

Financial Inclusion – A Proactive Role Played by Indian Banking Sector & RBI in Economic Development”

Dr. M. Srinivas
Prof. & Head, DMS, GCET,
Cheeryal-501301, RR Dist., AP, India,
dr.manthasrinivas@gmail.com

Mr. P. Upender
Asst. Prof., DMS, GCET,
Cheeryal-501301, RR Dist., AP, India,
pinninti.upender@gmail.com

Abstract— This paper is an attempt to appreciate the role & importance of Indian Banking Sector with an extended support of RBI in attainment of Financial Inclusion in-turn reflect as economic in India. Financial inclusion is intended to connect people to banks with consequential benefits. Ensuring that the financial system plays its due role in promoting inclusive growth is one of the biggest challenges facing by the emerging economies. Rural access to a well-functioning financial system by creating equal opportunities will enable economically and socially excluded people to integrate better into the glory of a country's economy and actively contribute towards the economic development and protects themselves against economic shocks. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that the availability of these services to the nation without any discrimination for betterment of economy. In the words of Dr. C. Rangarajan(Former Governor of RBI), financial inclusion is a 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. This can be achieved only through reliable banking agencies like NABARD, Commercial Banks, RRB, Cooperatives. The present study focus on the efforts of bankers' towards attainment of Financial Inclusion without any inter-institutional & inter regional disparities in offering best quality products & services across the nation. This paper also focus light on initiatives made by GOI, RBI, NABARD & Indian Banking Sector and its accessibility to the respective beneficiary

groups through its advanced ECRM services. This paper further study & focus on steps, initiatives, promulgations & guidelines made by GOI & RBI with respect to growing retail banking services & its impact on financial inclusion with the help of key statistics that are being handy to analyse the extent of financial inclusion through SHGs, MFIs & Micro Credit in various states by various national level funding agencies. The author try to concentrate reasonably on inter regional & inter institutional disparities in extension of services through extended levers of Indian banking Sector & its success through resourcefulness of people involved in the process of financial inclusion & slow pace of retail development & its problems to penetrate in to the economy like a plunger. This paper also through light on reasons for failure of financial inclusion and discuss issues & challenges before Indian economy to overcome these problems. In view of recent reforms of GOI & GOAP in delivering Subsidy Benefits under various schemes such as Cooking-Gas etc., only through banking agencies, all the beneficiaries of Government Schemes are forced to have a bank account. Hence, these government reforms stimulate breadth of retailing & financial inclusion process and would be the need of the hour to discuss where our banking agencies & their products stand on ladder to recoup economic development in line with developed economies. As this is a desk research, most of the information from various published reports, statistical reports provided by GOI, RBI, NABARD & with some reliable articles, journals, news reports that are in Google Search Engines.

Keywords— Financial inclusion ,rbi , banking, retailing

I. INTRODUCTION

Financial inclusion denotes delivery of credit and other financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, attempts must be to lift the poor from one level to another so that they come out of poverty. NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). The institutions which currently provide financial services in the rural areas include branches of commercial banks, regional rural banks, cooperative societies and microfinance institutions. What is now required is finding the ways and means to effect improvements within the existing formal credit delivery mechanism and to evolve new models for extending outreach. In a broad sense, we need to address issues on the supply side as well as demand side. The financially excluded sections require products which are customized to meet their needs. Financial exclusion is also caused by demand side issues. Unless steps are taken on the demand side that is in the "real sectors" mere supply side solutions from the financial sector will not work. Credit is necessary for this, but not sufficient. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of small farmers and other poor households. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion & the same can be used for extension of retail banking service across the country. In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. The review of literature suggests that the most operational definitions are context-specific, originating from country-specific problems of financial exclusion and socio-economic conditions. Thus, the context-specific dimensions of

financial exclusion assume importance from the public policy perspective. In the Indian context, The financial services include the entire gamut - savings, loans, insurance, credit, payments etc. By providing these services, the aim is to help them come out of poverty.

II. OBJECTIVES

- To Study the Financial Inclusion Practices in Indian Banking Sector
- To Study Indicators of Financial Inclusion of GOI
- To Study the objectives, Scope & Limitations of Financial Inclusion
- To observe the focus of RBI towards Financial Inclusion
- To Observe the reasons for failure of Financial Inclusion in India
- To Study the Global Experience of Financial Inclusion
- To Study the Issues & Challenges of Indian Banking Sector

III. METHODOLOGY

This is a desk research most of the data collected from the published reports of RBI, NABARD, GOI & journals & internet search engines like Google etc.

Origin & Growth of Banking in India:

Banking initiated in India 18th century. The oldest bank is the State Bank of India, a government-owned bank started in June 1806 and largest commercial bank in the country. In 1969, GOI nationalized the 14 commercial banks. As of now, India has 96 Scheduled Commercial Banks(SCBs), 27 Public Sector Banks, 31 private banks & 38 foreign banks.. As per RBI Reports, the assets stake of public sector is 67.2%, foreign banks is 18.7% , RRBs is 2.75%, Cooperative Banks is 3.4% & LABs is 1.5% in banking sector.

IV. LIMITATIONS OF THE STUDY

- Plenty & Redundant secondary data make article more general rather specific
- Most of the published data is from Reports RBI & NABARD reports
- Data supposed to be represented as it is in annual reports.
- Confidential information & statistics cannot be

revealed by retail bankers due to their institutional restrictions.

Glimpses of Global Financial Inclusion

In many developed countries most of the population have bank accounts e.g., 99%- Denmark, 96%-Germany, 91%- USA & 96%- France(Peachy and Roe, 2004). Surprisingly, countries with low levels of income inequality exhibited lower levels of financial exclusion, e.g. Sweden- 2%, Germany-4% & Belgium-5%(Buckland et al, 2005) and countries with high levels of inequality record higher levels of banking exclusion e.g., Portugal-17%. Different enactments towards financial inclusion globally, In Sweden-banks cannot refuse to open a saving or deposit account; France-right to a bank account; US-Community Reinvestment Act in 1997(Caskey et al, 2006 & Kempson et al, 2000). The financial inclusion initiatives in different countries illustrate the extent & impact of the financial inclusion across several select countries.

Glimpses of Financial Inclusion in India

India has experienced a paradigm shift & growth in the past few decades. Low-Income Indian Rural Households in the economy most of the times adhere to informal channels of credit. They have little awareness & denied access to banking & insurance products, which will protect them from unforeseen circumstances. Rural Households expect security & safety of deposits, low transaction costs, convenience/frequency of operation, lower documentation, frequent deposits, access to credit/remittances which will best fit to their income or consumption from the formal financial systems. Banking agencies expected to play an important role to play in this direction and RRBs was another innovation to serve poor people in better way.

Financial Inclusion & Inclusive Growth In India

Annual Average Growth is around 3.5% during 1950-1980; around 6.0% during 1980-1990; 8.8% during 2004-2007. Indian economy experienced a very higher growth rate of 9.6% in the year 2007. India has 135 million financially excluded households. It is universally accepted that the rural poor need financial assistance at reasonable costs. The liberalization policies tempted the banking agents to tap more profitable business opportunities at the cost of weaker-sections of the society. The large sections of financially excluded were farmers, labourer, oral-lessees, self-employed & unorganized small enterprises, urban-slum, migrants. The due reason may be weak-extension of formal credit to the

rural-poor(Mohan, 2006). It should be aim of any economy to attain inclusive growth by involving all sections of households in the economic development process.

Initiatives for Financial Inclusion in India

The broad strategy for financial inclusion in India in recent years comprises the following elements:

- Focus on backward/unbanked areas through NGOs, MFIs, CSOs and BCs
- Focusing on SLBCs, DCCs, COOPs, & RRBs;
- Use of technology & No frills accounts
- Financial literacy & credit counseling
- Creating synergies between the formal and informal segments

Steps towards Financial Inclusion by GOI

- Branch Expansion through RRBs with due emphasis on credit
- Priority Sector Lending with DIR & Government subsidies
- DIRS through the formal agencies

Remedial Financial Inclusion Measures Taken-up by RBI

- SACP to agriculture through KCC & GCC
- Micro Finance & Micro Credit through SHG concept
- NABARD & RBI initiatives
- Regulation of bankers & Revisiting banking policies to provide extensive services
- Financial inclusion through No-Frill Accounts & OD in SB A/c & Relaxed KYC Norms
- Services of intermediaries by introducing technology products/services
- Allowing RRBs, COOPs to sell Insurance and Financial Products
- Financial Literacy Programs & Creation of Special Funds with 100% Financial Inclusion as prime objective

Indicators of Financial Exclusion

- Credit Accounts per 100 persons with all the institutions
- Savings Accounts per 100 persons with all the institutions
- Loans from the institutional and non-institutional sources only for emergency purposes
- Critical Exclusion in terms of credit is manifest
- Even rich people are excluded and have to depend on non institutional sources for loan purposes

- Number of No-Frill Accounts & Number of rural bank branches
- Number of ATMs & Number of POS
- Number of Debit Cards, KCC & GCC issued by PSBs
- Number of Mobile phones do not have a bank account

Reasons for Failure of Financial Inclusion

- Absence of technology, reach & coverage
- Lack of infrastructure & Financial Products & Stubbornness
- Credit Delivery Channels & Appropriate Business model
- Less Participation by Stakeholders & Compassion towards poor

Issues and Challenges of Indian Banking Sector

- Banking & Branch Network and Credit Delivery Model
- Poverty & Aversion for Financial Inclusion
- High Operational Cost & Restrictive BC model
- Limitation of cash delivery points & Pro-Active Participation of Technology-Players
- Lack of stake-holder participation

Parameters of Financial Inclusion

It was identified that there is a severe gender exclusion till the introduction of SHG & DWCRA groups and entry of NGOs; later the statistics proved that there is substantial & representative growth recorded in financial inclusion process by way opening SB A/Cs., Loan A/Cs and Term Deposit A/Cs with formal banking agents.

financial inclusion process by way opening SB A/Cs., Loan A/Cs and Term Deposit A/Cs with formal banking agents.

SELF-HELP GROUP-BANK LINKAGE PROGRAMME						
(Amount in Rupees Billion)						
Year (End - March)	No. of SHGs Financed by Banks		Bank Loan		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1992-93	255	255	0.00	0.00	0.00	0.00
1993-94	365	620	0.00	0.01	0.00	0.00
1994-95	1502	2122	0.02	0.02	0.02	0.02
1995-96	2635	4757	0.04	0.06	0.04	0.06
1996-97	3841	8598	0.06	0.12	0.05	0.11
1997-98	5719	14317	0.12	0.24	0.11	0.21
1998-99	18678	32995	0.33	0.57	0.31	0.52
1999-00	81780	114775	1.36	1.93	0.98	1.50
2000-01	149050	263825	2.88	4.81	2.51	4.01
2001-02	197653	461478	5.45	10.26	3.96	7.97
2002-03	255882	717360	10.22	20.49	6.22	14.19
2003-04	361731	1079091	18.56	39.04	7.05	21.24
2004-05	539365	1618456	29.94	68.98	9.68	30.92
2005-06	620109	2238565	44.99	113.97	10.68	41.60
2006-07	1105749	-	65.70	-	12.93	54.53
2007-08	1227770	-	88.49	-	16.16	70.68
2008-09	1609586	-	122.54	-	26.20	96.88
2009-10	1586822	-	144.53	-	31.74	128.62
2010-11	1196134	-	145.48	-	31.74	128.62
2011-12	1147878	-	165.35	-	30.73	128.62

Source : NABARD Reports

AS PER Census report 2011, 58.7% households are availing banking services in the country . There are 102,343 branches of SCBs in the country, out of which 37,653(37.08%) bank branches are in the rural areas and 64390(62.9%) in urban area of the country .The no .of ATMs of public sector banks are 8552 in rural area and 61100 are in urban area and in private sector banks 3009 ATMs are located in urban ,40092 ATMs are located in urban as per departmental services of india as on 31-3-2013 . According to the data maintained by RBI, as in December, 2012, there were over 1,15,2000 BCs deployed by Banks.

No	Description	Women(lakhs)	Total (lakhs)	Women as % of total
1	SHG saving in Units	53.1	69.53	76.4
2	SHG credit Linked Units	12.94	15.87	81.5
3	SHG loan outstanding in units	38.98	48.51	80.4

Growth through SHG-Bank Linkage

It was further experienced from previous statistics that there was a remarkable & representative growth recorded by SHG linkage with formal financial institution through

Micro Finance Penetration Index (MFPI) and Micro Finance Poverty Penetration Index (MFPPI).

Coverage of Banking Services:

Region	Current A/Cs	Savings A/Cs	Total Population	Adult Population (Above 19 years)	Total No. Of A/Cs	No. of A/Cs Per 100 Persons	No. of A/Cs Per 100 of adult pop.
Northern	4215701	52416125	132676462	67822312	56631826	43	84
North-East	476603	6891081	38495089	19708982	7367684	19	37
Eastern	1814219	47876140	227613073	122136133	49690359	22	41
Central	2202217	64254189	255713495	129316677	66456406	26	51
Western	3178102	49525101	149071747	86182206	52703203	35	61
Southern	4666014	83386898	223445381	135574225	88052912	39	65
All-India	16552856	304349534	1027015247	541031553	320902390	31	59
AP	1156405	23974580	75727541	44231918	25130985	33	57

Source: NABARD Annual Reports

Recent RBI reports are revealing the facts that central region stands first in FI process because of its population volume followed by southern & central regions. The lowest of all regions was recorded in FI process by north eastern region again because of population size. If somebody consider it per 100 adults, the first place was replaced by Northern Region followed by Southern & Western Regions. Hence it can easily be observed that there is no significant correlation between population statistics & financial inclusion, focus light on need for retail banking products in most of the regions.

Penetration of Micro Finance

The panacea to avoid the rural poverty is micro finance. The access to timely and adequate credit and other financial services for the weaker sections of the society at an affordable cost is essential for the overall economic development of the society. The following table show the

TABLE
RANKING OF SELECTED STATES BASED ON MFPI AND MFPPI

Top-5			
State	MFPI	State	MFPPI
Manipur	4.13	Manipur	7.06
Pandichery	3.46	Andhra pradesh	6.24
Andhra Pradesh	3.34	pondicherry	4.67
Tamil Nadu	2032	Tamilnadu	2.76
Orissa	2.19	Skkim	3.28
Bottom-5			
Jammu & Kashmir	0.07	Mizoram	0.23
Mizoram	0.32	Jammu & Kashmir	0.46
New Delhi	0.24	Newdelhi	0.45
Punjab	0.27	Bihar	0.42
Meghalaya	0.21	Uattar Pradesh	0.38

Source: State Sector Reports

The low MPPI ratio in states like Bihar and UP with a large proportion of households under povertyline indicates that considerable work has to be done in these states both by SBLP and MFIs.

FINDINGS, SUGGESTIONS, CONCLUSIONS & RECOMMENDATIONS

- Less number of women linked in FI process
- Student & adolescent accounts processes need to be revisited
- RBI proactive measures to accelerate FI
- Poor financial literacy & Easy Education and Awareness of RBI through brochures
- Awareness of Zero balance a/c's & uses of bank accounts among rural households
- SHG-Linked SB A/Cs
- RBI Initiative to enhance Bank-Branch Network
- Government pensions, salary, tender bills, payments & subsidies through banks
- Focus on Inclusive Growth & Focus on Domestic Consumption and Investment

- Focus on increased Social Sector Spending & Emphasis on giving benefits to poor clients.
- FI Technology players & Reduction of Cost.

CONCLUSIONS

- Large quantum of global population were excluded from FI process in spite of reasonable efforts by many countries
- Only 34% of population engaged in formal banking services
- India has, 135 million financially excluded households
- The real rate of financial inclusion in India is also very low
- 40% of the bank account holders do not use their accounts even once a month.
- Many people come out of abject poverty conditions through FI process
- Financial inclusion provides formal identity, access to payments system & deposit insurance
- FI extend its scope to people with low incomes
- Banks have opened 80 million new accounts in more than 100000 out of 630000 Indian villages
- Only about 15 million of these accounts are operative
- FI will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counselling, savings and affordable credit.
- The banks would have to evolve specific strategies to expand the outreach of their services
- Banking agencies need to redesign their business strategies to incorporate specific plans to promote financial inclusion
- Use of all resources MFIs/NGOs
- "The bottom of pyramid" may not be profit alone, low margins-high volumes to be considered
- All funding agencies should be prepared to think outside the box
- Empirical evidence shows that economic growth follows financial inclusion.
- FI will definitely increase the GDP in pace of economic development
- All budding entrepreneurs have to face these challenges and find solutions.
- Financial access will attract global market players and will increase employment & business
- Inclusive growth will act as a source of empowerment and allow people to participate more

References:

- India Year Book(Ministry Of Information)
- Yogana(Ministry Of Publications)
- www.imf.com
- www.rbi.gov.in Handbook of Statistics on Indian Economy 2012-13 TABLE NO. 71.
- www.worldbank.com
- Dept. of Financial Services
- NABARD reports
- NSSO Report
- Microfinanceindia.org (state of the sector report 2011-2012)
- www.sagepublication.com, new delhi , access development programme.
- Dr Chakrabarty KC, DG, RBI. Keynote address on "Furthering Financial Inclusion through Financial Literacy and Credit Counselling"
- Reserve Bank of India (2006b), "Economic Growth, Financial Deepening and Financial Inclusion", Speech by Rakesh Mohan, Deputy Governor of the Reserve Bank of India, November 20, available at <http://www.rbi.org.in>.
- **Financial Inclusion – Issues in Measurement and Analysis** (Keynote Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012)
- Dr. C. Rangarajan, Speech of RBI Governor, RBI Annual Reports
- NSSO Reports
- NABARD Reports
- Dr. C. Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008))
- Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India at the FICCI – UNDP Seminar on "Financial Inclusion: Partnership between Banks, MFIs and Communities" at New Delhi on October 14 2011.
- The Hon'ble Finance Minister in his speech on Union Budget 2012-13
- Narayanan Memorial Lecture by Dr. Subir Gokarn, Deputy Governor, RBI at Sastra University, Kumbakonam on March 21, 2010).
- Dr. Subbarao(RBI Governor's Speech on FI on Platinum Jubilee Ceremony).
- RBI Monthly Bulletin Feb-12, 'money at the bottom of the pyramid'.
- 2012 RBI Annual Report
- RBI Annual Report 2010
- RBI Annual Report 2013
- Dr. K.C. Chakrabarty-Chairman, Financial Inclusion Advisory Committee (FIAC).
- RBI Annual Report 2010-Financial inclusion is an important process to attain the goal of inclusive growth.
- RBI Circular 30-11-2011, Financial Inclusion-Opening of Aadhaar Enabled Bank Accounts (AEEBA), FIP routing, social security benefits cash transfers in respect of subsidies on Kerosene, LPG and Fertilizers, in villages with less than 2000 population.
- Keynote address by Dr K. C. Chakrabarty, Deputy Governor, RBI at the Central Bank of India SME Conclave on Dec 20, 2011 at Mumbai. Empowering MSMEs for Financial Inclusion and Growth - Issues and Strategies.

- On 11-10-2012, RBI constitutes High Level Financial Inclusion Advisory Committee on accessible and affordable financial services for rural as well as urban consumers presently outside.
- Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the 23rd Skoch Summit on June 17, 2010 in Mumbai. “Financial Deepening by putting financial inclusion campaign into mission mode”.
- Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012.
- Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Annual National Seminar titled ‘Financial Inclusion of Urban Poor’ conducted by the American India Foundation at New Delhi, on January 28, 2013.
- In the words of Mr. H. R. Khan, Deputy Governor Reserve Bank of India Financial Inclusion and Stability:
- Dr. Duvvuri Subbarao, Governor, Reserve Bank of India at the time 7th International Banking & Finance Conference 2013 organized by the Indian Merchants’ Chamber at Mumbai on June 5, 2013.
- Puhazhendhi, V. 2012. ‘Financial Inclusion—Forward step for Microfinance Sector’, Bank Quest, *The Journal of Indian Institute of Banking and Finance*. 83(2), April–June, Mumbai.