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Research Paper FINANCE

An Assessment of Financial Inclusion through Banking Penetration – A Comparative Analysis of Census 2001 And 2011

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ABSTRACT

Financial Inclusion (FI) as a policy priority of the government is the central mantra for equitable socio-economic growth. The approach towards FI saw a paradigm shift in the last decade making it more structured and integrated. In this regard, Reserve Bank of India (RBI) has created a simplified and conducive regulatory framework combined with a robust institutional mechanism to achieve FI in true spirit. This paper tries to describe the initiatives taken by the RBI in the last decade and examine whether those initiatives have translated into deeper banking penetration across the zones by comparing the census data.

KEYWORDS : Financial Inclusion, Banking penetration, Census, Growth Rate

Introduction:

Generating sustainable and equitable socio-economic growth through increased financial inclusion has become the central mantra for regulators and policy-makers across the globe[2]. In this direction FI has emerged as a policy imperative for inclusive growth. Prior to such directions RBI has started a FI initiative, way back in 1969 with the nationalization of banks, Priority sector lending, Lead bank scheme, establishment of RRBs, Service Area Approach, SHG-Bank Linkage Program etc[2,1]. But all such schemes lacked a structured and coordinated approach[4], leading to a skewed development in various pockets of India. In order to overcome the aforesaid lacunae, since 2000 RBI has adopted structured and integrated approach towards FI by focusing on both demand and supply side constraints.

Whether the initiatives taken RBI after 2000 started to yield results?

What are the means to measure these initiatives?

Whether these initiatives have solved the regional disparities of banking penetration?

The current research paper tries to address the above research questions by analyzing the initiatives taken by RBI in the last decade and measures whether such initiatives are translated into deeper banking penetration with the basis of census data, based on which the following objectives were framed

1. To analysis the FI initiatives taken by RBI since 2000.
2. To analysis the growth of banking penetration in India and the corresponding bank's contribution to such growth.

Research Methodology:

The current research paper is descriptive in nature, primarily based on secondary data sources. The data pertaining to FI and household availing banking services are obtained from census 2001 and 2011 and RBI website

Formula to calculate growth rate:

$$\text{Growth Rate} = \frac{(\%\text{ of Household availing banking services in 2011} - \%\text{ of Household availing banking services in 2001})}{\%\text{ of Household availing banking services in 2001}}$$

Descriptive Analysis of Financial Inclusion Initiatives taken by RBI Since 2000

For an effective FI, the governance structure should be intact. The first step towards creating this governance structure is to precisely define Financial Inclusion.

"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker section and low income groups in particular, at an affordable cost, in a fair and transparent manner, by regulated mainstream institutional player."[14]

This definition sets a clear direction to various stakeholders of FI as to what, how and for whom to achieve. Keeping this definition in mind RBI has framed a structured and well directed conducive regulatory framework[3]. The various initiatives taken by RBI since 2000 are classified as shown in Figure 1.

Figure 1–RBI's Regulatory Environment



(A) Enhancing Reach

1. **Relaxed and simplified branch authorization Policy** – To address the issue of the uneven spread of bank branches, SCB is permitted to freely open branches in Tier [1] to Tier 6 centers under general permission subject to reporting1. In the North-Eastern states and Sikkim SCBs can open branches without any permission from RBI.

2. **Branch expansion in rural areas** – Banks are mandated to allocate at least 25 percent of the told number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers[4,8].

3. **Engaging Business Correspondent** – RBI permitted banks to engage Business Facilitators (BFs) and Business Correspondents (BCs) as intermediaries for providing banking services in rural unbanked villages8. It allows banks to provide doorstep delivery of services, especially to do 'cash in-cash out' transactions, thus addressing the 'last mile' problem[2,11].

4. **Opening of Intermediate brick and mortar structure** between the base branch and BC location to create an eco-system for ensuring efficient delivery of services and cash management, Redres-

sal of customer grievances and closer supervision of BC operations[1].

5. **Branchless Mode** – RBI has encouraged banks to adopt other branchless modes such as Kiosks, off-site Rural ATMs and mobile vans[2] to resolve the last mile connectivity issues.

6. **Urban Financial Inclusion**- An initiative of RBI mainly targets the migrant and the unorganized working classes[5].

(B) **ENHANCING ACCESS**

1. **Relaxed and simplified KYC norms** to facilitate easy opening of small value bank account1. Relaxed guidelines such as self-certification of documents[2], no mandatory introduction for account opening, Aadhaar and MNREGA card as a proof of identity and address[4] and e-KYC services based on Aadhaar[2].

2. **Tapping Technological platform** – Technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner. SCB and RRBs were advised to implement the CBS platform, to provide doorstep delivery of banking services through BC model for achieving economy and scalability[7].

3. **Financial Inclusion Plan (FIP)** aims at a structured and planned approach to FI with commitment at the highest level, through board approved plan starting 2010. The implementation was closely monitored through comprehensive monitoring mechanism[2,3] of RBI.

(C) **PRODUCT**

1. **Basic Savings Bank Deposit Accounts (BSBDAs)** provide zero minimum balance, ATM-cum-Debit-Card facility, no charge on deposits and upto four withdrawals in a month and provide hassle free small overdraft facilities[10].

2. **Bouquet of Financial Services** – Banks provide a minimum of four products to customers through BSBDAs[2,1,10 –]

- Savings cum overdraft account
- Pure savings account (recurring /variable recurring deposit)
- Remittance product to facilitate EBT and other remittances
- Entrepreneurial credit products like General Purpose Credit Card (GCC) /Kisan Credit Card (KCC)

(D) TRANSACTIONS

1. Direct Benefit Transfer- Government proposes to route all social security payments through the banking network using the Aadhaar platform. DBT facilitates delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries[2].

(E) ROBUST INSTITUTIONAL MECHANISM

RBI has put in place a robust institutional mechanism to achieve the universal FI drive:

Supply Side Initiatives

1. **Financial Stability and Development Council**– FSDC headed by Finance Minister is at the apex. A *Subgroup of FSDC* headed by the Governor-RBI, within that is a *Technical Group,* headed by a Deputy Governor-RBI exclusively mandated to focus on FI and financial literacy[3].

2. **Financial Inclusion Advisory Committee (FIAC)-**is a high level committee constituted by Deputy Governor-RBI[2], with an aim to develop viable and sustainable banking service delivery models, products and processes for rural as well as urban consumers; and to create an appropriate regulatory framework[7].

3. **State Level Infrastructure**– includes a strong 35 State Level Bankers Committee(SLBC) at the apex which is ably supported by the 644 Lead District Managers(LDMs) at the District level to achieve the FI Initiatives[2].

Demand Side Initiatives

1. Financial Literacy Initiatives – An integrated approach was adopted by RBI for balanced supply and demand side initiatives[15,] based on which Fianncial Literacy Centers were set up by banks. FLC organizes monthly outdoor literacy camps which focus on educating, training and counseling people in the rural areas regarding the benefits of getting linked to the mainstream financial system[6,7].

2. National Strategy for Financial Education (NSFE)- Aims to establish contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions[6,7].

(F) Committees & Commissions

1. RBI's Committee on financial inclusion – set up under the chairmanship of Dr. C. Rangarajan in 2008. Its recommendations set the strong base for FI in India, which includes making FI as a policy priority, clear definition of FI, new delivery channel like BC_s robust institutional framework etc[14].

2. RBI's Committee on Comprehensive Financial Services for Small Businesses and Low Income Households -set up under the chairmanship of Dr. Nachiket Mor with a mandate to frame a clear and detailed vision of Financial inclusion and financial deepening in India[7.] The key recommendation is to provide a Universal Electronic Bank Account (UEBA) to all Indians above the age of eighteen years by January [1, 201612,13].

Research Findings of banking penetration in India:

The section examines whether FI initiatives were translated in banking penetration by comparing the census 2001 and 2011 households availing banking services. It also tries to analysis the region wise banking penetration to have a deeper understanding.

Total Zone-Wise Banking Penetration

Figure3.1-Total

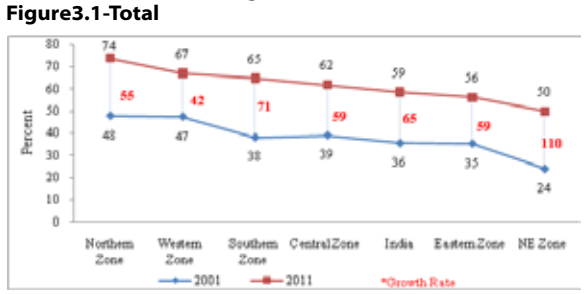


Figure 3.2-Rural

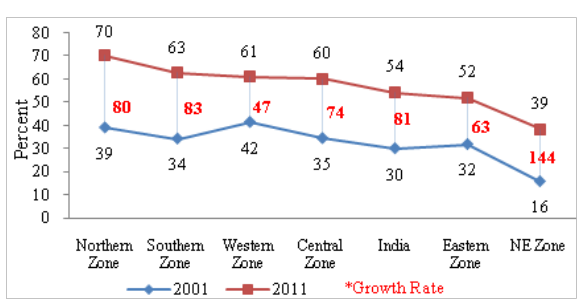


Figure 3.3-Urban

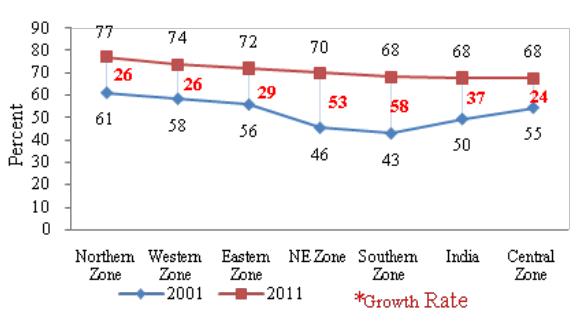


Figure3.1 reveals that four zones, namely northern, southern, western and central zone are above national average. The northern zone registered the highest penetration, which is 15 percent more than national average. The census growth rate (*depicted in between the high-low line*) of northeastern zone, which has the lowest penetration in 2011, has the highest growth rate at 110 percent, followed by Southern zone. On the contrary, northern and western zone has the lowest growth rate among zones. This is a clear implication of banks revival measure of under performing zones under RBI's FI initiatives.

Figure3.2 shows a clear shift in the rural household banking services with a growth of 81 percent. Northeastern zone has the highest rural growth, followed by Southern zone. Figure3.3 depicting the urban banking penetration saw a normal growth of 37 percent. Northeast and southern zone has registered a growth above 50 percent, whereas the other zones stood at 25 percent. Rural Urban dividend saw a steady narrowing of gap from twenty (2001) to fourteen (2011), mainly due to the drastic growth of rural banking penetration across the zones.

Northern Zone-Wise Banking Penetration
Figure4.1-Total

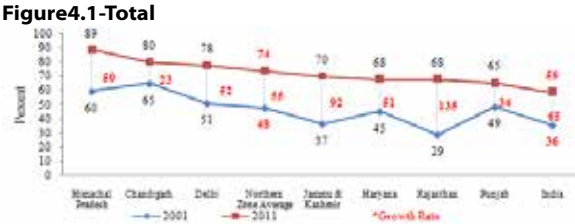


Figure4.2-Rural

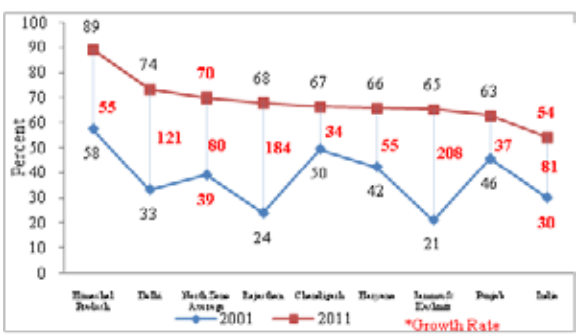
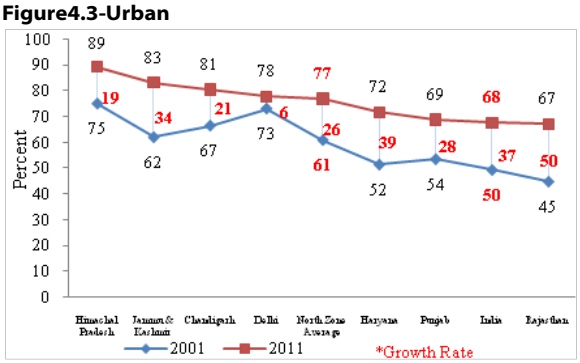


Figure4.3-Urban



From Figure4.1, Himachal Pradesh has the highest penetration at 89 percent, both in zone wise and all India level; Whereas Rajasthan has the highest decadal growth rate at 135 percent. Figure4.2 shows a jump in the growth of rural penetration from a meager 39 percent to 70 percent in 2011, which has helped in narrowing the Rural-Urban dividend from 22 (2001) to seven (2011). J&K and Rajasthan saw a three times increase in the rural penetration. Figure4.3 shows a modest growth of 26 percent in the urban banking penetration. Delhi is the only state which has a single digit growth at 6 percent. On par rural-urban banking penetration observed in Himachal Pradesh Himachal Pradesh, Delhi, Rajasthan, J&K has outperformed other states in the zone. State Level Banker Committee (SLBC) and Lead Bank are the grass root level institution responsible for FI. Based on which, Bank of Baroda, State Bank of Bikaner and Jaipur, J&K Bank Ltd., SBI, UCO Bank, PNB and Central Bank of India are the key contributors towards FI.

Southern Zone-Wise Banking Penetration
Figure5.1-Total

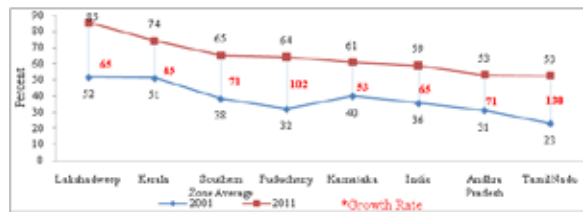


Figure5.2-Rural

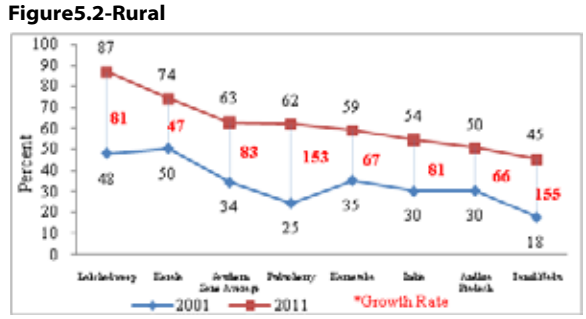
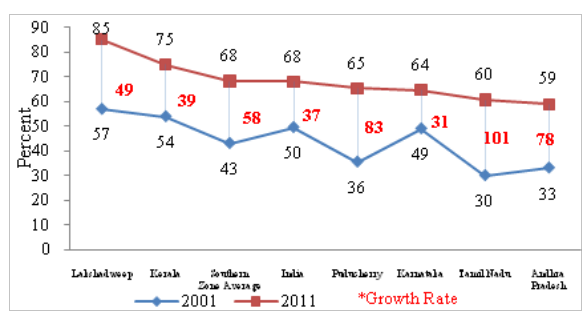


Figure5.3-Urban



Southern zone has the third highest banking penetration, whose decadal growth is above national average. From Figure5.1, Andhra Pradesh and Tamil Nadu are the only states in the zone below national average. Lakshadweep has the highest banking penetration at 85 percent. A twofold increase in the growth of Tamil Nadu and Pondicherry's banking penetration due to the special initiatives taken by IOB and Indian Bank.

Figure5.2 and5. 3 shows rural penetration is far ahead of the national average, whereas the urban penetration are on par with the national average, clear indications of more rural households into the formal banking sector. Rural-Urban dividend has come down marginally from nine (2001) to five (2011). On par rural-urban banking penetration is observed in Kerala, Lakshadweep and Puducherry. IOB, Indian Bank, Canara Bank and Syndicate Bank are the major contributors.

Eastern Zone-Wise Banking Penetration
Figure6.1-Total

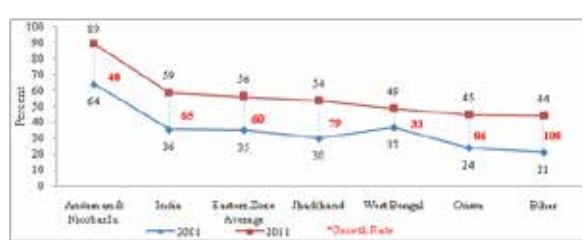


Figure6.2-Rural

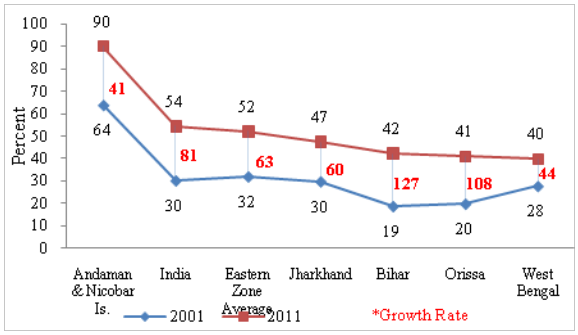


Figure 6.3-Urban

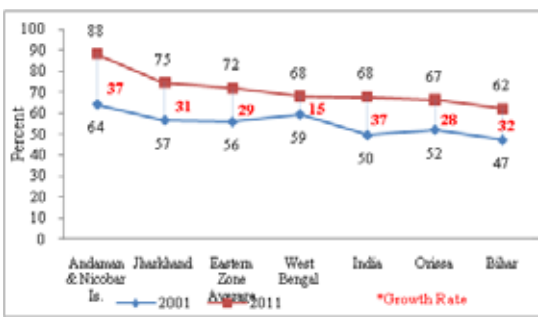


Figure6.1 shows A&N Is. is the only UT whose banking penetration is above national average at 89 percent, whereas the other states have a penetration less than 50 percent. Bihar though, has the lowest banking penetration has the highest growth rate. Orissa and Jharkhand also show impressive growth rate. Similar growth pattern observed in Figure6.2. A larger rural-urban dividend of 20 percent observed in 2011. SLBC in-charge -SBI, PNB, Central Bank of India and UCO Bank should give more focus towards rural banking penetration.

Western Zone-Wise Banking Penetration
Figure7.1-Total

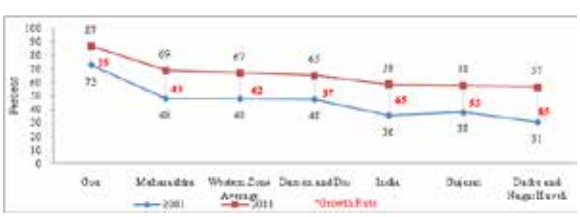


Figure7.2-Rural

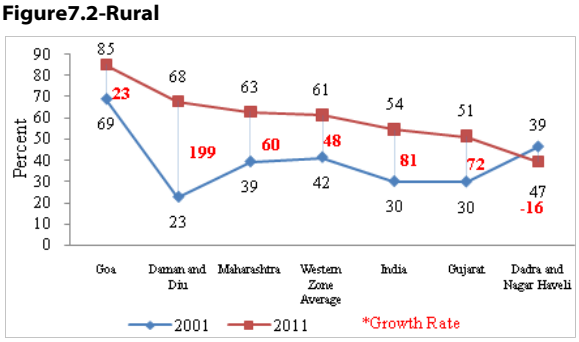
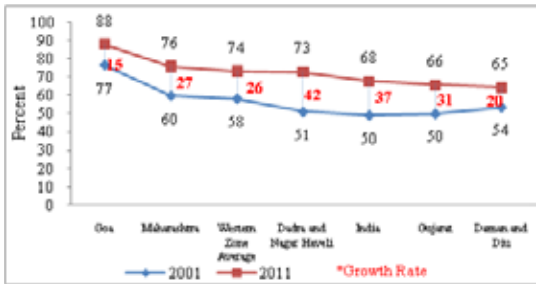


Figure7.3-Urban



From Figure7.1 Goa has the highest banking penetration. Gujarat and D&NH are two states which are below national average. Figure7.2 depicts, D&D has registered a three times increase in the rural banking penetration. Negative growth was observed in D&NH, indicating a decline in the household availing banking services. A marginal decline in the rural-urban dividend from a gap of 16 (2001) to 13 (2011). On par rural-urban banking penetration observed in D&D and Goa. A sluggish growth of banking penetration is observed in the western zone. Dena Bank, SBI, Bank of Maharashtra, Central Bank of India, Bank of India, and Bank of Baroda should gear up the pace of FI in their respective states.

Central Zone-Wise Banking Penetration
Figure8.1-Total



Figure8.2-Rural

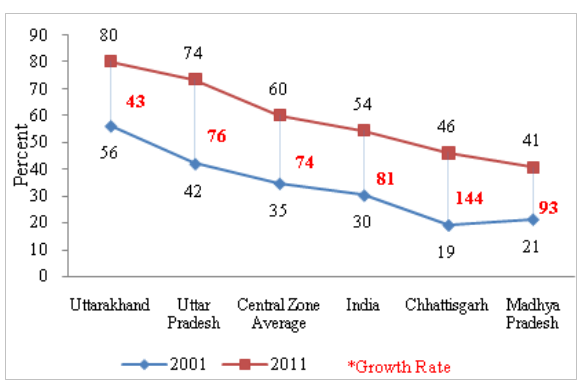
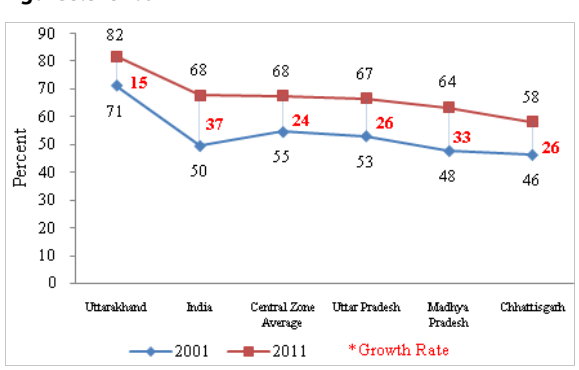


Figure8.3-Urban



On seeing Figure8.1, Uttarakhand has the highest banking penetration. At all India level, Uttar Pradesh is the only state where rural banking penetration is more than Urban, depicting a clear reversal of trend. SLBC and Lead Bank in charge Bank of Baroda, Allahabad Bank, PNB and SBI's initiatives in this effort should be highlighted. Rural-urban dividend witnessed a deep narrowing of the gap from 20 (2001) to eight (2011). In line with other zones, more focus to increase the rural banking penetration is emphasized than urban areas.

Northeastern Zone-Wise Banking Penetration

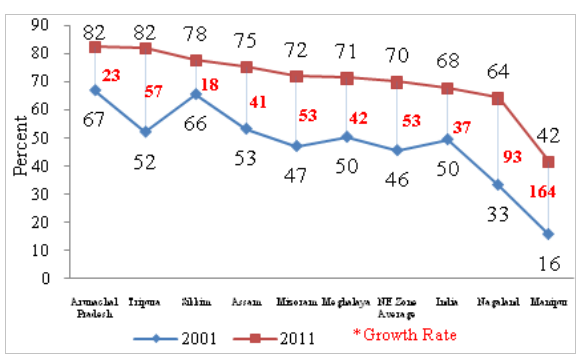
Figure9.1-Total



Figure9.2-Rural



Figure9.3-Urban



With RBI's special focus on Northeastern zone, its banking penetration saw a twofold increase. Tripura tops the list with 79 percent, nearly three times higher than 2001. Northeastern zone has an impressive urban penetration at 70 percent(Figure9.3). Only zone where the rural-urban dividend is static at 30. Figure9.2 – Rural area shows a notable growth of 144 percent, taking the penetration to just 39 percent, so more need to be done by SBI to increase penetration.

Conclusion

The structured FI framework adopted by banks over the last decade shows a substantial increase in the number of household availing banking services across regions. A summary of the major findings helps to understand the best practices and lacunas for enhancement of FI initiatives, which is utmost important for an evolving discipline.

1. More priority was given to least banking penetrated zone, evident from the exponential growth of Northeastern and Southern zone.

2. In general, the rural-urban dividend has come down substantially, mainly due to the drastic growth of rural banking penetration.

3. An even pace of growth observed in urban banking penetration.

4. On par rural-urban penetration observed in Himachal Pradesh, Kerala, Lakshadweep, Puducherry, D&D and Goa.

5. Except Uttar Pradesh all other states have higher urban penetration than rural.

With all such initiatives the banking penetration is just 59 percent and the regional disparities across the zones is still prevalent. There arises a doubt whether the existing banking penetration is more of a quantitative achievement than a qualitative one. Moreover a serious question before us is whether banks have started seeing FI as a business strategy rather than a social obligation[8]. Some of the recommendations for RBI and Bank's perusal

1. Banks should start seeing FI "money at the bottom of the pyramid"2.

2. There is no "one-size-fits-all" FI strategy which can be cloned over the length and breadth of our country2, so a more customized region specific initiative should be initiated by the RBI.

3. Banks should evolve a practice of knowledge sharing at the industry level to make FI a reality.

4. RBI must instruct the banks to develop innovative delivery channel with public-private-partnership and also standardize the existing delivery channels2.

5. Banks to attain the goal of FI should have an effective and conducive governance regime which is achieved through- integrate business plan with micro policies, Self-regulated, Bottom-up/ participatory approach, robust internal checks and control2.

To conclude the focus of FI should be more sustainable, scalable and cost-efficient business delivery model leveraging on technology[4]. In this regard, will the recent initiative of GOI- Pradhan Mantri Jan Dhan Yojana (PMJDY) – a National Mission for Financial Inclusion will bring FI in letter and spirit? A question we need to wait and see.

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