



Financial Inclusion –Innovation in Indian Banking Sector

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ABSTRACT

Inclusive growth and financial deepening is possible only through proper technique which channelizes all the resources from top to bottom. Inclusive growth of the economy has always been the central objective of the National Economic Planning, right from the inception of planning process. Government of India have adopted most important tool "financial inclusion" for inclusive growth of India. Financial Inclusion is a key path to poverty alleviation. Financial inclusion is an innovative techniques which helps the banking sector to promote the banking habits of the rural people. Financial inclusion means providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. This paper is an attempt to discuss highlight the various initiatives in the area of financial inclusion by Government of India and RBI, current status of financial inclusion in India and achievements of Pradhan Mantri Jan-Dhan Yojana.

KEYWORDS

Financial Inclusion, Inclusive Growth, Financial services.

1.INTRODUCTION

Inclusive growth and financial deepening is possible only through proper technique which channelizes all the resources from top to bottom. Inclusive growth is a strategy for economic development which aims at making products and services, including financial services, available to those who for various reasons stand excluded. Inclusive growth of the economy has always been the central objective of the National Economic Planning, right from the initiation of planning process. In order to achieve inclusive growth various tools have been adopted by Government of India. Government of India have adopted most important tool "financial inclusion" for inclusive growth of India. Financial Inclusion is important as it provides path to the poor for bringing their savings into the formal financial system. It is thus essential to extend banking and financial services to the rural areas at the earliest in order to include these regions in India's growth story. The provision of banking and financial services to the rural sector would be an enabler for inclusive growth. Recently India Prime Minister Shri Narendra Modi have introduced Pradhan Mantri Jan-Dhan Yojana as a National Mission on Financial Inclusion to provide all households in the country with financial services, with particular focus to empower the weaker sections of society, including women, small and marginal farmers and labourers, both rural and urban. The necessity of launching such a mission was felt in view of the fact that less than two-thirds of the households in the country have access to banking facilities even after 67 years of independence. The Mission seeks to provide all households in the country, both rural and urban, with access to the financial services, like bank account with RuPay Debit card, access to credit, remittance, Insurance & Pension. Thus, the Mission not only brings the excluded sections into the financial mainstream but makes the transfer of benefits of various subsidy schemes of the government more efficient.

2.FINANCIAL INCLUSION-BACKGROUND

The efforts to include the financially excluded segments of the society into formal financial system in India are not new. The concept was first initiated by the Reserve Bank of India in 2005 and Branchless Banking through Banking Agents called Bank Mitra (Business Correspondent) was started in the year 2006. In the year 2011, the Government of India gave a serious push to the programme by undertaking the "Swabhima an" campaign to cover over 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities. At present only 0.46 lakh villages out of the 5.92 lakh villages in the country have bank branches. In order to cover the remaining areas with the banking outlets, a composite approach

is proposed through branch and branchless banking. Strategy for branchless banking is through online fixed points Bank Mitra (Business Correspondent) who act as representatives of Banks to provide basic banking services. Mobile banking facility with USSD based technology is also proposed to be provided to every account holders with low end mobile phones. Mobile wallets would also be effectively utilised to deepen Financial Inclusion. Financial inclusion is universal access at a reasonable cost to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions. Financial tools help entrepreneurs start and expand small businesses which are a source of local job creation, growth and poverty reduction. Financial inclusion has been the utmost priority for the government of India as well as the Reserve Bank of India. Financial Inclusion is a social obligation for the government, and social obligation, mandatory obligation as well as Business opportunity for the banks and financial institution. 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, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (**The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan**). The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (**Reddy, 2007**).

3. Review of Literature

Indian population is still not have access to the basic financial services despite a number of initiatives been taken by the Government, therefore financial inclusion is crucial for the growth of the economy. A number of studies have been reviewed in order to study the concept of financial inclusion, current status of financial inclusion and initiatives taken by various stakeholders.

Shreenivasan, Vijayanthi(2012) found very low level of influence of the conceptual impediments including income, geographical or physical access, operational rituals of the banking system, infrastructure and level of literacy on financial inclusion.

Kapoor(2013) argued that financial inclusion is an equalizer that enables all citizen to contribute to economic growth and to gain from it.

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

Gaba(2014) described the role of banks in financial inclusion under the measures taken by RBI in the form of policies , directions and guidelines.

Kamboj(2014) investigated the relationship between financial inclusion and growth of the economy by applying multiple regression model. The results of the study showed positive relationship between number of bank branches networks and number of ATMs in the country with the GDP growth rate of the country.

Damodaran(2014) argued that a vast segment of India's population exist on the margins of India's financial system.

4.Objectives of the Study

- To highlight various initiatives taken by RBI and Government of India.
- To review the current status of financial inclusion in India.
- To study the achievement of Pradhan Mantri Jan -Dhan Yojna

5.METHODOLGY OF THE STUDY

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Gol, Report on trend and progress of banking in India, various journals, newspapers and websites of RBI, and Ministry of Finance, Government of India (Gol).

6.Financial Inclusion – RBI and GOI Policy Initiatives

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population. Several initiatives have also been taken by the Government of India and the RBI for furthering the reach of banking services and financial inclusion as under:

1. RBI has simplified Branch authorization in Tier 3 to Tier 6 centres .
2. The Know Your Customer (KYC) requirements for opening bank accounts have been relaxed and simplified for accounts with balances not exceeding Rs. 50,000/- and aggregate credits in the accounts not exceeding Rs. one lakh a year. Reserve Bank of India, advised all Scheduled Commercial Banks to make available a basic 'no-frills' account with 'nil' or very low minimum balances that would make such accounts accessible to vast sections of the population.
3. Reorganization of Aadhar Number under KYC norms.
4. Introduction of Business Correspondent (BC) Model for service delivery in remote areas and adoption of Information & Communication Technology (ICT) based model for enhancing outreach.
5. A General Purpose Credit Card (GCC) facility up to Rs. 25,000/- has been provided by the banks at their rural and semi-urban braches.
6. Integration of Electronic Benefit Transfer (EBT) for disbursement of Govt. Grants.
7. Banking services in unbanked villages with a population of more than 2,000.
8. Based on the recommendations of the "Committee on Financial Inclusion" set up by the Government of India (GoI) under Dr. C. Rangarajan, two Funds, namely the "Financial Inclusion Fund (FIF)" for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the "Financial Inclusion Technology Fund (FITF)", to meet the cost of technology adoption has been set up at NABARD with an overall corpus of Rs. 500 crore each. The corpus is shared by GOI, RBI and NABARD in the ratio 40:40:20. As on March 2011, banks have reported setting up 225 credit counselling centres in various States of the country.

7.Financial Inclusion: Current Status in India

Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic and political discourse in India even after six decades of post economic independence era. Though economy has shown impressive growth during post liberalization era of 1991, impact is yet to percolate to all sections of the society and therefore India is still home of 1/3 of world's poor. Census, 2011 estimates that only 58.7% of the households have access to banking services. The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 23,3341 ATMs (14.58%) are in rural areas

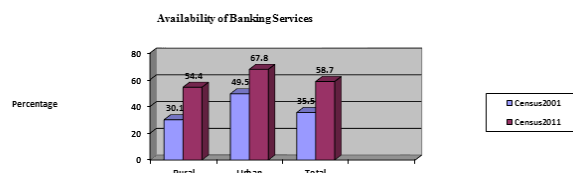


Table 1.Financial Inclusion - Summary Progress of all banks including regional rural banks:-

Banks (RRBs), during five years period are as under: Particulars	Year Ended2010	Year Ended2011	Year Ended2012	Year Ended2013	Year Ended2014
Banking Outlets in Villages					
a.Branches	33378	34811	37471	40837	46126
b.Villages covered by BCs	34174	80802	141136	221341	337678
c.Other Modes	142	595	3146	6276	---
d.Total	67674	116208	181753	268454	383804
Urban locations Through BCs	447	3771	5891	27143	60730
Basic Saving Bank Deposits A/c Branches					
a. No. in millions	60.19	73.13	81.20	100.80	126.00
b. Amt. in Billions	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposits A/c -BCs					
a. No. in millions	13.27	31.63	57.30	81.27	116.90
b. Amt. in Billions	10.69	18.23	10.54	18.22	39.00
OD facility availed in BSBDs A/c					
a. No. in millions	0.018	0.61	2.71	3.92	5.90
b.Amt. in Billions	0.10	0.26	1.08	1.55	16.00
KCCs(No.in millions)	24.31	27.11	30.24	33.79	39.90

Source RBI.

The statistics show that there is substantial progress towards opening of accounts, providing basic banking services during the recent years as indicated above. However, it is essential that all the sections be financially included in order to have financial stability and sustainability of the economic and social order.

Table 2.Branch network of Scheduled Commercial bank branches in the country for the last four years :

As on March 31	Rural	Semi Urban	Urban	Metropolitan	Total
2011	33927	23079	17606	16238	90850
2012	36540	25816	18855	17246	98457
2013	39794	28511	19900	18062	106267
2014	45152	31433	21428	19187	117200
December 31,2014	47278	35756	22373	19887	122294

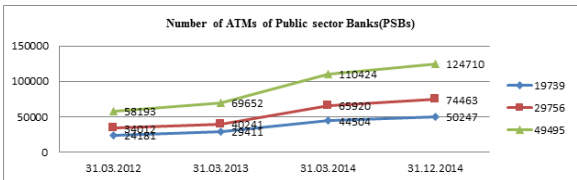
Sources:RBI

There are 122294 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 47,278 bank branches are in the rural areas and 35756 in semi-urban areas, 22,373 in urban areas and 19887 in metropolitan areas.. Following figure depicts that the number of bank branches network is continuously increasing from 90850 from the financial year 31.03.2011 to122294 to the end of the financial year 31.12.2014. This progress is an indicator of financial inclusion growth in India.

Table 3.ATM Networks- Number of ATMs of Public sector Banks(PSBs)

As on.	Off-site ATMs	On-site ATMs	Total ATMs
31.03.2012	24181	34012	58193
31.03.2013	29411	40241	69652
31.03.2014	44504	65920	110424
31.12.2014	50247	74463	124710

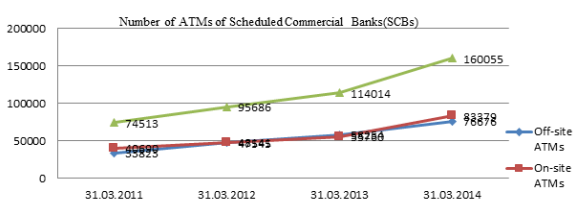
Source: RBI



From the following graph it is clear that the number of ATMs in the country is gradually increasing. There has been an increase in the number of ATMs in the country from 49495 in the financial year 31.03.2011 to 124710 in the end of the financial year 31.12.2014 which is an indication of the growth of the banking sector in India.

Table 4. Number of ATMs of Scheduled Commercial Banks(SCBs)

As on.	Off-site ATMs	On-site ATMs	Total ATMs
31.03.2011	33823	40690	74513
31.03.2012	48141	47545	95686
31.03.2013	58254	55760	114014
31.03.2014	76676	83379	160055
31.12.2014	83290	93119	176409



From the following graph it is clear that the number of ATMs of commercial banks in the country is gradually increasing. There has been an increase in the number of ATMs in the country from 74513 in the financial year 31.03.2011 to 176409 in the end of the financial year 31.12.2014 which is an indication of the growth in the number of ATMS of the Scheduled Commercial banks.

8.Achievements of Pradhan Mantri Jan-Dhan Yojana

- a. As on 31.01.2015,15.54 crore accounts have been opened out of 7.50 crore accounts are in rural areas and 5.04 crore in urban areas. 11.07 crore Rupay Debit Cards have been issued till 31.01.2015.Deposits of Rs.10499.62 crore has been mobilized .
- b. As on 23.01.2015 out of total number of surveyed households of 2105.93 lakhs, bank accounts have been opened for 2105.52 lakhs households' i.e coverage of 99.98%
- c. Out of Total requirement of 1,26,837 Business Correspondents(BCs) ,1,23,805 have been deployed
- d.1,80,96,130 number of accounts were opened in one week which has been recognized by Guinness World Record and a certificate to this effect has been awarded to DFS.
- e. The progress was reviewed by the Union Cabinet on 21.01.2015 and it has placed on record its appreciation of the efforts made by the banks and other stakeholders in opening of bank accounts and coverage of households under the scheme.

Conclusion:

India has an extensive network of banking systems and it will need to find ways to bring improvements within the existing financial credit delivery mechanisms and adopt new models for extending their outreach from financial delivery. The potential needs to be duly recognized as a strategy to achieve financial inclusion .For achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals but the ball is set in motion.