Role of Banking Industry in Financial Inclusion in India

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Abstract:
Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism. The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way. 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. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The involvement of Self Help Groups and Micro Finance Institutions is also must for development of effective financial inclusion models by commercial banks. Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. “Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians.” Thus, the objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

Banking sector plays considerable role in bringing financially excluded people into formal financial sector. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Traditionally, it has been understood to mean opening new bank branches in rural and unbanked areas. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country.

This article makes an attempt to assess the role of banking Industry in financial inclusion. Role of banks in financial inclusion process is studied on the basis data available from the Department of Financial services, Ministry of Finance, Govt. of India.

Understanding Financial Inclusion: "Financial inclusion is delivery of banking services at an affordable cost (‘no frills’ accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."
Thus, the objective of Financial Inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. “Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians,” he said. Further, “in order to draw in the poor, the products should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age.”

The scope of financial inclusion can be expanded in two ways.

(a) through state-driven intervention by way of statutory enactments (for instance the US example, the Community Reinvestment Act and making it a statutory right to have bank account in France).

(b) through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society.

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion.

RBI's Policy on 'Financial Inclusion': With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement of the year 2005-2006, 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.

No-Frills' Account: In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such 'no frills' account, so as to ensure greater financial inclusion.

'Simplification of 'Know Your Customer (KYC)' Norms: Banks are required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate easy access to bank accounts.

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' procedure for opening accounts for those persons who intend to keep balances not exceeding
rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer.

**Ensuring reasonableness of bank charges:** As the Reserve Bank has been receiving several representations from public about unreasonable service charges being levied by banks, the existing institutional mechanism in this regard is not adequate. Accordingly, and in order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various service charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

**Steps towards financial inclusion:** 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.

Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services.

In the context of initiatives taken for extending banking services to the small man, the mode of financial sector development until 1980’s was characterized by

- a hugely expanded bank branch and cooperative network and new organizational forms like RRBs;
- a greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities;
- lending targets directed at a range of ‘priority sectors’ such as agriculture, weaker sections of the population, etc;
- interest rate ceilings;
- significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes;
• a dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.

**Areas of concern by banks:** The Indian households can be broadly divided into two main groups, rural and urban. To have effective financial inclusion, the banks have to always keep in mind these target-groups and bring them to banking fold in such a way that it is a win-win situation for both. Banks can step in to augment financial inclusion in two ways (i) providing banking and other related services and (ii) providing non-banking services and support.

In rural areas, the branch banking route apparently is not very practical due to the huge cost of opening the branches vis-a-vis volumes expected, high costs of operations, limited banking hours, illiteracy, non-availability of alternate channels in rural centres, etc. Further, financial inclusion through branch network may adversely affect customer service at branches due to increased traffic and larger numbers of people to be attended to within the limited hours of banking. Therefore, the banks will have to provide technology driven products such as, ATMs, internet kiosks for successfully implementing financial inclusion. The involvement of Self Help Groups and Micro Finance Institutions is also must for development of effective financial inclusion models by commercial banks.

It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. One of the ways in which this can be achieved in a cost-effective the banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English.

**Role of Banking in Financial Inclusion in India:** The banking industry has shown tremendous growth in volume and complexity during the last decade.

**Table -1:** Comparative statement of number of households availing banking services as per Census 2001 & 2011.

<table>
<thead>
<tr>
<th></th>
<th>As per Census 2001</th>
<th>As per Census 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total number of households</td>
<td>Number of households availing banking services</td>
</tr>
<tr>
<td>Rural</td>
<td>138,271,559</td>
<td>41,639,949</td>
</tr>
<tr>
<td>Urban</td>
<td>53,692,376</td>
<td>26,590,693</td>
</tr>
<tr>
<td>Total</td>
<td>191,963,935</td>
<td>68,230,642</td>
</tr>
</tbody>
</table>

**Source:** Department of Financial services, Ministry of Finance, Govt. of India.
The table :1 shows that the number of households availing banking services in a country as per census 2001 & 2011, it clearly states that as per census 2001 in the rural households availing banking services were 30.1% compared with total number of households while it has increased to 54.4% as per the census 2011 compared with total number of households. In case of urban households availing banking services has registered growth from 49.5% to 67.8 % compared with total number of households as per census 2001 & 2011. Total rural & urban households availing banking services has increased by 23.2% when compared with total number of households as per census 2001 & 2011.

(i) Expansion of Bank Branch network: The number of functioning branches of public sector banks & Scheduled Commercial Banks (SCBs) in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system.

Table - 2: Number of functioning branches of Public Sector Banks - Population Group wise

<table>
<thead>
<tr>
<th>As on</th>
<th>Rural</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2011</td>
<td>20658</td>
<td>16217</td>
<td>13450</td>
<td>12612</td>
<td>62937</td>
</tr>
<tr>
<td>31.03.2012</td>
<td>22379</td>
<td>17905</td>
<td>14322</td>
<td>13244</td>
<td>67850</td>
</tr>
<tr>
<td>31.03.2013</td>
<td>24243</td>
<td>19642</td>
<td>15055</td>
<td>13797</td>
<td>72737</td>
</tr>
<tr>
<td>31.03.2014</td>
<td>27547</td>
<td>21952</td>
<td>16319</td>
<td>14644</td>
<td>80462</td>
</tr>
<tr>
<td>31.03.2015</td>
<td>29634</td>
<td>23549</td>
<td>17387</td>
<td>15325</td>
<td>85895</td>
</tr>
</tbody>
</table>

Source: Department of Financial services, Ministry of Finance, Govt. of India.
Above Table-2 indicates that there is continuous increase in number of functioning branches of Public sector banks. It clearly shows that number of functioning branches of Public sector banks in rural & semi urban has increased more compared when compared with other areas. It can be understood by the above graph that the contribution of Public sector banks in financial inclusion is consistently growing more specific in rural & semi urban area to utilize financial services of formal financial system.

Table - 3: Population Group wise number of branches of Scheduled Commercial Banks (SCBs):

<table>
<thead>
<tr>
<th>As on</th>
<th>Rural</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2011</td>
<td>33923</td>
<td>23089</td>
<td>17629</td>
<td>16255</td>
<td>90896</td>
</tr>
<tr>
<td>31.03.2012</td>
<td>36546</td>
<td>25834</td>
<td>18879</td>
<td>17274</td>
<td>98533</td>
</tr>
<tr>
<td>31.03.2013</td>
<td>39816</td>
<td>28546</td>
<td>19935</td>
<td>18092</td>
<td>106389</td>
</tr>
<tr>
<td>31.03.2014</td>
<td>45293</td>
<td>31530</td>
<td>21532</td>
<td>19275</td>
<td>117630</td>
</tr>
<tr>
<td>31.03.2015</td>
<td>48557</td>
<td>33766</td>
<td>23036</td>
<td>20498</td>
<td>125857</td>
</tr>
</tbody>
</table>

Source: Department of Financial services, Ministry of Finance, Govt. of India.

From the Table 3, it can be seen that branch expansion of scheduled commercial bank during the period of five years i.e. 2011 to 2015. It exhibit that the number of branches opened in rural area are more compared with other areas, while expansion of branches of scheduled commercial bank in metropolitan cities is comparatively less. Thus, it explains the role played by scheduled commercial bank in financial inclusion in India.

Conclusion: Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism. The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way.

From the data that has revealed from Department of Financial services it can be concluded that the efforts taken for financial inclusion is visible through the expansion of bank branches of both public sector banks and scheduled commercial banks and the total number of rural & urban households availing banking services as per census 2001 & 2011.
Reference:


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8. https://www.rbi.org.in/