



A Study on the Performance of Reserve Bank of India in Financial Inclusion

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ABSTRACT

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The Reserve Bank has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board-approved FIPs. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million Basic Savings Bank Deposit Accounts (BSBDAs) were added taking the total BSBDAs to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (Kisan Credit Cards-KCCs) and 1.8 million small non-farms sector credits (General Credit Cards-GCCs), the total number of such accounts went up to nearly 42.5 million and 9.2 million respectively. This paper overlooks on performance of Reserve Bank India in financial inclusion plan and its implementation in unbanked area of India.

KEYWORDS : Financial Inclusion, financial exclusion, financial literacy, etc.

Introduction:

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. So, financial inclusion is the concept related to financial services for rural or low income group people or vulnerable group of people of the society to improve their standard of living and to brought them in to flow of banking services through financial education and with providing basic banking facilities like saving, withdrawing, deposits, short term lending or credit facilities, money transfer, etc. it is cleared that the financial inclusion plan actively working in India, with the help of this plan the financial services include basic saving bank deposit, small credit, overdraft facility, Kisan credit card, General Credit Card, ICT A/c's, etc. provided to people from low income group by Indian banks, under the guidance of Reserve Bank of India. It is also seems that this activity under FIP dynamically growing during this five year period, but in case of last two year it tremendously increased and positive result of FIP seen in financial year 2013-2014 and 2014-2015.

Definition:

"Basic banking services provide to those people, who are belongs to low income group or disadvantage group at affordable cost for the purpose to financially empowered them and it is called financial inclusion"

Dr. C. Rangarajan committee on financial inclusion defines it as:

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

"Financial inclusion is the delivery of financial services & products to sections of disadvantaged and low income segments of society, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players".

From the above definition it is clear that financial inclusion is the concept related to basic financial services or banking services provide to illiterate people, people from low income group or disadvantage group of society at very low cost for elimination of poverty and brought them into the mainstream of the society.

Objectives of Financial Inclusion:

Banking services provide to those people, who are belongs to low

income group or disadvantage group of large segment of society, at affordable cost for the purpose elimination of poverty and financially empowered them, 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.

Importance of the Study:

The term of "Financial Inclusion" is related basic banking services available for poor people or people form vulnerable group. India is the country of rural area, larger section of population living in rural area and most of them living in below poverty line, they are not assured about earned fixed income for day to day living and to maintain basic standard of living. So this paper basically overlook on Financial Inclusion Plan and its implementation in unbanked area of India to make financial empowered people of rural India or the people of vulnerable group.

Objectives of this Study:

1. To study the importance of financial inclusion plan in unbanked area
2. To study the performance of Reserve Bank of India in FIP in unbanked area
3. To Study the implementation of FIP in unbanked area

Role of Reserve Bank of India in Financial Inclusion Plan:

On 1st April, 2015, Reserve Bank India celebrated 80th Anniversary of establishment, on this occasion RBI set a theme **RBI@80** to enhanced financial inclusion plan in unbanked area of India. In the financial Year 2012-2013 Government of India and Reserve Bank of India set target to open a bank branches in an every village, which covered with 2000 population. With this target Government of India and Reserve Bank of India achieved a target of 490000 unbanked villages out of 650000 villages (approx..) in India up to the year of 2015-2016.

FINANCIAL INCLUSION:

Roadmap for Provision of Banking Facilities in Unbanked Villages with Population less than 2,000. The Reserve Bank continued with its efforts to ensure extension of banking facilities to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allotted to banks for coverage under the ongoing Phase-II of the roadmap. At end-March 2015, as

reported by State Level Bankers Committees (SLBCs), 390,387 villages were covered by 14,207 branches, 357,856 business correspondents (BCs) and 18,324 other modes, such as automated teller machines (ATMs) and mobile vans. In view of the ongoing implementation of PMJDY, banks were advised to complete Phase-II coverage by August 14, 2015 instead of March 31, 2016 as prescribed earlier.

Financial Inclusion Plan (FIP):

The Reserve Bank has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board-approved FIPs. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million Basic Savings Bank Deposit Accounts (BSBDAs) were added taking the total BSBDAs to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (Kisan Credit Cards-KCCs) and 1.8 million small non-farms sector credits (General Credit Cards-GCCs), the total number of such accounts went up to nearly 42.5 million and 9.2 million respectively.

PradhanMantri Jan DhanYojana (PMJDY):

The Government of India launched PMJDY on August 28, 2014, for extending formal financial services to the excluded population. The major features of the scheme include: (i) the facility to open a basic saving bank deposit (BSBD) account in any bank branch or BC outlet; (ii) accidental insurance cover (₹ 0.1 million) and life insurance cover (₹ 30,000); and (iii) an overdraft (OD) facility after satisfactory operation of the account for six months. Since the inception of the scheme, 165.7 million accounts had been opened by June 30, 2015. The Government of India has initiated routing of subsidy payments and also introduced insurance and pension products for BSBD account holders including for those accounts opened under PMJDY. To ensure increased activity in these accounts, the efforts that needed to be taken include: (i) rolling out direct benefit transfer (DBT) for all Central and State Government payments; (ii) offering appropriate credit products (farm and non-farm sector) after due diligence; (iii) strengthening the BC network; and (iv) increasing awareness through financial literacy initiatives.

Reflecting the focus of the Reserve Bank on financial inclusion, the 80th anniversary celebrations of the Reserve Bank were held in Mumbai on April 2, 2015, with financial inclusion as the central theme

Financial Literacy Camps:

Apart from direct initiatives, the Reserve Bank's efforts to expand financial literacy is channeled through banks. In terms of current instructions, financial literacy centers (FLCs) and rural branches of banks are required to conduct financial literacy camps at least once a month with focus on financially excluded people. Additionally, banks are encouraged to conduct such camps in unbanked locations. As at end March 2015, 1,181 FLCs were operational in the country, up from 942 as at end March 2014. During the period April 2014 to March 2015, financial literacy camps were conducted by 32,509 rural branches of banks and 1.4 million and 5.7 million participants opened accounts in the camps organized by the FLCs and rural branches of banks, respectively (Table IV.7 and IV.8).

Table 2: Activities Undertaken by Financial Literacy Centers

Particulars	2013-14 (April-March)	2014-15# (April-March)
1	2	3
No. of operational FLCs	942	1,181
No. of activities conducted*	56,985	84,089
Total no. of participants*	3,826,068	5,238,358
No. of participants opened accounts after attending the camps	NA	1,442,546
No. of participants already having accounts while attending camps	NA	2,890,204

*: Includes both outdoor and indoor activities. However, indoor activities have been discontinued w.e.f. April 2014. NA: Not available. #: Provisional.

Table 3 : Activities Undertaken by Rural Branches

Particulars	2014-15*
1	2
No. of Rural branches	52,934
No. of Rural branches conducted camps	32,509
No. of camps conducted	306,188
Total no. of participants	14,826,647
No. of participants opened accounts after attending the camp	5,657,092
No. of participants already having accounts while attending camps	6,686,518

*: Provisional.

Constraints in Financial Inclusion:

Though the initiative under financial inclusion has led to opening of large number of basic bank accounts of people from the excluded segment, the effort for ensuring that these accounts remain operational has to continue. This is possible if all government payments are routed through the banking channel. A step ahead will be to remunerate banks appropriately for routing these transactions through the banking channel. In addition, since the last mile delivery of all banking services is expected to be done mostly through the large BC network created across the country, it is necessary to ensure that appropriate control system for oversight over BC operations is provided by banks. The success of the Information and Communication Technology based BC model critically depends upon the availability of proper network connectivity across the country.

Simplifying Credit Dispensation:

SCBs have been advised to dispense with no due certificate from individual borrowers (including SHGs and JLGs) for all types of loans, irrespective of the amount involved. Banks have been encouraged to use an alternative framework of due diligence for credit appraisal, which could consist of one or more of the following:

- (i) credit history check through credit information companies;
- (ii) self-declaration or an affidavit from the borrower; Central Registry of Securitization Asset Reconstruction and Security Interest (CERSAI) registration;
- (iv) peer monitoring; (v) information sharing among lenders; and
- (vi) information search (writing to other lenders with an auto deadline).

Going forward, the mechanism for issue of Priority Sector Lending Certificates (PSLCs) will be made operational. This will provide banks with an instrument to aid them in priority sector target achievement and allow leveraging of their comparative advantage in lending to the priority sector. To work out a medium-term (five year) measurable action plan for financial inclusion, the Reserve Bank has constituted a Committee on Medium-term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty). Studies will be conducted to assess the efficacy of existing schemes on lead bank, credit guarantee trust for micro and small enterprises (CGTMS), KCC, SHG - bank linkage and the BC model.

Operationalization of TReDS, which has been conceptualized as an authorized electronic platform to facilitate discounting of invoices/bills of exchange of MSMEs, will be taken up during the course of the year. In pursuance of the objective of fostering a conducive policy environment for the MSME sector, there will be continuous monitoring of banks' efforts towards nursing and rehabilitation of MSME units, collation and analysis of data on credit flow and sickness in such units. With a view to developing 'entrepreneurial sensitivity' and improving the skills of dealing functionaries of banks, the Reserve Bank proposes to roll out a national capacity building programme. This is expected to help the functionaries understand the genuine credit needs of MSME entrepreneurs and provide timely response.

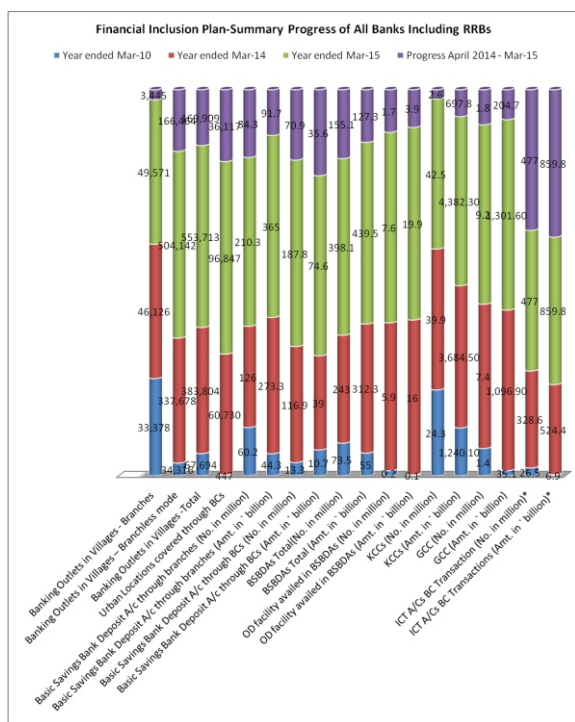
Table 4: Financial Inclusion Plan-Summary Progress of All Banks Including RRBs

Particulars	Year ended March 2010	Year ended March 2014	Year ended Mar 2015	Progress April 2014 - Mar 2015
1	2	3	4	5
Banking Outlets in Villages – Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages –Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in ` billion)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in ` billion)	10.7	39.0	74.6	35.6
BSBDAs Total(No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in ` billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in ` billion)	0.1	16.0	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs (Amt. in ` billion)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in ` billion)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in million)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transactions (Amt. in ` billion)*	6.9	524.4	859.8	859.8

*: During the financial year.Source: RBI Report on FI

locations from 447 (March, 2010) to 96847 (March, 2015). It is found that it is increased by 21666% during this period and during last two years 2013-14 and 2014-15 it is increased by 160%.

- Total no. of Basic Saving Bank Deposit A/c's through bank branched increased by 349.33% (in million).
- Total amount collection through Basic Saving Bank Deposit A/c's through branches is increased by 824% (Rupees in Billion).
- Total no. of Basic Saving Bank Deposit A/c's through BCs increased by 1412% (in million).
- Total amount collection through Basic Saving Bank Deposit A/c's through BCs is increased by 697% (Rupees in Billion).
- The no. of Basic Saving Bank Deposit A/c's through bank branches and business correspondents increased by 541.63% (in million).
- Total amount collection through Basic Saving Bank Deposit A/c's through bank branches and business correspondents is increased by 799.09% (Rupees in Billion).
- The Overdraft facility available on 02 million up to March, 2010 and up to March, 2015 1.7 million BSBDAs. So, it is increased by 11.76%.
- The amount delivered through overdraft facility availed Rs. 0.1 (Billion) up to March, 2010 and up to March, 2015 Rs. 3.9 (Billion). So, amount delivered through OD's increase by 3900% during this five year period.
- 24.3 million Kisan Credit Cards issued through this BSBDAs up to March,2010 and 42.5 million KCC's up to March, 2015. So, it is cleared that, the total no. of KCC's is increased by 174.89 during this period.
- The total amount distributed through Kisan Credit Cards-KCC's Rs. 1240.10 billion up to March, 2010 and Rs. 4382.30 billion up to March, 2015. So, it is found that the amount distributed through KCC's is increased by 353.38%.
- 1.4 million General Credit Cards issued through this BSBDAs up to March,2010 and 9.2 million GCC's up to March, 2015. So, it is cleared that, the total no. of GCC's is increased by 657.14% during this period.
- The total amount distributed through General Credit Cards-GCC's Rs. 35.10 billion up to March, 2010 and Rs. 1301.60 billion up to March, 2015. So, it is found that the amount distributed through GCC's is increased by 3708.26%.
- The ICT A/Cs BC Transaction has 26.5 million up to March, 2010 and 477.0 million up to March, 2015, so it is cleared that, this transaction increased by 1800% during this five year period.
- The total amount collected Rs. 6.9 billion up to March, 2010 and



Source: RBI Report on FI

Data Analysis & Discussion:

Above table shows the Financial Inclusion Plan-Summary Progress of All Banks Including RRBs from March, 2010 to March, 2015. It is observed that during this five years FIP working very actively and specially in during last two years FIP reaching outskirts area of India to provide basic banking services to people of vulnerable group belongs from urban and rural area. From the above table it is found that...

- The no. of total banking outlets in villages is increased from 67694 (March, 2010) to 553712 (March, 2015). So, it is found that no. of outlets in villages increased by 820% (approximate) during last five years.
- The no. of business correspondents (BCs) covered urban

Rs. 859.80 billion up to March, 2015. So, it is found that the total amount collected increased by 12460.87% during this period.

From the above analysis and discussion, it is cleared that the financial inclusion plan actively working in India, with the help of this plan the financial services include basic saving bank deposit, small credit, overdraft facility, Kisan credit card, General Credit Card, ICT A/c's, etc. provided to people from low income group by Indian banks, under the guidance of Reserve Bank of India. It is also seems that this activity under FIP dynamically growing during this five year period, but in case of last two year it tremendously increased and positive result of FIP seen in financial year 2013-2014 and 2014-2015.

Conclusion:

The Reserve Bank has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board-approved FIPs. Out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million Basic Savings Bank Deposit Accounts (BSBDAs) were added taking the total BSBDAs to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (Kisan Credit Cards-KCCs) and 1.8 million small non-farms sector credits (General Credit Cards-GCCs), the total number of such accounts went up to nearly 42.5 million and 9.2 million respectively.

The Reserve Bank continued with its efforts to ensure extension of banking facilities to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allotted to banks for coverage under the ongoing Phase-II of the roadmap. At end-March 2015, as reported by State Level Bankers Committees (SLBCs), 390,387 villages were covered by 14,207 branches, 357,856 business correspondents (BCs) and 18,324 other modes, such as automated teller machines (ATMs) and mobile vans. In view of the ongoing implementation of PMJDY, banks were advised to complete Phase-II coverage by August 14, 2015 instead of March 31, 2016 as prescribed earlier.

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