

Financial Inclusion - Role of Indian Banks in Reaching Out to the Unbanked and Backward Areas

Preeti¹

Abstract

A nation can grow economically and socially if it's weaker section can turn out to be financial independent. Access to finance, especially by the poor and vulnerable groups, is an essential requisite for employment, economic growth, poverty alleviation and social upliftment. Providing access to finance is a form of empowerment of the vulnerable groups. Beginning with the nationalization of banks in 1969, efforts were made to take the banking system closer to the people. Despite the spread of banking facilities, there were concerns that banks had not been able to include vast segments of the population, especially the disadvantaged sections of the society, into the ambit of basic banking services. This situation cannot uplift the poor people and makes them destitute in the long run. Here lies the importance of financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to weaker section of the society. The paper highlights the basic concept of financial inclusion, the measures taken by the Government of India so that the underprivileged sections of the society can reap the benefits of the banking services, and current status of financial inclusion .

Keywords: poverty alleviation, underprivileged sections, inclusive financing, social upliftment and nationalization of banks.

1 Assistant Professor, Govt. P.G. College, Bhiwani, Haryana

Introduction

More than 70% of our population lives in the rural areas.. Fruits of development have hardly reached to nearly half of Indian population because no access to financial service ,Low-income Indian households in the informal or subsistence economy often have to borrow from friends, family or usurious moneylenders generally at an unreasonably high cost. They have little awareness and practically no access to insurance products that could protect their financial resources in unexpected circumstances such as illness, property damage or death of the primary breadwinner and this raises most pertinent issue of financial inclusion so, Financial inclusion is a necessity for a country where a large chunk of the world's poor

resides Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty.

OBJECTIVES OF THE STUDY

- 1.To discuss about the conceptual aspect of Financial Inclusion.
- 2.To explore the need and significance of financial inclusion for economic and social development of society.
- 3.To understand the steps taken by the government for financial inclusion.
- 4.To analyse the current status of financial inclusion in Indian economy.

METHODOLOGY

The entire gamut of discussion has been made on the basis of secondary sources. The different books, journals, newspapers and related websites have been consulted in this regard.

FINANCIAL INCLUSION

In common parlance, financial inclusion is the delivery of financial/banking facilities to all people in a fair, transparent and equitable manner at an affordable cost. Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc. According to Leeladhar (2006), financial inclusion means “ The delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups”. Usha Thorat (2006) has defined the term as “ Provision of affordable financial services viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded”. A committee on Financial Inclusion was formed under the chairmanship of C. Rangarajan and that committee defined the term as “ The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.

IMPORTANCE OF FINANCIAL INCLUSION

- 1.Economic importance :**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.
- 2.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.
- 3.Larger Market for the financial system:** To serve the requirements and need of the large section of society there is a surgent 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.

4. Social importance: 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.

STEPS TAKEN UP BY RBI

In India, RBI has initiated several measures to achieve greater financial inclusion Some of these steps are:

1. Opening of no-frills accounts: Basic banking schemes of no-frills accounts with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population was started.

2. Relaxation on know-your-customer (KYC) norms:. KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number

3. Engaging business correspondents (BCs): banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion.

4. Swabhimaan Campaign: Under “Swabhimaan” - the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs).

Further, in terms of Finance Minister’s Budget Speech 2012-13, the “Swabhimaan” campaign has been extended to habitations with population of more than 1000 in North Eastern and hilly States and to habitations which have crossed population of 1600 as per census 2001. About 40,000 such habitations have been identified to be covered under the extended “Swabhimaan” campaign.

5. Setting up of Ultra Small Branches (USBs): Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the



residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion. A USB would comprise of a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking transactions.. A total of over 50,000 USBs have been set up in the country by March, 2013.

6.Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT(information and communications technology)based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

7.GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

8.Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

9.USSD Based Mobile Banking: The Department through National Payments Corporation of India (NPCI) worked upon a "Common USSD Platform" for all Banks and Telcos who wish to offer the facility of Mobile Banking using Unstructured Supplementary Service Data (USSD) based Mobile Banking. The Department helped NPCI to get a common USSD Code *99# for all Telcos. More than 20 Banks have joined the National Uniform USSD Platform (NUUP) of NPCI and the product has been launched by NPCI with BSNL and MTNL. Other Telcos are likely to join in the near future.

USSD based Mobile Banking offers basic Banking facilities like Money Transfer, Bill Payments, Balance Enquiries; Merchant payments etc. on a simple GSM based Mobile phone, without the need to download application on a Phone as required at present in the IMPS based Mobile Banking.

10.Pradhan Mantri Jan-DhanYojana (PMJDY):.

Pradhan Mantri Jan Dhan Yojana (PMJDY) the biggest financial inclusion initiative in the world to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner which was announced by the Hon'ble Prime Minister on 15th August 2014 from the ramparts of the Red Fort and launched by him on 28th August 2014 across the country. Against the estimated target of opening bank accounts for 7.5 crore uncovered households in the country, as on date (17 th January 2015) Banks have opened 11.50 Crore accounts after conducting survey of 21.02 Crore households in the country. The Jan Dhan Yojana (JDY) is to be implemented in two phases. In the first phase(**15 Aug, 2014 - 14 Aug, 2015**), the aim is to provide universal access to banking facilities through a business correspondent or bank branch, zero-balance bank accounts with overdraft facility of Rs 5000 after six months and RuPay debit card (domestic card payment network which competes with MasterCard and Visa) with inbuilt insurance cover of Rs 100,000. Those who open accounts by January 26, 2015 will be given life insurance cover of Rs 30,000. In the second phase(**15 Aug, 2015 - 14 Aug, 2018**) starting from August 15, 2015, the focus of the JDY would be to provide additional financial services such as micro insurance and pension schemes meant for the unorganised workers

PROGRESS UNDER FINANCIAL INCLUSION PLAN, ALL SCBS (SCHEDULED COMMERCIAL BANKS) INCLUDING RRBS (REGIONAL RURAL BANKS)

Sr. No.	Variable	March 2013	March 2014
1	Banking Outlets in Villages - Branches	40,837	46,126
2	Banking Outlets in Villages – Branchless Mode	227,617	337,678
3	Banking Outlets in Villages – Total	268,454	383,804
4	Urban Locations covered through BCs	27,143	60,730
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	101	126
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	165	273
7	Basic Savings Bank Deposit Account (BSBDA) through	81	117

	BCs (No. in million)		
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	18	39
9	BSBDA Total (in million)	182	243
10	BSBDA Total (Amt. in Rs. billion)	183	312
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	4	6
12	OD facility availed in Basic Savings Bank Deposit Account (Amt. in Rs. billion)	2	16
13	KCC(kisan credit cards)-Total (No. in million)	34	40
14	KCCs-Total (Amt. in Rs. billion)	2,623	3,684
15	GCC (general purpose credit cards)-Total (No. in million)	4	7
16	GCC-Total (Amt. in Rs. billion)	76	1,097
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	250	329
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	234	524

Source – annual publications of RBI

NUMBER OF ATMS OF SCHEDULED COMMERCIAL BANKS (SCBs)

As on	Off-site ATMs	On-site ATMs	Total ATMs
31.03.2011	33823	40690	74513
31 03.2012	48141	47545	95686
31 03.2013	58254	55760	114014
31.03.2014	76676	83379	160055
31.12.2014	83290	93119	176409

Source RBI

BRANCH NETWORK OF SCHEDULED COMMERCIAL BANK BRANCHES IN THE COUNTRY FOR THE LAST FOUR YEARS ARE AS UNDER:

(i) Population Group wise number of branches of **scheduled Commercial Banks (SCBs)** :

As on March 31	Rural	Semi Urban	Urban	Metropolitan	Total
2011	33927	23079	17606	16238	90850
2012	36540	25816	18855	17246	98457
2013	39794	28511	19900	18062	106267
2014	45152	31433	21428	19187	117200
December 31,2014	47278	32756	22373	19887	122294

Source: RBI

(ii) Bank Group and Population Group wise Number of Functioning **Branches** as on December 31, 2014:

Bank Group	Rural.	Semi Urban	Urban	Metropolitan	Total
SBI & its Associates	7903	6510	4216	3536	22165
Nationalised Banks	20666	15981	12296	11111	60054
Other Public Sector Banks	338	470	455	361	1624
Private Sector Banks	4082	6155	4320	4429	18986
Foreign Banks	8	12	57	245	322
Regional Rural Banks	14281	3628	1029	205	19143
Grand Total	47278	32756	22373	19887	122294

Source:RBI

Conclusion

In order to bring a large segment of the society under the umbrella of financial inclusion, banks have set up their branches in remote corners of the country. The rules and regulations have been simplified. banking industry has shown tremendous growth in volume during the last few decades. As it can be seen from the above tables that banking outlets of SCBs including RRBs in village has been increased from 268454 in march 2013 to 383804 in march 2014. The amount in BSBDA(basic saving bank



deposit account) has been increased from 183 billion in march, 2013 to 312 billion in march ,2014.moreover , there has been tremendous growth in banking infrastructure , total number of ATMs of SCBs on march 31, 2011 were 74513 which has been increased to 176409 in December 31,2004.Branch network of Scheduled Commercial Bank branches in the country for the last four years has been increased ,Total number of branches of SCBs on march 31, 2011 were 90850 which has been increased to122294 in December 31,2014, India`s fastest growing economies have become possible through financial inclusion. On the basis of above initiatives and projects we can conclude that a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion

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