Financial Inclusion: Role of Banks

[1] Love Gogia

Abstract

The issue of financial inclusion is a development policy priority in many countries. Around 50% of the Indian population suffers from chronic poverty and hunger. Only 31% of the Indian population has access to Banking services. The rest 69% are still deprived of bare minimum banking services for which they are totally dependent on informal banking sources like private money lenders. While the need to solve this mammoth problem is great, we are unable to reach large numbers of the poor with products, services and information they need to achieve financial security. It is been proven, levels of human development and financial inclusion in a country move closely with each other. This paper points to the importance of financial inclusion and highlights various policies that have been adopted in India to increase the same. Banking on the poor is a viable option in India as there are huge mass at the bottom of the pyramid. Use of technology plays an important role in leveraging banking services to rural areas as it lower the cost of maintaining the account. Also there should be convergence between regulator, banks, telecom companies and software companies. Financial literacy and credit counseling programmes can create critical mass for financial services which make financial inclusion viable .Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions.

Key Words: Financial Inclusion**,** Financial Services, Indian Banking, Self Help Groups, Financial products

1.Introduction

The Indian banking industry has made a commendable progress in terms of deposits, advances, branch network and diversity of financial products offered etc. since the banking reform programme started in 1991. Despite this admirable progress, the task of ensuring the access of financial services by vulnerable group such as weaker section and low income groups was left unattended for last 20 years.

It may not be justified to take conclusion from this that there were no initiatives on behalf of Government of India or regulatory bodies. Rather, the steps like nationalization of banks, formation of Regional Rural Banks (RRBs) or Self Help Groups (SHGs), State Level bankers' Committee (SLBC), Lead bank scheme, Co-operative movement and setting target for banks for

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meeting priority sector advances etc. were aimed to ensure deepening the financial services of banks. However, the reality lies in the fact that all those measures were insufficient to achieve desired results, which may be better described by following data.

Exhibit I

Extent of Financial Exclusion

1. Coverage of (Estimates based on various studies and Market Surveys):
   - Check in accounts - 40%
   - Life Insurance - 10.0%
   - Non-Life Insurance - 0.6%
   - Credit Card - 2%
   - ATM + Debit Card - 13%
2. Geographical coverage
   - 5.2% villages are having a bank branch
3. Farmers coverage
   - Out of 119 million farmers, small and marginal farmers are 97.7 million (82.1%)

Source: Chakraborty, K.C. (2009)

Reserve bank of India (RBI) has been made Financial Inclusion (FI) programme an integral part of the banking sector policy in India. It is furthering FI in a mission mode through a combination of strategies ranging from relaxation of regulatory guidelines, provision of innovative products, encouraging use of technology and other supportive measures for achieving sustainable and scalable financial inclusion. (RBI, 2011)

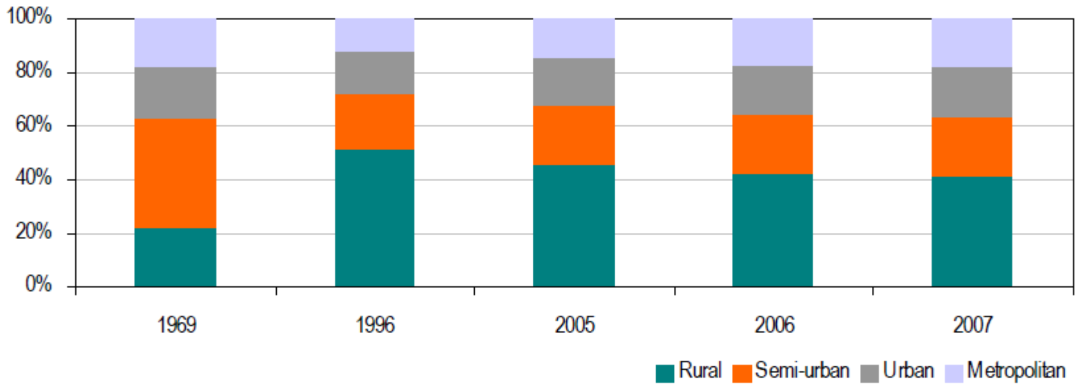
Against this backdrop, the paper aims at to examine the initiatives taken by few selected Public Sector Banks (PSBs) in the area of FI. We have selected only PSBs since they comprise substantial portion of banking business in India and for ensuring deepening the financial services, PSBs are more viable option. Section 2 provides statistics of financial inclusion in India. Section 3 provides the initiatives taken by RBI to facilitate financial inclusion. Section 4 presents the performance of selected PSBs. Section 5 presents issues and challenges and Section 6 gives concluding observations.

2. Financial Inclusion In India – In Statistics

All INDIA LEVEL:

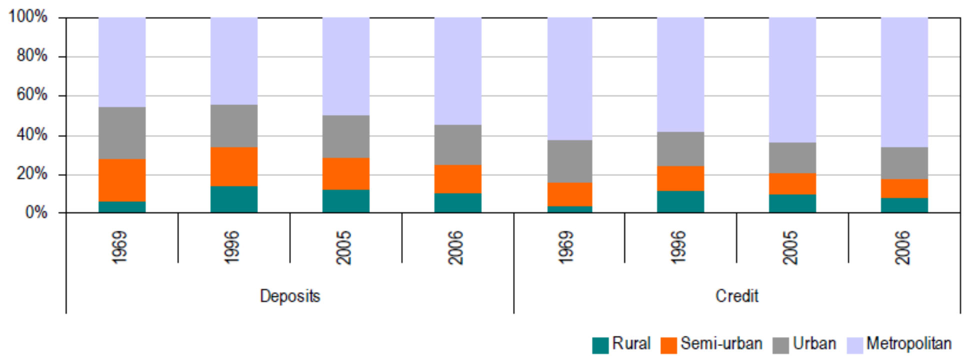
Figure 1 shows that rural and Semi-urban offices constitute a majority of the Commercial Bank offices in India. Rural bank offices as a % of total have increased from 22% in 1969 to 41% in 2007. However, that is just one part of the story. If we look at **figure 2**, it can be seen that bulk of the deposits received and credit allocated is to the urban and metropolitan areas. In fact, the share of rural and semi-urban in deposits and credit has been declining. **Table 1** provides further clarity providing a break-up of the deposit accounts. Both the deposit and credit accounts are lower in rural households than urban households.

Figure 1: Distribution of Bank offices in India



Source: Rakesh Mohan, RBI, IDBI Gilts Ltd

Figure 2: Sources of Deposits and Credit in India



***Source*: Rakesh Mohan, RBI, IDBI Gilts Ltd.**

Table 1: Number of Deposit and Credit Accounts in Scheduled Commercial Banks (% of Number of Households)

		1981	1991	1996	2001	2004	2005
Current Accounts	Rural	3.6	5.5	4.7	4.9	4.4	4.6
	Urban	15	23.4	24.1	19.2	17.5	18.3
Savings Accounts	Rural	59.6	137	129.8	123.3	126.8	131.5
	Urban	135.5	243.7	249.7	197.4	206.5	213.1
Term Deposits Accounts	Rural	22.9	41.8	45.5	52	48.3	45.7
	Urban	74.6	96.9	105	105.6	113.4	104
Credit Accounts	Rural	18	44.3	36	26.5	28.7	32.2
	Urban	15.1	29.9	27.1	28.4	42.5	50.2

Source: Rakesh Mohan, RBI, IDBI Gilts Ltd.

REGIONWISE:

Another way to analyze the financial inclusion is to see the region-wise distribution of the bank offices, credit and deposit ratios. **Table 2** shows the population per office has increased in the rural areas of all the regions indicating lower financial deepening in rural areas. In urban areas the population per bank office has declined in all the regions except Western region. Despite the increase in financial deepening in the urban regions, the savings account per hundred persons has declined in all regions. Contrastingly, in the rural regions, savings account per hundred persons has increased in North-East, Central and Southern Regions.

Table 2: Financial Inclusion region-wise

	1991	2005	1991	2005	1991	2005
	Total		Rural		Urban	
Population per Office						
Northern	11,002	12,257	10,771	13,043	11,571	10,941
North-East	16,870	26,227	16,335	22,158	21,169	20,318
Eastern	16,441	19,913	16,402	21,208	16,614	15,759
Central	15,786	19,518	15,153	20,264	18,745	17,297
Western	12,771	14,618	12,579	15,526	13,108	13,472
Southern	11,932	12,328	11,276	12,372	13,811	12,243
All-India	13,711	15,680	13,462	16,650	14,484	13,619
Deposits: Number of Savings Accounts per 100 persons						
Northern	40	38.3	30.1	29.7	62.6	55.4
North-East	17.8	17.6	16.1	16.4	28.4	24.2
Eastern	21.8	20.5	17.7	16.9	40	36.1
Central	23.8	24.5	21	22.1	34.7	32.9
Western	35.5	32.5	24.7	23.8	53.8	45.2
Southern	37	37.6	34.6	35.5	42.7	41.8
All-India	29.9	29.2	24.5	24.4	45.6	41.6
Credit: Number of Credit Accounts per 100 persons						
Northern	6.4	5.7	6.6	5.1	5.9	6.7
North-East	4.4	3.3	4.4	3.2	4.4	3.9
Eastern	6.6	4.2	7.2	4.2	4.3	4.3
Central	5.5	4.3	5.8	4.2	4.4	4.5
Western	5.7	7.5	6.2	4.2	4.8	12.2
Southern	11.8	14.2	13.6	12.7	7.6	17.4
All-India	7.3	7	7.9	6	5.5	9.8

Source: *Rakesh Mohan, RBI, IDBI Gilts Ltd.*

3. Financial Inclusion Initiatives By Policy Makers

The Committee on Financial Inclusion was constituted by the Government of India (Chairman Dr. C. Rangarajan) on June 26, 2006 to prepare a strategy of financial inclusion. The Committee submitted its final Report on January 4, 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion, therefore, according to the Committee, should include access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities. (RBI, 2008)

It had led to various policy initiatives by RBI. The major contributions of RBI in this regard are condensed in Exhibit 2. In order to accelerate the FI programme, more specifically to expand the outreach of banking services to remote parts of the country, RBI has given some action points to the banks.

- Banks were advised to allocate at least 25 per cent of the total new bank branches in unbanked rural centers.
- Provide banking services in villages with more than 2,000 populations.
- Focus also on providing banking services in peripheral villages with population of less than 2,000.
- Banks need to focus more on virtual banking, depending more on technology to give efficient and quick service supplemented with services of Banking Correspondents (BCs).
- Banks shall formulate financial inclusion plans for RRBs sponsored by them and develop an effective monitoring mechanism
- Cover allotted unbanked villages to various banks through State-level Bankers' Committee (SLBC). (RBI, 2011)

Exhibit 2

RBI's Contribution to Promote Financial Inclusion

- No-Frill Accounts
- Overdraft in Saving Bank Accounts
- Banking Correspondent / Banking Facilitator Model
- Kishan Credit Card / General Credit Card Guidelines
- Liberalized branch expansion
- Liberalized policy for ATM
- Liberal KYC Norms
- Introducing technology products and services
    - Pre-Paid cards, Mobile Banking etc.

- Allowing RRBs' / Co-operative banks to sell Insurance and Financial Products
- Financial Literacy Program
- Creation of Special Funds
- Identification of 431 for 100 per cent financial inclusion across various States/Union Territories
- Draft Code on Licensing of New Banks
- Use of mobile banking technology which has done wonders in African countries like Kenya etc.

Source: Chakraborty, K.C. (2009)

4. Financial Inclusion Initiatives By Selected Banks: A Comparative Analysis

A Comparative Analysis of the performance of sample PSBs may reveal the initiatives taken at the bank level on the above mentioned action points as prescribed by RBI. With this idea we have attempted a modest analysis of financial inclusion initiatives of selected PSBs.

Instead of using macro data pertaining to banking industry as a whole, we have used bank level data available through annual reports of the selected PSBs for the year ended 31st March 2011. For time and resource constraints, we restricted ourselves to ten selected PSBs. We have selected following banks on the basis of availability of annual reports.

- Punjab National Bank
- Canara Bank
- Syndicate Bank
- Union Bank
- Indian Bank
- Indian Overseas Bank
- Bank of India
- Bank of Maharashtra
- Andhra Bank
- Allahabad Bank

We have made a detailed study of the annual reports of the selected PSBs mentioned above to find out their performance in the area of financial inclusion. We have chosen the parameters based on the action points that were prescribed by RBI to the banks described in section II. A Comparative Analysis of the performance of sample PSBs may reveal the ground realities on implementation of action points at the bank level. Table I depicts the comparative analysis.

Table 3
Progress under Financial Inclusion Programme by Sample

Public Sector Banks	Opening of 25% of bank's total number of branches in unbanked rural centres	Opening of No-Frill Accounts (No. in lakhs)	No. of Kisan Credit Cards Issued (lakhs)	Providing banking services in villages with population > 2,000	Providing banking services in villages with population < 2,000	Opening of brick and mortar branches in unbanked villages	Covering unbanked villages through SLBC	Formulate financial inclusion plans for RRBs
Punjab National Bank	17.61	73.30	3.57	2186 covered out of 4683 villages allocated	NA	NA	NA	FI has been implemented in 147 villages out of 1924 unbanked villages allocated
Canara Bank	21.74	6.05	3.68	626 covered out of 1573 villages allocated	NA	By 31st March 2012 947 villages will be covered	Lead bank responsibilities in 26 districts in the country	NA
Syndicate Bank	67.27	3.72	3.57	750 villages have already been covered out of 1493 Villages	500 villages to be covered by 31.03.2012.	250 branches opened	Lead Bank responsibilities in 25 districts including UT of Lakshadweep but no detail on FI plan	All 1602 villages has been covered which were allotted
Union Bank	14.61	31.00	1.39	covered 2511 villages out of 3159 villages	NA	NA	lead bank responsibility in 14 districts spread over 4 States but no detail on FI plan	Sponsors 2 RRBs but no detail on FI implementation by RRBs

Indian Bank	7.14	1.53	NA	The Bank has been allocated 1536 villages, 1010 villages covered	NA	NA	Convener in the UT of Pondicherry , covered 43 villages with population above 2000	Sponsors 3 RRBs but no detail on FI implementation by RRBs
Indian Overseas Bank	15.79	5.38	2.24	The Bank so far covered 781 allotted villages	1010 villages identified, to be covered by March, 2013	43 villages have been identified and allotted. All the villages have been provided with banking services as on March 31st 2011.	Lead Bank responsibility in 12 districts in Tamil Nadu and 1 district in Kerala but no detail on FI	Sponsors 2 RRBs but no detail on FI implementation by RRBs
Bank of India	22.58	18.11	3.17	2,992 villages achieved 100% FI plan	5,077 villages achieved 100% FI plan	NA	NA	sponsors 5 RRBs but no detail on FI implementation by RRBs
Bank of Maharashtra	15.71	0.50	2.82	Out of 1215 unbanked villages, allotted 484 villages covered	NA	opened banking outlets in 1692 unbanked villages	Convener of for the State of Maharashtra , drawn plan for covering 4292 unbanked villages having population over 2000	sponsors 1 RRB but no detail on FI implementation by RRBs

Andhra Bank	14.81	1.52	0.76	The bank was allotted 1144 villages, 540 villages covered by 31st March, 2011.	NA	NA	Convenor of Andhra Pradesh, sub-committee constituted reviews regularly FI plan implementation, no other details available	Sponsors 2 RRBs, no other details on FI plan implementation.
Allahabad Bank	8.45	2.51	NA	Responsibility of covering, 2618 villages, covered 1054 villages	NA	Covered 1054 villages by opening of 5 Branches	Drew roadmap for 1541 villages	Sponsors 2 RRBs, no other details on FI plan implementation.

NA- Not Available

Source: *Annual Reports of Sample PSBs for 2010-11. Results Computed.*

Punjab National Bank

The reach of the bank in rural unbanked villages is below the stipulated level. But still it has opened 73.3 lakh of no-frill account and issued 3.57 lakh kisan credit cards during 2010-11. It covered less than 50% of unbanked villages having population above 2,000 during study period. But there is no disclosure regarding the villages having population less than 2,000. There is no indication on leveraging FI plan through SLBC. The role of bank sponsored RRBs are also insufficient to implement FI plan.

Canara Bank

The reach of the bank in rural unbanked villages is close to the stipulated level. The plan of opening of brick mortar branches in unbanked villages has not completed till 31st March, 2011. There is no disclosure on leveraging RRBs and SLBC to implement FI plan.

Syndicate Bank

The bank has significant presence in rural areas. Not only that, but also the bank fulfils other criteria as per the action plans prescribed by RBI. The contribution of the bank seems to be significant in implementing FI plan.

Union Bank

The bank has opened substantial number of no-frill account and issued KCC also. However, the disclosure level regarding FI plan is not up to the level.

Indian Bank

The bank's presence in rural area is insignificant. However, it able to open no-frill account but no disclosure on KCC issued. It has also covered unbanked villages partially through its own presence and SLBC. There is no disclosure on the functioning of RRBs sponsored by them.

Indian Overseas Bank

The bank's presence in rural areas is less than as per required by RBI, but still it has made its existence felt by opening significant number of no-frill accounts. It seems that covering villages through opening of brick mortar branches has made the trick for the bank. It has covered villages having population size above 2,000 but not covered the villages with population less than 2,000. However, there is no disclosure on the role of RRBs and SLBC.

Bank of India

The bank exists in large numbers in rural areas, close to as desired by RBI. It led the bank to cover all villages with population more than and less than 2,000 by implementing FI plan and opened large number of no-frill account and issued KCC. However, there is no disclosure on leveraging RRBs and SLBC for implementing FI plan.

Bank of Maharashtra

The bank's presence in rural areas is less than stipulated level. It could not cover the villages with population over 2,000. The no-frill account opened is also very insignificant.

Andhra Bank

The bank's existence in rural areas is less than stipulated level. It has covered around 50% of allotted unbanked villages with population above 2,000. But there is no disclosure on the activities of RRBs and SLBC.

Allahabad Bank

The bank's presence in rural area is insignificant. It has covered below 50% of targeted unbanked villages with population above 2,000 through brick mortar branches.

All the PSBs have contributed towards the opening of no-frill accounts and issuance of kisan credit cards. Notwithstanding, the contribution of the PSBs in this regard depends on the size of the bank. The entire sample PSBs have extended their reach in the villages having population more than 2,000 . But most of the samples have not disclosed anything about their reach in the villages having population less than 2,000 . Distribution of financial services through bank sponsored RRBs is a feasible option for the banks and RBI also directing banks to leverage this avenue. But only few samples discloses about this.

5. Issues And Challenges

India currently faces several issues and challenges in the area of Financial Inclusion for Inclusive growth. Salient among them are stated here below;

1. **Spatial Distribution of Banking Services:** Even though after often emphasized policy intervention by the government and the concerted efforts of Reserve Bank of India and the public sector banks there has been a significant increase in the number of bank offices in the rural areas; but it is not in tune with the large population living in the rural areas. For a population of 70% only 45% of bank offices provide the financial services.
2. **Regional Distribution of Banking Services:** The analysis by the authors brings to the fore that there has been uneven distribution of the banking services in terms of population coverage per bank office in the six regions viz; Northern, North-eastern, Eastern, Central, Western and Southern regions of the country.
3. **Bank Branches** are required to be increased as it has a direct impact on the progress of financial inclusion.
4. **Poverty levels** are having direct relationship with the progress of financial inclusion. As such, there should be multi fold strategic approach in such poverty dominated areas for financial inclusion.
5. **SC/ST population:** The efforts for Financial Inclusion have to be increased in ST/SC significantly in such areas in order to bring in social and economic equity in the society.
6. **Overcoming Bankers' Aversion** for Financial Inclusion Even though no banker openly expresses his aversion for the financial inclusion process, overtly it can be noticed that they are averse to it in view of the cost aspects involved in opening of no frill accounts.
7. **Low use of technology** Intensive use of technology is required to permeate spread of banking habit. It is not only cheap but is also efficient. The only factor which might be coming in its implementation in rural areas low literacy rate.

6. Conclusion

RBI with its policy initiatives targeted at expanding the outreach of banking services to remote parts of the country. The PSBs (Public Sector Banks) are also taking initiatives based on the strength of their balance sheet. It means that they may be cautious in providing services under FI (Financial Inclusion) programme considering the cost factor involved in it. Therefore, FI programme needs to be incorporated in their business model and not to take it as meeting regulatory requirement only or as a charity. RBI from time to time issued guidelines on disclosure requirement on asset quality, capital requirement etc. for banks. Following the same way there should be some mandatory disclosure requirement for banks on FI programme.

7. Way Forward

Nearly a third of adults in India still do not have a bank account and are likely to be left behind. These are also likely to belong to the poorest social groups – women, SCs, STs, the ageing and the infirm – who benefit most from state-funded subsidies.[2] The big push towards financial inclusion in India has came from the Pradhan Mantri JanDhan Yojana (PMJDY) in August 2014 and the Jan Dhan Aadhaar Mobile (JAM) trinity articulated in the Government's Economic Survey 2014-15 as well as the special thrust on financial inclusion by the Financial Stability and Development Council (FSDC). Currently, as per official records, there are 26.5 crore Jan Dhan accounts (21 percent of the population) across the country. Of the 26.5 crore Jan Dhan accounts, 57 percent are Aadhaar linked. Key recommendations of RBI's Committee on Medium-term Path on Financial Inclusion (CMPFI, November 2015) are as follows:

- Introduction of relevant financial policies with necessary structural reforms where the government has a central role can deliver real financial inclusion in a sustainable and stable manner.
- Unique biometric identifier such as Aadhaar should be linked to each individual credit account and the information shared with credit information companies. This will not only be useful in identifying multiple accounts, but will also help in mitigating the overall indebtedness of individuals who are often lured into multiple borrowings without being aware of its consequences.
- The Committee recommends that a low-cost solution based on mobile technology can be a good candidate for improving financial inclusion by enhancing the effectiveness of 'last mile' service delivery.
- Key component of the financial inclusion policy should be to improve the credit system for the underprivileged, particularly millions of poor agricultural households, so as to ensure a perceptible shift of credit demand from the informal to the formal sector.

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