end March 2007 there were 27,088 ATMs of Scheduled Commercial Banks in India.
7. http://www.investopedia.com/terms/f/financial-literacy.asp#axzz1pYSASghD, Accessed
8. 15th January 2012.
9. http://www.rbi.org.in
10. www.karmayog.org/csr2010 , Accessed 20th December 2011.
11. RBI, Report on Trend and Progress of Banking in India (1998-2009)
12. RBI, (2010-2012) Circulars of RBI/2005-06/288 DBOD. No. BL. 58/22. 01.001/2010-2012,
13. RBI/2010-12/233 RPCD. R.F. BC. 54/07.38.01/2010-12