Financial Inclusion and Role of Banks- An Assessment

Dr. Anamika Choudhary,

Associate Professor, Deptt. of Economics, Dr. Shakuntala Misra Rehabilitation University , Lucknow

INTRODUCTION

Indian economy in general and banking services in particular have made rapid strides in the recent past. However, a sizeable section of population particularly the vulnerable groups such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. This is *financial exclusion* which is a matter of serious concern among the low income households and small businesses, particularly in semi-urban and rural areas. People may not have access to a regulated financial system or to banks and other financial services. Thus, access to finance, especially by the poor and vulnerable groups, is an essential requisite for employment, economic growth, poverty alleviation and social cohesion.

Financial inclusion means taking banking services to different strata of society. It is a mantra that envisages bringing everyone irrespective of financial status into the banking fold. The present paper shall not only discuss the concept of financial inclusion and the role of banks towards financial inclusion but also assess the banking service facilities for financially excluded people.

SERVICES EXTENDED THROUGH FINANCIAL INCLUSION

To address the issue of such finance exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. These services are:

- *A no-frills banking account for making and receiving payments*
- *A savings product suited to the pattern of cash flows of a poor household*
- *Money transfer facilities*
- *Small loans for productive, personal and other purposes*
- *Service facility*
- *Overdraft facility*
- *Payment and remittance services*
- *Low cost financial services*
- *Cheque facility*
- *All kinds of commercial loan*
- *Electronic fund transfer*
- *Credit and Debit Cards access*
- *Access to financial markets*
- *Financial advice*
- *Insurance (Medical insurance)*
- *Micro credit during emergency*
- *Entrepreneurial credit*

Reasons for financial exclusion:

Financial excluded people *are generally the marginal farmers, the landless laborers, the migrants, the urban slum dwellers, the self employed and unorganized sector enterprises, the oral lessees, the ethnic minorities and socially excluded groups and such other people.*

Financial exclusion not only leads to increasing poverty but also restricts the overall development of a country. A rich-poor divide is generated and finally this financial exclusion leads to social exclusion. Various reasons can be incorporated under this:

A geographical exclusion which also includes a rural urban divide is created due to lack of banking facilities in the locality. People are simply ignorant of the financial technicalities which restrict them from availing banking services for their benefit. The situation becomes all the more uncongenial because of the nonchalant attitude of the banking staff, their unfriendly approach limit the inclination of the people to increase their banking habits. Moreover, the cumbersome documentation procedures and documentation is unwelcomed by the people in general. There is not only language problem but also the non attracting products which do not create an interest among the customers. A section of population actually feels uncomfortable in visiting a branch. The rural people are quite hesitant to approach a formal institution for any kind of transaction purpose. They not only lack awareness but also possess several inhibitions in showing an enthusiasm for banking facilities. Their low income at times itself produces a hindrance to avail such facilities. The branch location and branch timings at times do not get adjusted with the requirement of the people. The rural and at times the urban people are fear of being refused for their priority to get settled by the banks.

Class banking to mass banking:

India is a country where the majority of the population lives in rural areas engaged mostly in agricultural and allied activities. Poverty is one of the reasons of the inaccessibility of the masses to banks. And their accessibility to the banks is a solution of their poverty alleviation. It will not only contribute to the growth and progress of the country but also enhance the overall development of the nation. Financial inclusion is now a common objective for many central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country

The aim of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Bank nationalization in 1969 and 1980 in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from ***class banking to mass banking***. The period 1969 to 1991 saw a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68282 branches as at the end of March 2005. At the end of March, 2009, it has increased to 79442. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth.

Inclusive Financing through banking services:

In 2004, the Reserve Bank of India set up a Khan Commission to look into the vision of financial inclusion. The recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). The Reserve Bank maintained that the banks need to achieve greater financial inclusion and for this even "no-frills banking account" was given a green signal. Financial inclusion was first featured and introduced in 2005 in India from a pilot project in union territory of Pondicherry by the then chairman of Indian Bank, K.C. Chakraborty. ***Mangalam Village became the first village in India where all households were provided banking facilities.***

The Reserve Bank's annual policy statement of 2005-06 expressed the concerns in regard to the banking practices which had the tendency to exclude the customers rather than devising means to attract a vast section of population in the banking net. The policy reinforced the banks to take an urge to review their existing practices to fulfill the aim of securing financial inclusion. As a result, efforts are being made by the Reserve Bank of India and the Government of India to increase the banking penetration in the country. *The significance of financial inclusion or inclusive financing lies in the fact that it is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of the society.*

In order to address the issues of financial inclusion, the Government of India then constituted a **"Committee on financial Inclusion**" under the chairmanship of Dr. C.R.Rangarajan. The committee has defined Financial Inclusion 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."* The committee recommended the launching of a National Rural Financial Inclusion Plan (NFRIP) in mission with a clear target to provide access to comprehensive financial services through rural and semi-urban branches of commercial banks and Regional rural banks.

Inclusive Growth:

The Government of India has recognized the importance of inclusive growth. Thus, the **Eleventh Plan Document** tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society.

Financial inclusion is critical to achieve inclu sive growth and it is a prerequisite for sustainable economic growth and development.

Now, our policies aim at increasing the income and employment opportunities on the one hand and on the other, it tries to finance programmes which are capable of making the growth more inclusive.

Reaching the unbanked

Inclusive growth is driven by demand side and supply side factors. Banks are playing the role of supply side factors. Demand side factors, such as lower income and /or asset holdings also have a significant effect on financial inclusion. Financial inclusion is a *major agenda for the RBI*. The Finance Minister had announced in Budget 2010-11 that, *"To reach the benefits of banking services to the 'Aam Aadmi (common man)', the RBI had set up a high-level committee on the lead bank scheme."*

It is likely to top the agenda of Indian finance in 2014. Reserve Bank of India (RBI) governor Raghuram Rajan has indicated that ***financial inclusion will be a key priority***. The move by RBI to devise a new framework for issuing bank licenses has also been greeted by calls to consider alternative banking models that can target the needy more effectively. Without financial inclusion, banks cannot reach the unbanked. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India's financial system.

Technology and financial inclusion are the popular coinage in banking parleys in the country.Technology enables the provision of a host o f servicesfrom depositing money into different government schemes to micro loans and micro insur ance. The ***most effective way of integrating the unbanked population to the financial main stream*** is to harness the power of technology. It is also a major step towards increasing savings and achieving balanced growth. A Forbes article in 2008, reported that an estimated 750 million households worldwide do not have a bank account. In Mexico, cash transactions constitute 79% of payments, in China 82%, in India 91% and even in USA, 80 million people are in the category of under-banked. Indian Government and RBI have been focusing to increase the number of bank accounts so that saving habits in this segment of society could be increased.

At an affordable cost:

Inclusive finance includes safety net mechanisms; enable the poor to have decent livelihoods, jobs and even opportunities for entrepreneurship. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups. The banks have reached even to the remote corners of the country. Unrestrained access to public goods and services is the *"sine qua non"* of an open and efficient society. As banking services are in the nature of the public good, it is essential that the availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

Swabhimaan's Success:

The former United Nations Secretary General Mr. Kofi Annan on December 29th, 2003, while addressing UNESCO highlighted that 84% of the world's population were not financially included. The committee headed by *Shri Haroon Rashid Khan* in 2004 studied the functioning of **Gramin banks** and found that 67% of the population were not financially included. This matter was highlighted in the Reserve Bank of India term policy paper of 2005-2006, banks were asked to take up financial inclusion for the country. The Government of India has initiated a movement called **Swabhimaan** for financial inclusion and had targeted all villages with population of 2000 or above by March 2012and villages with a population of 1000 or above by March 2015.

This campaign was successful and it was found that states or Union territories like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all the districts. RBI'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.

Measures *taken by banks*:

The financial institutions have taken variety of measures to bring in financial inclusion. With the wide publicity of financial service to apprise the rural folk, opening saving bank deposit accounts on relaxed KYC and without any balance in them, providing credit cards to farmers (***Kisan Credit cards***) who have land on basis of the annual produce of their land, normally valid for five years, even small consumption loans given to landless people through general purpose credit card, adoption of business Correspondent model from Jan 2006 are some of the measures to facilitate financial inclusion.

All the printed material which are to be used by the retail customers are required by the banks to be made available in English, Hindi and the concerned regional language.To smooth the progress of financial inclusion, banks are also adopting ***Electronic Banking*** through the use of biometric ATMs and mobile banking. National Bank for Agriculture and Rural Development (NABARD) in 1992, launched the ***SHG-bank linkage programme*** with policy support from the Reserve Bank, to facilitate in collective decision making by the poor and provide ***"door step" banking***. In the third period, i.e.2005 onwards, financial inclusion has been accepted as a policy objective.

Banks are encouraged to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved ***Financial Inclusion Plans (FIPs)***. The ***first phase*** of FIPs was implemented over the ***period 2010-2013***. The Reserve Bank has sought to use the FIPs as the basis for FI initiatives at the bank level. RBI has put in place a structured, comprehensive monitoring mechanism for evaluating banks' performance against their FIP plans. Annual review meetings are being held with CMDs of banks to ensure top management support and commitment to the FI process. In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh ***3 year Financial Inclusion Plan for the period 2013-16.*** It has been made imperative for the banks to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model in an effective manner where the accounts can be operated by even illiterate customers by using biometrics. This would certainly ensure the security of transactions and enable a built up confidence in the banking system.

Financial Inclusion Index:

On June 25th, 2013 CRISIL, India's Leading credit card rating and Research Company launched an index to measure the status of financial inclusion in India. The index- ***Inclusix*** is one of its kind tools to measure the extent of inclusion in India right down to each of the

632 districts. The all India CRISIL Inclusix index score is ***40%.*** A recent report on financial inclusion by the World Bank shows that the impact of financial inclusion strategies has been quite modest globally. While access to basic financial services does help the poor, throwing easy credit at them rarely raises prosperity in a sustainable way. The Reserve Bank of India has said concerns on the front of income distribution and poverty alleviation cannot be met without full-scale expansion of banking and other financial services. RBI deputy governor K C Chakrabarty said while the Indian growth story was impressive, there were concerns on issues like income distribution and poverty alleviation, where lot remained to be done. A Working Group under Shri C.P.Swarnkar, was constituted on 10th May, 2007 to examine the procedures and processes of disbursement of agricultural loans. This group found out that rural people were quiet ignorant of the types of agricultural credit facilities available to them. The group recommended the ***formation of Financial Literacy and Counseling Centre (FLCC)*** at different rural locations to help the farmers obtain credit facilities easily.

No easy short-cuts

There are thus no easy short-cuts to financial inclusion. Ambitions for financial inclusion need to be tempered because the financial system can grow only as fast as the rest of the economy. Given India's income levels, it is not doing either much worse or much better than its peers as far as key parameters of financial inclusion are concerned. A cross-country survey by the World Bank shows that 7% of Indians reported taking a loan from a financial institution in the past year and 11% reported saving at a formal financial institution. These figures are roughly similar to the average of lower middle-income countries. The proportion of persons taking formal financial loans is roughly the same across the developing world but the proportion of savers is more skewed, with richer developing countries such as China having a much larger ratio of savers.

Financial inclusion and inclusive growth:

Financial Inclusion of the unbanked masses is expected to unleash the hugely untapped potential of the sections of the society that constitute the bottom of the pyramid. However, in pursuing the FI mission, the normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that the banks give adequate attention to financial inclusion, they must view this as a viable business proposition rather than as a corporate social responsibility or a regulatory obligation. To make the business profitable, it is crucial to make the increasing use of existing banking infrastructure which would happen only if the banks can offer a range of products and services to the account holders who have opened their accounts during the last three years as also to the new customers that the banks acquire.

We cannot take financial inclusion and inclusive growth as policy choices as they have now become policy imperatives which would go a long way in determining long term stability and sustainability of the economic and social order. Targeting financial inclusion, the economy can fulfill that reality what financial sector is capable of achieving.

A complementary solution in the name of financial inclusion:

Although the chosen and conventional approaches to tackling poverty and other millennium development goals (MDGs) are useful and necessary, they are not sufficient to address the challenge. Financial inclusion (FI) offers incremental and complementary solutions to tackle poverty, to promote inclusive development and to address the MDGs. Financial Inclusion as a forceful strategy was championed almost solely, for years, by non-governmental organizations (NGOs) such as the original Grameen Bank. The lesson is not to lose sight of the role of the financial inclusion in the economy's growth and development.

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