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Role of Banks in Financial Inclusion

KEYWORDS: Financial Inclusion, Banking Services, ATMs, KCC and Micro Finance.

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ABSTRACT *Financial inclusion relates to the provision of affordable financial services like, access to payments, remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Inclusive economic growth has been one of the priority agendas of the Government of India (GOI) over the past decade. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities, which leads to economic development of the country. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. It is evident from the data given below and the RBI annual report that even though various measures have been taken and more flow of credit to various sector of the economy, still majority of the population in rural areas have not come under the concept of FI. The government of India and the Banks functioning in India have to play major role in financial literacy to include the excluded.*

Financial inclusion (FI) denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

Rangarajan's committee on financial inclusion defines it 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. By financial inclusion we mean the provision of affordable financial services like, access to payments, remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded.

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), microfinance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on it. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The Reserve Bank had advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April 2010 to March 2013. These FIPs contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no-frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc. Financial inclusion has been accorded high importance by the Reserve Bank to aid the inclusive growth process for the economy. There have been formidable challenges in this area such as bringing sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms. Apart from the priority sector lending policy which has been in existence for a long time, a host of initiatives have been taken in recent years which include the rollout of Financial Inclusion Plans and expanding the scope of the Business Correspondent (BC) model, improving credit delivery procedures for the micro and small enterprises (MSE) sectors and encouraging the adoption of Information and Communication Technology (ICT) solutions.

RBI report quotes a World Bank study undertaken in April 2012, which stated that only 9 percent of Indian population had taken new loans from a bank, credit union or microfinance institution in the past year with only 35 percent having formal accounts versus an average of 41 percent in developing economies. The penetration of formal banking channel is still particularly poor in rural India that still houses 70 percent of the country's population further widening rural-urban economic inequality.

This paper highlights the role of Government of India, RBI and Banks in financial inclusion

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Table No.1.Position of Households availing Banking services:

House holds	As per censes 2001			As per censes 2011		
	Total No. of House holds	Total No of households availing banking services	%	Total No. of House holds	Total No. of households availing banking services	%
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: Financialservices.gov.in/banking/Overviewofefforts

Table 1 reveals the position of the Indian households availing banking services. As per censes 2001, only 30.1% of the households in rural areas and 49.5% of the households in Urban areas were availed banking services and as per 2011 censes 54.4% of the rural households and 67.8% of the urban households availed the services of banks. Only 58.7% households are availing banking services in the country. There are 100,277 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 36,972 (36.9%) bank branches are in the rural areas and 26,595 (26.5%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, still a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system.

Table No.2.Number of functioning branches of SCBs during the last three years:

As on	Rural	Semi urban	Urban	Metro-politan	Total
March 31, 2010	32525	20776	16678	15342	85321
March 31, 2011	33800	22961	17563	16293	90617
March 31, 2012	34671	24133	18056	16799	93659
December 31, 2012	36972	26595	19047	17663	100277

Source: Financialservices.gov.in/banking/Overviewofefforts

Table.2 reveals the number of branches during the last three years. The numbers of branches have been increased during the three years in rural, semi urban, urban and metropolitan cities. In the year 2010, there are 85321 branches which are increased to 100277 branches during 2012. In 2012-13, it has been increased by 6,503 branches, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas.

Table .3.Number of ATMs in the country as on 30th September, 2012

Rural	Rural	Semi urban	Urban	Metro-politan	Total
Public Sector Banks	6926	15638	20075	17934	60573
Old Private Sector Banks	615	2356	2046	1489	6506
New Private Sector Banks	1739	6146	10703	14718	33306
Foreign Banks	33	22	254	1052	1361
Total	9,313	24,162	33,078	35,193	101,746

Source: Financialservices.gov.in/banking/Overviewofefforts

Table 3, reveals the number of ATMs in India as on 30th September 2012. There are 101746 ATMs, which constitutes 60573 ATMs of public sector banks, 6506 ATMs of old private sector banks, 33306 ATMs of New private sector banks and 1361 ATMs of foreign banks. There are 9313 ATMs in rural areas, 24162 ATMs in semi urban areas, and 33078 ATMs in metropolitan areas. The Government of India has introduced Direct Benefit Transfer in respect of 26 schemes in 43 pilot districts to begin with, directly into the bank accounts of beneficiaries with effect from 1st January, 2013. The purpose of Direct Benefit Transfer is to ensure that benefits go to beneficiaries' bank accounts electronically, cutting down delays. The scheme is extended to other districts and schemes in a phased manner. Under the Direct Benefit Transfer, Government will transfer cash benefits like scholarships, pensions, etc. directly to the Bank or Post Office Accounts of identified beneficiaries. Direct Benefit Transfer will be undertaken using Aadhaar issued by Unique Identification Authority of India (UIDAI). All Public Sector Banks are in a state of readiness for benefit transfer using beneficiaries Aadhaar. Regional Rural Banks (RRBs) sponsored by Public Sector Banks, are also getting ready for accepting and executing Aadhaar based benefit transfer advice. Direct Benefit Transfer requires strengthening of banking infrastructure in the districts taken up under the scheme. At present Scheduled Commercials Banks have 97,473 bank branches (as on 30th June, 2012 and 1, 05,784 ATMs (as on December, 2012) in the country. Besides, under the Financial Inclusion Campaign – "Swabhimaan", to extend banking services to habitations of 2000 or more population, banks have extended banking services to over 74,000 such habitations. Banks have been advised to complete mapping of the entire service area of districts under Direct Benefit Transfer to assess the requirement of additional bank branches, Business Correspondents, etc., to cater to the requirement of Direct Benefit Transfer. It is the endeavour that one banking outlet (branch / Business Correspondent Agent (BCA)) is available for, on average, 1000-1500 households, taking the geographical and local conditions in consideration.

Table No.4.Table showing credit facility to Agriculture

Year	Target (crore)	Achievement (crore)
2008-09	280000	301908
2009-10	325000	384514
2010-11	375000	459341
2011-12	475000	511029
2012-13	575000	239629(provisional)

Source: Annual Report 2012-13, Ministry of finance, Government of India

Table.4 reveals the credit facility to the farmers from 2008-09 to 2012-13. The target of finance to agriculture from the government is increased over the years and the government was successful in reaching the target by spending more than the targeted amount. In order to boost agriculture productivity, farmers need access to affordable and timely credit facilities. As against the farm credit target of ` 5, 75,000 crore for the year 2012-13, an amount ` 239,628.93 crore was disbursed upto September, 2012.

Table. No.5 Table showing the issue of KCC to farmers

Institutions	No of KCCs issued	Amount sanctioned(Crore)
Cooperative Banks	2959043	10642.52
Regional Rural Banks	1995565	11516.20
Public Sector Banks	5118549	50087.53
Total	10073157	72246.25

Source: Annual Report 2012-13, Ministry of finance, Government of India

Table.5 reveals the amount sanctioned under KCC scheme (Kisan Credit Card). Upto the year 2011-2012, 10073157 KCC was issued covering the loan amount of Rs72246.25 cores. 2959043 cards by cooperative banks, 1995565 cards by regional rural banks and 5118549 cards by public sector banks ,covering the loan amount of Rs 10642.52 crore,11516.20

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crore and 50087 crore respectively. KCC Scheme was introduced in 1998-99, as an innovative credit delivery system aiming at adequate and timely credit support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible, convenient and cost effective manner. The Scheme is being implemented by all the District Central Cooperative Banks, Regional Rural Banks (RRBs) and Public Sector Commercial Banks throughout the country. KCC is one of the most effective tools for delivering agriculture credit. According to NABARD, as on 31st March 2012, the banking system has issued 11.39 crore KCCs (since inception). Total amount sanctioned is` 5, 72,617 crore. Banks have been advised to issue Kisan Credit Cards (KCC) to all eligible farmers and General Credit Cards (GCC) to non-farmers. A new scheme for KCC has been circulated by NABARD which provides for KCC as an ATM card which can be used at ATM/ Point of sale (POS) terminals.

Table No.6, Progress of Micro Finance Programmes.

Particulars	Progress of Micro Finance Programmes					
	Self Help Groups					
	Number (Million)			Amount (Billion)		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
Loans disbursed by banks	1.5(0.27)	1.2(0.2)	1.1(0.2)	145(22)	145(25)	165(26)
loans outstanding with banks	4.8(1.3)	4.8(1.3)	4.4(1.2)	280(63)	312(78)	363(80.5)
Savings with banks	6.9(1.7)	7.5(20.)	8.0(2.1)	62(13)	70(18)	66(14)
Particulars	Micro Finance Institutions					
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
loans disbursed by banks	691	469	465	81	76	52
loans outstanding with banks	1,513	2,176	1,960	101	107	115

Source: RBI Annual Report 2011-12

(Figures in bracket denotes details of SGSY)

Table 6 reveals the progress of micro finance programmes in India. The loan disbursed by the banks to the SHGs decreased to 1.1 million SHGs from 1.5 million SHGs in the year 2009-10. But the amount disbursed by the bank to SHGs increased from Rs145 (2009-10) billion to Rs165 billion (2011-12). Loan outstanding with the bank is also increased from Rs280 billion (2009-10) to Rs363 billion (2011-12). Savings of SHG members also increased both in number and the amount of savings from 2009-10 to 2011-12. The loan disbursed by the bank to micro finance institutions decreased from the year 2009-10(Rs81 million) to 2011-12(Rs52 million) and the amount of loan outstanding with banks increased from Rs101 million (2009-10) to Rs 115 million (2011-12). As at end- March 2012, about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with the previous year, total amount of SHG savings outstanding in banks declined. The Self Help Group (SHG) – Bank Linkage Programme has emerged as the major micro finance programme in the country. The focus under this programme is largely on those rural poor who have had no sustainable access to the formal banking system. Upto 31.03.2012, 79.60 lakh SHGs were linked and 43.54 lakh SHGs were credit linked with various Banks across the country.

Conclusion:

Inclusive economic growth has been one of the priority agendas of the Government of India (GOI) over the past decade. It is widely acknowledged that inclusive economic growth cannot be accomplished without achieving financial inclusion for the nearly two-thirds of India's population who are unbanked. FI is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. It is evident from the data given above and the RBI annual report that even though various measures have been taken and more flow of credit to various sector of the economy, still majority of the population in rural areas have not come under the concept of financial inclusion. The government of India and the Banks functioning in India have to play major role in financial literacy to include the excluded.

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