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A CRITICAL STUDY ON THE ROLE OF INDIAN BANKS IN FINANCIAL INCLUSION : PROGRESS AND PROSPECTS

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ABSTRACT :

Financial Inclusion is globally considered as a critical indicator of development and well-being of society. In this post, authors traces the financial inclusion journey in India so far, and discusses prospects for the future. Financial inclusion is where individuals and businesses have access to affordable financial products and services that meet their needs that are delivered in a sustainable way. Financial inclusion is defined as the process of ensuring access to financial services and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost (Rangarajan 2008) in the report of the committee on financial inclusions in India. Those who promotes financial inclusion argue that financial services can be viewed as having significant positive externalities when more people participate. One of its aim is to get the unbanked and under banked to have better access to financial services. The availability of financial services that meet the specific needs of users without discrimination is a key-objective of financial inclusion.

Financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. Financial inclusion is important priority of the country in terms of economic growth of society. It enables to reduce the gap between reach and poor population. In the current scenario financial institutions are the robust pillars of progress and economic growth. The present paper aims to examine the impact of financial inclusion on the growth of economy. Result of the study found positive impact of number of bank branch and credit deposit ratio on GDP of the country. Whereas an insignificant impact has been observed in case of ATM growth on Indian GDP.

KEYWORDS : *Financial Inclusion, Banking Sector, GDP, ATMs, Credit Deposit Ratio*

INTRODUCTION

Financial Inclusion is globally considered as a critical indicator of development and well-being of society. In this paper, authors traces the financial inclusion journey in India so far, and discusses prospects for the future. Financial Inclusion means making provision for basic financial services like credit, deposit, insurance, remmitances etc. To enjoy the financial services one should have a bank account. Example of financial inclusion is providing zero balance accounts to the poor. The inclusion helps indirectly to make a daily payment excess credits and save cash. The objective of financial inclusion is to establish financial institutions to satify the needs of poor by providing financial services. Financial inclusion contributes to GDP, individual, social welfare, business creation and expansion.

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OBJECTIVES

(1) To examine the present scenario of financial inclusion in India.
(2) To investigate the major factors affecting the financial services.
(3) To study the impact of financial inclusion indicators on growth of Indian Economy.

RESEARCH METHODOLOGY

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, reports on trend and progress of banking in India, Newspapers, Research Articles, Research journals, E-Journals, Books and Magazines. Various websites were also be used like RBI, Ministry of France, and Government of India (GOI).

THE BEGINNING OF FINANCIAL INCLUSION

FI as a policy initiative entered the banking lexicon only after the recommendation of Rangarajan Committee in 2008. It begin to attract the attention of stakeholders when banks realised the significance of connecting with more people for business growth. The span of financial services included provision of basic savings accounts, and access to adequate credit at affordable costs to vulnerable groups such as the excluded sections of the society and low-income households. The experience of microfinance units in India and abroad shows that vulnerable groups who pay usurious interest rates to local moneylenders, can also be worthy borrowers of banks. One of the broader objectives of FI is to pull the poor community out of the net of exploitive moneylenders. But despite such emphasis, the penetration of banking services was initially mostly confined to urban and major cities, after which they started spreading to the hinterland. FI thus became an integral part of the business domain of the banks, with RBI advising all public and private banks to submit a board-approved, three year FI plan (FIP) starting from April 2010. These plans broadly included self-set targets in terms of bricks-and-mortar branches in rural areas, clearly indicating coverage of unbanked villages with the population above 2,000 and those with population below 2,000; deployment of Business Correspondents (BCs) and use of electronic/kiosk modes for provision of financial services; opening of no-frills accounts; and so on. For the dispensation of credit, Kisan Credit Cards (KCC), General Credit Cards (GCC), and other specific products designed to cater to the financially excluded segments, were introduced. Such accelerated microcredit was part of priority sector lending schemes of banks. Further, banks were advised to integrate FIPs with their business plans and to include the criteria on FI as a parameter in the performanceevaluation metrics of their staff.

Among associated developments, RuPay – an Indian domestic debit card – was introduced on 26 March 2012 by the National Payments Corporation of India (NPCI). It has been a game changer in creating better digital infrastructure and enabled gasser penetration of debit card culture.

THE PROGRESS OF FINANCIAL INCLUSION

Faster implementation of FIPs is seen after 2010-11. Commercial banks opened new rural branches, increased coverage of villages, set up ATMs and digital kiosks, deployed BCs, opened no-frills accounts, and provided credit through KCCs and GCCs. The introduction of core banking technology and proliferation of alternate delivery channels aided the process of inclusion on a larger scale. The statistics on key banking network gives a sense of the pace of progress of banking outreach a part of FI.

In the last 7-8 years, banks have expended their presence, and differentiated banks – payments banks and small finance banks – are set to take this further. When banks began pursuing three-year FI policies, innovations in providing better access to appropriate financial products and services came up. There was more focus on making accessible to vulnerable groups. Mainstream institutional players integrated fairness and transparency as part of their offerings, with the basic products well-understood by the masses. As a result, FI became a critical factor for inclusive growth and development. Banks also realised that it can be an effective means for cross-selling and business growth.

THE TECTONIC SHIFT IN FINANCIAL INCLUSION

The biggest change came with the roll out of '*Pradhan Mantri Jan Dhan Yojana (PMJDY)*' in August 2014. PMJDCY has been designed to ensure accelerated access to various financial services like basic savings bank accounts, affordable, need-based credit, remittances facilitates, and insurance and pension for excluded sections.The banking ecosystem operating on core banking mode, and ability of NPCI to scale-up the issue of debit cards has enabled effective implementation of PMJDY. As a result, the number of new savings accounts opened by the banking system has been phenomenal under the scheme. The progress since its inception is interesting to observe.

Table 1 : Progress Of Financial Inclusion At A Glance

Parameter of financial inclusion	March 2010	March 2016	March 2017
Number of Bank Branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch points	142	3,248	3,761
Total number of banking touch points	67,694	586,307	598,093
Number of BSBDA* (in millions)	73	469	533
Deposits in BSBDA (Amount in Rs. Billions)	55	636	977

Source : Annual Report of RBI, 2016 – 17.

Table 1.1 : Progress Of PMJDY Up To 9 May 2018

Group of Banks	Number of New Savings Bank Accounts opened (in millions)	Deposits accumulated (in Rs. Millions)	No. of Debit Cards issued (in Millions)
Public Sector Banks	255.3	652182.50	192.00
Regional Rural Banks	50.7	137170.30	36.80
Private Sector Banks	09.9	22681.30	08.20
Total	316.6	812035.90	238.00

Source : PMJDY Website

Added to the ongoing FI schemes, financial literacy campaigns of banks were closely monitored by RBI. FI got renewed thrust with the launch of PMJDY because apex forums of RBI and Ministry of Finance monitored its focus. This has added a new dimension to the progress of FI by opening bank accounts on a large scale mission mode. The benefit of such mass accretion to the customer base is expected to provide immense benefit to consumers and banks in the coming years.

FINANCIAL INCLUSION AND INDIAN BANKING NETWORK

The RBI has encouraged banks to implement a planned and structural financial inclusions plans (FIPs) for the growth and development of the country. The first phase of FIPs was covered a time period of three years which has started from 2010 and ends in 2013. FIPs have been used by RBI for measuring the Banks's performance under their FI initiatives. It was found that there has been insignificant improvement operations in terms of transactions. Hence, banks were instructed to draw up new three year FIPs from 2013-2016 for ensuring meaningful access of financial services.

The number of Banking Outlets were 115,350 opened during the period of 2013-2016 which has been increased up the total number of outlets nearly 384,000. The number of BCs outlets opened in urban areas have increased up to 60,730 in the year of 2014 out of which 33,587 outlets opened during the year 2013-2014. It is a significant increment in number of BCs outlets. During the year 2013-2014 the number of basic savings bank deposit accounts (BSDBDAs) opened were 60.9 million and total number of BSBDAs reached up to 243 million.

The number of small farm sector credits recorded a growth of 40 million in 2013-2014 out of these 6.2 million KCCs recorded during the year 2013-2014. Along with that the number of small non-farm sector credit cards were 3.8 million during 2013-2014 and total number was 7 million over the whole period of FIP. 329 Million transactions were carried out in BC-ICT accounts at the end of March 2014 and recorded a growth of 79 million transactions in 2013-2014. Table 2 shows the Bank group as well as population group wise number of bank branches in India as on 20104. From the table it is clear that all the bank groups operate more in rural areas except private and foreign banks. These groups dominate in metropolitan area with more branches compared to other area.

Table 2 : Bank Group and Population Group Wise Number of Functioning branches as on Dec 31, 2014.

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
SBI And Its Associates	7903	6510	4216	3536	22,165
Nationalized Banks	20,666	15,981	12,296	11,111	60,054
Other Public Sector Banks	338	470	455	361	1624
Private Sector Banks	4082	6155	4320	4429	18,986
Foreign Banks	8	12	57	245	322
Regional Rural Banks	14,281	3628	1029	205	19,887
Grand Total	47,278	32,756	22,373	19,887	122,294

Source : Reserve Bank of India.

CONCLUSION

In developing economies like India the banks work as mobilizers of saving and allocators of credit for production and investments. As a financial intermediary the bank contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. Lack of accessible, affordable, and appropriate financial services has always been an Indian problem and effective inclusive financial system is needed for the economic growth of the country. RBI and the Government plays an important role in promoting financial inclusions for economic growth to increase the banking penetration, installation of new ATMs and implementation of various schemes in the country (Raman, 2012). The Reserve Bank has used FIPs to gauge the performance of banks under their financial inclusion initiatives. During the first phase of FIPs 010-2013 a large number of bank accounts have been opened. However, it has been observed that the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions. RBI has been applied a fresh three-year FIPs during 2013-2016 for ensuring meaningful access to banking services to the excluded population. The new FIP is now more focused on the volume of transactions which plays an important role in growth and development of the India. The most robust relationship is observed among financial inclusion and economic growth of the country (Julie, 2013). The present study found the positive significant impact of the number of bank branches and credit deposit ratio of banks (proxies of financial inclusion) on GDP of the country. Whereas one indicator of financial inclusion, ATMs growth rate has been shown a statistically insignificant impact on Indian GDP. Hence, the study observed that financial inclusion is strongly associated with the progress and development of the economy. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

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