Research Paper Management

The Role of Regional Rural Banks (Rrbs) in Financial Inclusion: An Empirical Study in India

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ABSTRACT

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. Financial inclusion is a process of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream financial institutional players. In our country, Reserve Bank of India (RBI) has formulated the policy of financial inclusion with a view to provide banking services at an affordable cost to the disadvantaged and low-income groups. Since 1975 Regional Rural banks (RRBs) are being regarded as a significant Rural Financial institution for promoting sustainable economic growth. This research topic is a study on the role of RRBs in India in financial inclusion. An effort has been made in the instant project to study and find out whether RRBs in this region has made any progress towards ensuring broader banking services for the rural poor people in strengthening the India's position in relation to financial inclusion.

Keywords :

FINANCIAL INCLUSION

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. For example in Sub-Saharan Africa only 24% of adults have a bank account even though Africa›s formal financial sector has grown in the recent years.[1] It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

GOALS

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 United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

FINANCIAL INCLUSION IN INDIA

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), micro-finance 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.

As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. 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.

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005; thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this.

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

FINANCIAL INCLUSION INDEX

On June 25, 2013, CRISIL, India's leading credit rating and Research Company launched an index to measure the status of financial inclusion in India. The index- Inclusix- along with a report, was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration —into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are:

- The all-India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.
- Deposit penetration is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- 618 out of 632 districts reported an improvement in their scores during 2009-2011.
- The top three states and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

CONTROVERSY

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide, lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry. This crisis has often been compared to the mortgage lending crisis in the US.

The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

TRACKING FINANCIAL INCLUSION THROUGH BUDGET ANALYSIS

While financial inclusion is an important issue, it may also be interesting to assess whether such inclusion as earmarked in policies are actually reaching the common beneficiaries. Since 1990s, there has been a serious effort both in the government agencies and in the civil society to monitor the fund flow process and to track the outcome of public expenditure through budget tracking. Organisations like International Budget Partnership (IBP) are undertaking global surveys in more than 100 countries to study the openness (transparency) in budget making process. There are various tools used by different civil society groups to track public expenditure. Such tools may include performance monitoring of public services, social audit and public accountability surveys. In India, the institutionalization of Right to information (RTI) has been a supporting tool for activists and citizen groups for budget tracking and advocacy for social inclusion.