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INCLUSIVE BANKING UNDER FINANCIAL INCLUSION-INITIATIVES AND PRACTICES OF PUBLIC SECTOR BANKS IN INDIA

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Abstract

Inclusive banking is an important tool to achieve the Financial Inclusion. Off all the financial inclusion products, banking products play key role in the development of economy. Having a bank account and access to the financial products like deposit, loan and other services from the bank is unavoidable for every household. Hence, there is a need of inclusion of each and every house hold in the country in the formal financial system by opening of account in the bank. The paper deals with the Inclusive Banking Initiatives of RBI, inclusive practices of Public Sector Banks. Also the paper attempts to examine the extent of financial inclusion by self-help group bank linkage program with a special focus on the area of SBIof Visakhapatnam zone.

Key Words: Inclusive Banking, Financial Products; Bank Linkage; Inclusive Practices

Introduction

Financial inclusion in the Indian context implies the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Besides access, emphasis is also placed on affordability (low cost) of financial services such as savings, loan, and remittance to the underprivileged segments of the population.Inclusive Bankingalso means extending the banking habit among the less privileged in urban and rural India and weaning them away from unorganized money markets and moneylenders.

Status of Financial Inclusion in India

- 51.4% of farmer households are financially excluded from both formal/ informal sources.
- Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal

sources of finance of these three regions accounted for only 19.66%.

- However, over the period of five decades, there has been overall improvement in access to formal sources of credit by the rural household

Reserve Bank Initiatives

Financial inclusion is a flagship programme of the Reserve Bank. Its objective is to bring people, hitherto excluded, under the ambit of formal financial institutions. To push towards universal financial inclusion, the Government of India and Reserve Bank has taken several initiatives. These include Nationalisation of Banks, Establishment of Regional Rural Banks, NABARD, Strengthening of Credit Cooperative Societies, Local Area Banks, Urban Cooperative Banks , Lead Bank System, SLBC, No - Frills Accounts, Relaxation of KYC Norms, SHG - Bank Linkage Programme, Financial Literacy Programmes, Business Correspondents, Business Facilitators, Ultra Small Branches, Mobile Banking, Internet Banking, Smart Card Banking, General Credit Cards, Debit Cards, Kisan Credit Cards, Direct Benefit Transfer, BharatiyaMahila Bank, Licensing to new Private Banks, PradhanaMantri Jan DhanYojan.

The Reserve Bank continued efforts to create a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phase-wise manner. During Phase - I, there are 74,414 unbanked villages with population more than 2,000 identified and allotted to various banks through SLBCs for coverage through various modes, i.e., branches, BCs or other modes such as ATMs and satellite branches etc. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes.

In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 183,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes. The Reserve Bank is closely monitoring the progress made by the banks under the roadmap.

Tabe-1: Progress of Banks* in Financial Inclusion Plan In India*(Fig in No's)*

S.N	Particulars	2010	2011	2012	2013	Absolute Change (2010-13)	% Change (2010-13)	CARG 2010-13
1	Branches	85457	91145	99242	102343	16886	19.76	6.19
2	Rural Branches	33433	34811	37471	37953	4520	13.52	4.32
3	Banking outlets with population >2000	37949	66605	112288	119453	81504	214.77	46.55
4	Banking outlets in Villages with population <2000	29745	49603	69465	149001	119256	400.93	71.10
5	Banking through Brick & Mortar Branches	33378	34811	37471	40837	7459	22.35	6.95
6	Banking Outlets through BCs	34174	80802	141136	221341	187167	547.69	86.40
7	Through Other Modes	142	595	3146	6276	6134	4319.72	253.56
8	Total Banking Outlets	67694	116208	181753	268454	200760	296.57	58.29
9	Urban Locations through BCs	447	3771	5891	27143	26696	5972.26	293.05
10	No Frill A/Cs (No. In lakhs)	734.5	1047.6	1385	1820.6	1086.1	147.87	35.33
11	Amount in No Frill A/Cs (Amt In Crores)	5502	7612	12041	18300	12798	232.61	49.27
12	KCCs-Total (No. In lakhs)	243.10	271.10	302.30	337.90	94.80	39.00	11.60
13	KCCs-Total (Amt In Crores)	124000	160000	206800	262300	138300	111.53	28.37
14	GCC-Total (No. In lakhs)	13.90	17	21.10	36	22.10	158.99	37.33
15	GCC-Total (Amt In Crores)	3511	3507	4184	7600	4089	116.46	29.36
16	ICT Based A/Cs through BCs (No. In lakhs)	270	840	1560	2340	2070	766.67	105.41
17	ICT Based A/Cs Transactions (No. In lakhs)	70	580	970	2340	2270	3242.86	222.14

Source: RBI bulletin, 2014

The Financial Inclusion Plan imbibed a new zeal and reorientation in the banking sector in the direction of realizing inclusion and its fruits. The above table provides a canvas of progress of banks under Financial Inclusion Plan in the country during 2010-13. It can be seen from the table, the total number of branches of 85457 by the end of March 2010 shoot up to 102343 by March 2013 with a compound growth rate of 6.19 per cent. The number of rural branches also went up to 37953 (March 2010) registering a growth rate of 4.32 per cent. But it could be noted the rate of growth over the years in the number of rural branches (4.32 per cent) lagged behind the rate of growth the total number of branches (6.19 per cent). This lag in the growth of rural branches stands as a concern for contemplation in the inclusive efforts. Despite this, it is a sigh of relief that the banking outlets in villages with population more than 2000 and with population less than 2000 and registered an astonishing growth rate of 46.55 per cent and 71.10 per cent respectively. This signifies the progress of banks in the direction desired and the Financial Inclusion Plan in India.

Moreover the banking outlets through Business Correspondent's also shoot up from 34174 (March 2010) to 221341 (March 2013) a staggering growth rate of 86.40 per cent. Further the total banking outlets in the country multiplied from 67694 (March 2010) to 268454 (March 2013) with an impressive growth rate of 58.29 per cent. This scenario of growth in banking outlets especially the outlets through Business Correspondents and the outlets in villages speak volumes on the progress of banking in the direction of Financial Inclusion.

A further analysis of the urban locations covered through Business Correspondents (with 293.05 per cent growth rate), No-Frills Accounts (35.33 per cent), the amount in No-Frills Accounts (48.29 per cent) and also the growth in Information and Communication Technology based accounts transactions (222.14 per cent) besides the growth in Information and Communication Technology based Accounts through Business Correspondents (105.41 per cent) stand to signify the progress of Indian Banking under the emphasis of Financial Inclusion Plan in India.

Financial inclusion plan and its performance evaluation

Despite various efforts channeled to achieving these goals, the success has been limited and progress uneven on a regional and sectoral basis. With a view to reviewing the existing strategies for achieving financial inclusion; designing principles to develop institutional frameworks and regulation and developing a comprehensive monitoring framework to track the progress made, the Reserve Bank in September 2013, set up a Committee on Comprehensive Financial Services for Small Business and Low Income Households with the chairmanship of DrNachiketMor which submitted its report in January 2014.

The report observed that nearly 90 per cent of small businesses had no links with formal financial institutions while 60 per cent of the rural and urban population did not have a functional bank account, and much of the credit needs of the economy came from the informal sector. Difficulties of access and absence of a positive real return on financial savings had accelerated the move away from financial assets to physical assets and unregulated providers. This indicates a visible demand for a wide range of financial services by small businesses and low-income households. Concerted efforts are needed to ensure the achievement of several key goals such as universal access to a bank account; a ubiquitous payments infrastructure; and a base level access to all the other financial products such as credit and insurance within a relatively short period of time. Against this backdrop, the major recommendations of the committee relating to banks include:

- Providing a universal bank account to all Indians (over 18 years) by January 1, 2016.
- Vertically differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach with relaxed entry point norms of `0.5 billion.
- Adjusted priority sector lending target of 50 per cent against the current 40 per cent with sectoral and regional weights based on the level of difficulty in lending.
- Transfer of risks and liquidity through markets and strengthening the internal risk assessment capabilities of key refinance institutions.
- Differential provisioning norms for each asset class and public disclosure of stress tests by banks.

Financial Inclusion-Self Help Group

One of the most important programmes for promoting financial inclusion through micro-finance is the SHG-Bank Linkage programme, which aims at improving the access of the weaker and other sections of society to formal financial institutions. In February 1992, SHG-Bank Linkage Programme (SHGBLP) has been launched by NABARD as pilot project during the period of economic reforms in India which was major initiative in financial inclusion. The ability of people to pool their micro-savings and provide collective social collateral, for banks to lend against and add to the SHGs' funds, and the collective allocation of funds to meet the emergent credit needs of SHG members and charge rates which reflect the risks and management cost of funds are the unique features of this movement. It has enabled banks to assist in meeting the credit needs of very poor people without sacrificing their funds and has especially helped rural women to empower themselves, both socially and financially.

The spread of the SHG - Bank Linkage Programme in different regions has been uneven with Southern States accounting for the major chunk of credit linkage. Many States with high incidence of poverty have shown poor performance under the programme. NABARD has identified 13 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus. The SHG - Bank Linkage Programme is now more than 15 years old. There are a large number of SHGs in the country which are well established in their savings and credit operations. The members of such groups want to expand and diversify their activities with a view to attain economies of scale.

SHG- A Case Study

For the purpose of case study on SHG Bank Linkage and the usage of bank loans by the SHG members in the SBI of Visakhapatnam Zone is taken in this study. The respondent house hold are selected in the random convenient sampling method. The study convers the four districts i.e. Srikakulam, Vijayanagaram, Visakhapatnam and East Godavari consisting of 440 households.Generally under Inclusive Banking and as per the philosophy of Financial Inclusion, the bank loans disbursed are expected to be utilized rationally for micro enterprising, income generation activities etc., with an objective of elevating poverty and strengthening the hands of the rural poor. As evident from the reflections of the respondents across the SBI zone under study, it is evident that on the whole 29.55 per cent reported utilizing the loan for acquiring jewellery which is followed by domestic purpose (17.50 per cent), for further lending (16.14 per cent), children's education (15.91 per cent) and income generation (15.23 per cent). More or less the utilization pattern of the bank loan is observed similar across the constituent districts of the zone. The analysis helps to conclude that above the income generation activities the purposes like jewellery acquisition, domestic expenditure dominate the utilization pattern of the bank loan. More to say the purpose of jewellery acquisition and domestic expenditure assume 47.05 per cent of the total utilization of the bank loan. More or less it is the case with every district under the zone. This signifies that the income generating activities are relegated back in the utilization of the bank loan. There is a significant difference between the rows. The result of ANOVA at 5% significant level the utilization of the SHG loans are different for the different purposes hence the null hypothesis is rejected.

Suggestions

- For inclusive Banking and for achieving the objectives of Financial Inclusion of rural poor and unreached sections of the population are the target market. It is observed that proper communication and awareness drive are widely absent in the banking efforts for inclusion.
- The SHG Groups under Micro Finance Mechanism have been emerging as the instruments of Deep Socio Economic Reach. Therefore for promoting the philosophy of Inclusive Banking and to broaden the banking fold for the poor and the unreached in the rural areas. The select SHG Women should be trained with financial literacy and spread the

learned literacy to the unreached and to motivate them to come in to the fold of banking.

- Banking inclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas.
- Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting the bottom of the pyramid may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. It should be the endeavor of all the financial institutions to adopt financial inclusion as a corporate social responsibility and chalk out strategies in tune with the national policy on financial inclusion.
- As Financial Inclusion stands as the contemporary socio economic priority of the government to cater the financial services like savings, insurance and micro lending to the poor, the Reserve Bank of India should policise and embark upon arranging a separate desk in each bank with the title "Financial Inclusion Help Desk". This will expedite the process of Inclusive Banking.

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