ROLE OF BANKS IN FINANCIAL INCLUSION

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Abstract

The development of a nation depends on the economic growth. Economic growth shall be inclusive. Inclusive economic growth creates equal opportunity for all the segment of population and helps to reap the benefits of increased prosperity both in monetary and non monetary terms. But the gap between rich and poor has widened, rising inequality in earning and in wealth is a major concern. In achieving inclusive growth financial inclusion plays a vital role. Financial Inclusion is important priority of the country in terms of economic growth and development. It enables to reduce the gap between rich and poor. Financial institutions are the pillars of economic growth and development of the economy. To achieve financial inclusion, financial institutions have a major role. This paper attempts to examine the role of banks in achieving inclusive growth through financial inclusion in the context of Indian economy. The study is based on secondary data collected from various sources of RBI reports and other survey reports.

Keywords: **Economic growth, inclusive growth, financial inclusion, financial institution.**

Introduction:

Growth needs to be sufficiently inclusive if its benefits have to be shared among all or else the growth process itself shall be at risk. Financial Inclusion needs to be seen as an instrument that would move the wealth effect evenly. Financial Inclusion has the potential to contribute substantially towards 'inclusive growth'. Inclusive growth as a strategy of economic development has received renewed attention in recent years owing to rising concerns that the benefits of economic growth have not been equitably shared. Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. These large numbers of poor are required to be provided with much needed financial assistance in order to bring them out of their conditions of poverty. Accordingly, there is felt a need for policy support in channeling the financial resources towards the economic upliftment. The World Bank financial access 2009 looked at financial access differences between developed and under-developed countries. Their findings were very distinctive. They discovered that the developed European countries were better exposed to financial services and accounts ownership. They collected some set of indicators of financial access in countries around the world. Such indicators included the number of deposit accounts and loans, the number of deposit clients and borrowers, and the number of financial access points, such as branches, agents, and automated teller machines. The Financial inclusion is a process to bring the weaker and vulnerable sections of society within the ambit of organized financial system. It creates conditions for access to timely and adequate credit and other financial services to vulnerable groups such as weaker sections and low income groups, at affordable cost**.** The availability of banking facilities and strong bank branch network are important for the developmental and expansionary activities. Globally, the possible efforts are being made to study the causes of financial exclusion and to design appropriate strategies to ensure financial inclusion of the poor and disadvantaged. It is important that the reasons for financial exclusion may vary from country to country and hence the strategies to achieve financial inclusion could also vary but all out efforts are to be made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged.

Objective of study:

- To examine the role of banks in financial inclusion in India.
- To determine the factors affecting access to financial services.
- To identify the challenges faced by banks in financial inclusion.
- To study the measure taken by RBI and other banks for financial inclusion.

RESEARCH METHODLOGY

Secondary data has been used for the purpose of the present study. The data is taken from journals and research papers, newspapers articles, websites and published reports.

Review of Literature:

Dangi and Kumar (2013) examined the initiatives and policy measures taken by RBI and Government of India. This study also focused on current status and future prospects of financial inclusion in India. It has been concluded that financial inclusion shows progressive and valuable changes but sufficient provisions should be incorporate in the business model to certify that the poor are not driven away from banking.

Joseph and Varghese (2014) analyzed the effect of financial inclusion on the development of Indian economy by bank growth rate in terms of number of bank branches, usage of debit card and credit cards. It has been observed that the usage of debit cards increased tremendously throughout the study period and decreased the number of people with access to the products and services offered by the banking system continues to be very limited, even years after introduction of inclusive banking initiatives in the country.

Paramasivan and Ganesh Kumar (2013) discussed the overview of financial inclusion in India and concluded that branch density has a significant impact on financial inclusion.

Julie (2013) analyzed the relationship between financial inclusion and economic growth in Kenya and found that both have a strong positive relationship. Economic growth has a strong positive relationship with branch networks and a weak positive relationship with the number of mobile money users/accounts. The study also concluded the weak negative relationship with the number of automated teller machines in the country and a strong negative relationship with the bank lending interest rates.

CHALLENGES OF THE FINANCIAL INCLUSION FACED BY BANKS:

The lack of financial access limits the range of services and credits for household and enterprises. Although there is some evidence that access is improving but still there are multiple factors which have affected the access to financial services.

Place of living Most of commercial banks operate only in commercial areas and these banks set their branches in profitable areas. Hence population lives in rural areas find it difficult to access the financial services. Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (i.e., highly mobile people with no fixed or formal address) etc. also affect access to these services.

Absence of legal identity and gender biasness Minorities, economic and political migrants, refugee workers and women's are excluded from accessing financial services due to lack of legal identities such as original birth certificates and identity cards.

Limited knowledge of financial services incomplete basic education and financial literacy are the major hurdles in order to access various financial services to the individuals. They do not Know the significance of different financial products i.e., bank accounts, cheque facility, bank loan or overdraft and insurance.

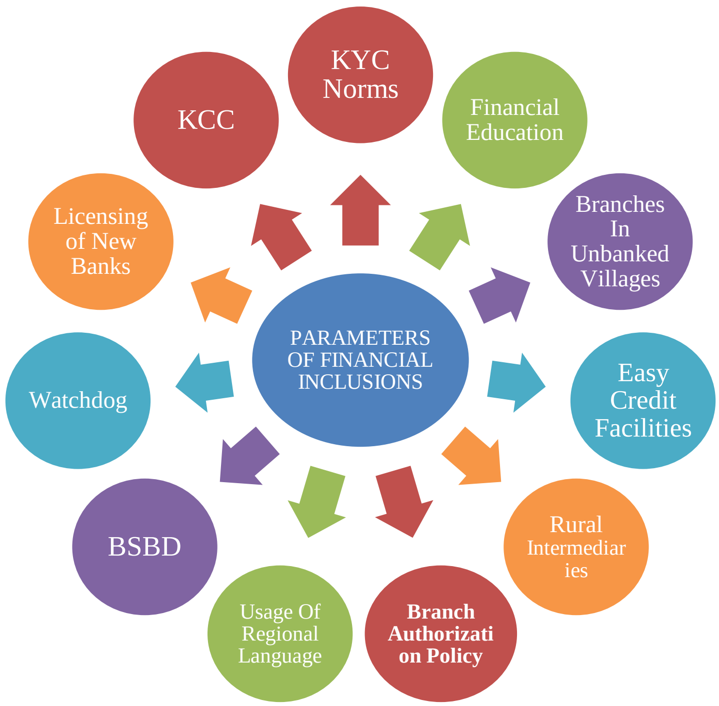
Level of income and bank charges financial prominence of people is always plays a pivotal role in accessing available financial services. It is impossible for poor people to access financial services even when these services are made for lower income level group. Moreover in India, a lot of hidden bank charges which has been de-motivated poor persons in availing these services.

Rigid terms and conditions People are also least interested using such type of financial products or services which are attached with some inflexible terms and conditions. Many financial institutions having different rules relating with the use of accounts like minimum balance requirements.

Type of business Nature of occupation also an important factor in availing the financial services, whether it is small scale, large scale, organized and unorganized firm. Most of the banks do not prefer the small borrowers and unorganized enterprise for giving loans. Hence these loan applications tend to be rejected.

PARAMETERS FOR FINANCIAL INCLUSION BY RBI:

RBI has taken several measures to achieve greater financial inclusion in India. Some of these measures are as follows:



Simplified KYC Norms: In order to ensure that low income group (poor people) does not face Difficulty in opening the bank account due to procedural hassles, the KYC (Know Your Customer) norms have been simplified. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

Financial Education: It was advised by RBI that Financial Literacy Centers (FLCs) and all the rural branches of SCBs should scale-up financial literacy efforts through conduct of Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of 'Financial Literacy' and 'Financial Access'.

Branches in Un-banked Villages: RBI has directed all banks to allocate at least 25% of the total Number of branches to be opened in un-banked rural centers.

Easy Credit Facilities: RBI has asked banks to consider introducing General purpose Credit Card (GCC) facility up to Rs.25,000/- at their rural and semi urban branches. GCC is in the nature of rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest Rate on the facility is entirely deregulated.

Other Rural Intermediaries: Banks were permitted by RBI to use other rural organizations like Non-government organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.

Simplified Branch Authorization Policy: To address the issue of uneven spread of bank branches, in 2009, domestic scheduled commercial banks were permitted to freely open branches in tier II to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. Even in North-Eastern States, domestic SCBs can open branches without having any permission from RBI.

Usage of Regional Language: The RBI asked banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.

Basic Saving Bank Deposit: RBI has advised all banks to offer such accounts (no frills) with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card etc.

Watchdog: All banks had been advised to submit board approved three year Financial Inclusion Plan (FIP). These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans continuously.

Licensing of New Banks: Licensing of new banks was aimed at giving further lift to financial inclusion efforts. Innovative business models, aimed at furthering financial inclusion efforts, would be looked into strictly in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses.

Kisan Credit Card: The promotion and spreading of the KCC, an important means to reduce transaction costs, has also been given due importance. This scheme was introduced in 1998-99 with over 30 million cards issued by 2003; however the use of the card was patchy with larger farmers reporting the higher usages.

However, progress of financial inclusion clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs.

PROGRESS UNDER FINANCIAL INCLUSION PLAN AS PER THE DIRECTIVES OF RBI

SL. NO	VARIABLE	MAR 2014	MAR 2015	MAR 2016	MAR 2017
1	Banking Outlets in Villages – Branches	46,126	49,571	51,830	50,860
2	Banking Outlets in Villages - Branchless Mode	337678	504142	534,477	547,233
3	Banking Outlets in Villages – Total	383,804	553,713	586,307	598,093
4	Urban Locations covered through BCs	60,730	96,847	102,552	105,402
5	Basic S.B Deposit Account (BSBDA) through branches (No. in million)	126	210	238	254
6	Basic Savings Bank Deposit Account (BSBDA)through BCs (No. in million)	116.9	187.8	231	280
7	BSBDA Total (in million)	243	398.1	469	533
8	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	5.9	7.6	9	9
9	KCCs-Total(No.in million)	39.9	42.5	47	46
10	GCC-Total (No. in million)	7.4	9.2	11	13

Source: RBI, ANNUAL REPORT 2016-2017

A COMPARITIVE STUDY ON FINANCIAL INCLUSION PLANS OF ALL SCHEDULE COMMERCIAL BANKS FROM 2014-2017

SL NO	VARIABLE	APR14-MAR 15	APR15-MAR 16	APR16-MAR 17
1	Banking Outlets in Villages - Branches	3,445	2259	-970
2	Banking Outlets in Villages - Branchless Mode	166,464	30,335	12,756
3	Banking Outlets in Villages - Total	169,909	32,594	11,786
4	Urban Locations covered through BCs	36,117	5,705	2,850
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	84.3	27.7	16
6	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	70.9	43.2	49
7	BSBDA Total (in million)	155.1	70.9	64
8	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	1.7	1.4	0
9	KCCs-Total (No. in million)	2.6	4.5	-1
10	GCC-Total (No. in million)	1.8	1.8	2

INTERPRETATION: A comparative study shows financial inclusion plan of all scheduled commercial banks from the year 2014-2017. The variable such as banking outlets in villages, urban location through business correspondence, BSBDA, KCC, GCC have been considered. There was decrease in banking outlets in villages from the year 2016-17. But there has been moderate growth in variable such as branchless outlets in villages, urban location covered through business correspondence, BSBDA, both through branches BC's, OD facility has remained constant between 2016-17. KCC even though increased in the year 2014-15, but it has decreased in the year 2016-17. GCC has increased moderately.

CONCLUSION: In developing economies like India, the banks have a very crucial role to play for achieving inclusive economic growth. There have been various measures taken by banks for achieving financial inclusion as per the directives of RBI. The above analysis shows that their as been constant increase in the number of banking facilities on pan India basis but the real benefits of this measures to increase financial inclusion can be known only in long run. Even though the number of population coming under formal banking sector has increased , certain issues like technology, financial literacy etc. are needed to be looked into. To conclude, the real financial inclusion is possible only when banking facilities reaches all the sectors of the society in an equitable manner.

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