



ROLE OF BANKS IN BRINGING FINANCIAL INCLUSION IN RURAL INDIA

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Abstract

Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years in India. The organized financial system comprising Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS) and post offices caters to the needs of financial services of the people. The initiatives taken by the Reserve Bank and the Government of India towards promoting financial inclusion since the late 1960s have considerably improved the access to the formal financial institutions. However, the banking industry's penetration to un-banked areas is still found sluggish. "The role of the Indian banker is challenging. At one end of his spectrum lies the demand to achieve financial inclusion as nearly 50 per cent of the population is yet to be covered under the formal system of banking and at the other end lies the task to fulfil the needs of the existing customer," said RBI Deputy Governor K. C. Chakrabarty while speaking on 'Connecting the dots' at the CII conference.

This article makes an attempt to assess the role of banking sector in financial inclusion process in India.

Key words: Financial Inclusion, Banks, RBI,

1. Introduction

India has a long history of banking advancement. After Independence, the major focus of the Government and the Reserve Bank was to develop an efficient banking system which could support planned economic development through deployment of resources/deposits and channel them into productive sectors. Financial exclusion is the main cause of poverty. Besides financial illiteracy financial exclusion in rural areas is mainly because of lack of opportunities and access to finance. Financial exclusion is proving to be a major thorn in the path of Indian economic growth. Access to finance by the poor, disadvantaged and unprivileged group is a prerequisite for poverty reduction and social change. One of the main reasons why the large section of the rural population still remains under below poverty line is lack of opportunities and access to finance besides financial illiteracy.

Many policies were formulated after Independence in order to use the banking system as an important tool of change. The planning strategy recognized the role of the availability of credit and financial services to the public at large in the overall development of the country with the benefits of economic growth being distributed in a democratic manner. In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The organized financial system comprising Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS) and post offices caters to the needs of financial services of the people. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector.

1.1 Objectives of the Study

The main objectives of the study are as follows:

1. To study about role of Indian banking sector in bringing financially excluded people in to formal financial sector.
2. To study the major steps taken by RBI till now with a view to bring financial inclusion.

2. What is Financial Inclusion and why it is Important?

Financial inclusion helps in achieving the sustainable development of the country, through available financial services to the unprivileged people with the help of financial institutions. Financial inclusion may be defined as the process of ensuring access to financial services and credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Being included in the formal financial system helps people:

- Financial inclusion helps in economic development as it widens the resource base of the financial system by developing a culture of savings among large segment of rural population. Further, financial inclusion protects their financial wealth and other resources in exigent circumstances by bringing low income groups within the perimeter of formal banking sector. Financial inclusion also mitigates the exploitation of poor sections by the money lenders by facilitating easy access to formal credit.
- Make day-to-day transactions, including sending and receiving money;
- Uphold savings, which can help households manage cash flow spears, smooth consumption and build working capital;
- Finance small businesses or micro enterprises, helping owners invest in assets and grow their businesses;
- Improve overall welfare of rural masses.
- The rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account can be completed using fingerprint authentication. The confidence of fulfilment is provided by issuing an online receipt to the customer.
- Reduction in cash economy as more money is brought into the banking ecosystem
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- Direct cash transfers to beneficiary bank accounts will become possible. Financial inclusion ensures that the funds actually reach the intended recipients instead of being draw off along the way.
- Availability of adequate and transparent credit from formal banking channels will increase the output and bring prosperity by encouraging the entrepreneurial spirit of the masses

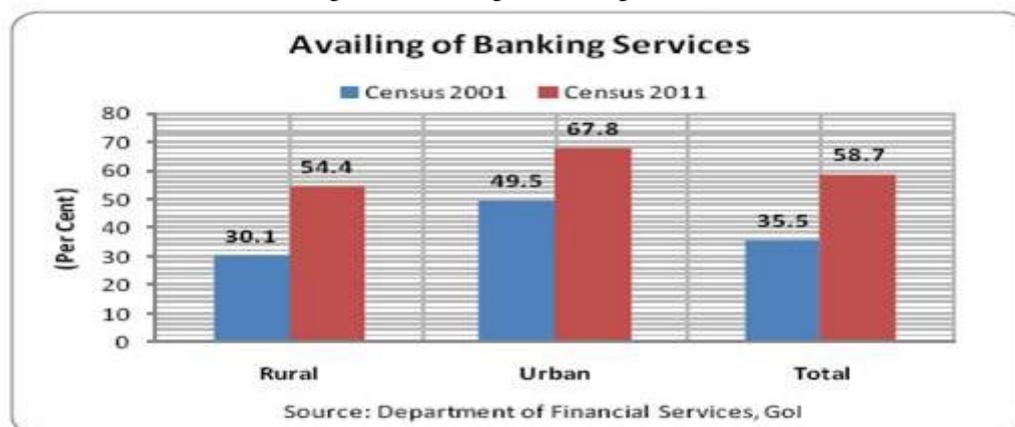
In the 21st century, Govt. of India has been taking the right path to advance financial inclusion and economic citizenship by channeling its own transactions to grease the system. Hence, it is believed that financial inclusion can initiate the next revolution of growth and prosperity. India's journey towards economic development relies on how the 65% unbanked population of India is enabled with financial infrastructure.

The benefits of financial inclusion are not only significant for individuals but for economies as well. Financial inclusion is linked to a country's economic and social development, and plays a role in reducing extreme poverty.

3. India and Financial Inclusion

As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, banking services availed by rural and urban population increased significantly.

Figure 1: Availing of Banking Services



Source: Government of India Population Census 2011

According to NSSO 59th Round Survey Results 51.4% of farmer households are financially excluded from both formal/ informal sources. Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources.

Overall, 73% of farmer households have no access to formal sources of credit.

Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.

4. Steps taken by Indian Govt. for Financial Inclusion

Swabhiman Campaign

“Swabhimaan” is a path-breaking initiative by the Union Government and the Indian Banks' Association to bridge economic gap between rural and urban India. This campaign aims at bringing socio-economic equality by

involving unprivileged segments of Indian population. The vision for this programme is social application of modern technology.

Business Correspondent Model

Under this model financial Institutes appoint commission agents who provide financial Services at the doorstep of the public at remote areas where they are unable to open branches which result in large customer base at low cost. Therefore this model is also known as the cost-efficient model.

No Frill Account

A no-frills account is a bank account that can be opened and maintained with a zero balance, levies zero or nominal charges and does away with the unnecessary services or frills. The downside of such an account is that most of the facilities offered are limited. Once this limit is exceeded, the bank charges for these services.

BSBDA

Later, in 2012, with financial inclusion drive getting higher momentum the RBI has replaced No Frills account with Basic Savings Bank Deposit Account (BSBDA).

The significant feature of BSBDA is that basic banking services like money transfer and savings can be availed with a simplified KYC norm. Account can be started and maintained with nil balance. Under PMJDY also, the bank account offered is BSBDA.

Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana was launched at a massive scale to bring all citizens of the country under the purview of banking; irrespective of their financial status or regional location. The scheme aims to tie every Indian in the rural or urban sector to the mainstream banking system. Under this scheme, any individual who is older than 10 years of age and does not possess a bank account can open one in his or her name with an opening deposit of zero. Accounts under this scheme can be opened with any registered bank or with Business Correspondent Outlet (Bank Mitra) designed specially to facilitate account opening under the Jan Dhan Scheme. The scheme is a social policy aimed at providing banking facilities to even those who do not have the money to pay for the minimum account balance at the time of account opening.

In order to control public to borrow from Schedule banks to lend fix amount in priority sector at affordable rate of interest along with certain government schemes such as – Pradhan Mantri Mudra Yojna, Pradhan Mantri Awas Yojna was also initiated.

Pradhan Mantri Jeevan Jyoti Yojna

It is a life insurance scheme from age of 18-50 years (benefit until 55 years) at a premium of Rs 330+(18%gst). It covers till 2 lakh Rs and is under LIC India on behalf of the government of India. Pradhan Mantri Surksha bima yojna – started on Jan 2015 for accidental insurance and covers up to Rs 2lakh in case of death and Rs 1 lakh in case of physical disability at a premium of (Rs 12+GST) for the age group of 18 to 70 years and is under HDFC life on behalf of government of India.

Pradhanmantri Fasal Bima Yojna

This is a general insurance for crops and this scheme started from Feb 2016 by NDA government and replaced the earlier scheme of UPA government named "National Agricultural Insurance" with few more advantages such as low premium on crop insurance, use of technology for weather forecasting (like smartphones, drones, remote sensing satellites), Future generation of claim and post-harvest benefits etc.

New Models of Banks

On Recommendation of Nachiket More committee there are various measures are going on among which one is opening of two special kinds of banks in India which are:

Payment banks-The main objective of payments bank is to widen the spread of payment and financial services to small business, low-income households, and migrant labor workforce in secured technology-driven environment. These banks will only accept deposit from public and will not lend loans, These payment banks will provide payment services and deposit products to its target customers which will be small businesses and low-income households.

With payments banks, RBI seeks to increase the penetration level of financial services to the remote areas of the country.

Small finance banks- Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. Small finance banks will provide banking products to the unserved and underserved sections of the country, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost.

5. Conclusion

Performance of banks under financial inclusion programme up to March 31, 2014 the number of banking outlets were 115,350 opened during the period of 2013–2016 which has been increased up the total number of outlets nearly 384,000. It is that the number of BCs outlets opened in urban areas have increased up to 60,730 in the year of 2014 out of which 33,587 outlets opened during the year 2013–2014. It is a significant increment in number of BCs outlets. During the year 2013–2014 the number of basic savings bank deposit accounts (BSBDAs) opened were 60.9 million and total number of BSBDAs reached up to 243 million.

The number of small farm sector credits recorded a growth of 40 million in 2013–2014 out of these 6.2 million KCCs recorded during the year 2013–2014. Along with that the number of small non-farm sector credit cards were 3.8 million during 2013–2014 and total number was 7 million over the whole period of FIP. [Table 1](#) further revealed that the 329 million transactions were carried out in BC-ICT accounts at the end of March 2014 and recorded a growth of 79 million transactions in 2013–2014.

6. Suggestions

1. Make more liquidity available to Banks so that Banks can provide credit facility to customers at the time of their need and this can be done only when RBI cut the rates of Cash Reserve Ratio and Repo rate.
2. No Frill accounts should be more operative and for this they should be made more attractive. Banks can offer special interest rates for such accounts, can offer credit cards without security, reduce documentation for loans and credit, reduce processing time and increase the efforts made by Financial Literacy and Counseling Centre.
3. Banks should give consumers a feel-good factor and should deliver services at their home or according to their convenience. Collection centers should be increased.
4. Help Bottom of pyramid by providing Microcredit, enables Micro Insurance.
5. Mobile Device with Biometric Authentication can obviate the need for cards which are High on Cost and Maintenance.
6. To increase repayment of loans by customers, banks can offer them exit schemes where they can repay the amount in installments daily or weekly as per their earnings for the day and in return should also give them rebates.

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