



ROLE OF BANKING MODELS IN FINANCIAL INCLUSION WITH SPECIAL REFERENCE TO RURAL POPULATION

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ABSTRACT:

Due to skimping and changes in the banking sector in India, rural finance is in back foot. Financial exclusion is a global issue in the under developing and developed nations, To keep the smooth drive of the growth at present level, banks needs to serve the financial services to the excluded masses to bring them into the main stream of developmental process. For the successful implementation of an inclusive financial system is the promotion of a policy in a priority basis in the country.

The role of Public sector banks, Private sector banks and Post office in Financial Inclusion is inevitable. They will not only benefit in terms of cost effectiveness but will also facilitate transparency, effectiveness and monitoring also. However, it requires continuous improvement and up-gradation and dissemination of various policies to the general public to make it a real success. This research paper is an attempt to analyze the various role of financial models to solve the problem of financial exclusion in the country.

This study is exploratory and analytical in nature.

KEYWORDS: Rural banking, banking schemes, conceptual, technology.

INTRODUCTION

An inclusive finance must provide better banking services to all sections of society, especially low-income and weaker sections. The emerging section have improved their interest towards economic growth with specific interest on the factors that lead to higher savings and investments, which have been viewed as important determinants of economic growth (Anita Gardeva and Elisabeth Rhyne, 2011). Based on the report of IMF on Financial survey which indicates that India lags behind other emerging nations in financial inclusion by a significant margin (Nair, 2012) has led to initiation of various measures by the government of India. Financial inclusion (or, alternatively, financial exclusion) has been defined in the literature in the context of a larger issue of social inclusion (or exclusion) in a society. One of the early attempts by Leyshon and Thrift (1995) defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. It is a global issue in the under developing and developed nations, There are various reasons like E-Banking in which there are complex procedures for availing banking services, due to lack of knowledge ie. financial illiteracy and faith on paper work i.e. traditional cultural values etc. which leads to financial exclusion and debars unavailability of banking and other financial services to under privileged population of any country. The reasons, In order to resolve problems, various models are been practiced by various countries like lead banking systems.correspondent banking,

banking through mobile phones based platform, microfinance model, self help groups etc., these are basis for the country to provide evidence characteristics influencing financial inclusion. Efficient legal rules, strong contract enforcement, High-quality institutions, and political stability bring about more financial inclusion. Moreover, characteristics about the banking sector also play a key role. But due to high distance, high disclosure, high costs for using and opening of bank accounts brings reduction in usage of financial inclusion. Research in the last decade leads us to believe that a well-functioning and inclusive financial system is linked to faster and equitable growth (Honohan, 2004). The wide gap existing between banks and their customers in rural areas is a serious issue and needs to be filled at the earliest. Here the focus of the study is to find various factors that can actually lead to a strong and penetrated banking system for the country. With the advent of technology and increase in the reach of communication specially the data communication to far flung areas of the country including rural area has assisted in extending reach of banking services to doors of each citizen and use of long-established brick-and-mortar infrastructure like bank branches with full staff have transformed into a system offering services to their customers such as ATM, plastic money in the form of debit / credit cards, e-banking, online funds transfer, etc, thus impacting both the delivery channels and access to financial services.

OBJECTIVES

This research paper is prepared with the following objectives:

- To identify the role of banks and post office in financial inclusion in rural areas where financial and social development will be the focus area.
- To find the gap in the field and create the awareness among the rural population
- To identify the attributes and schemes used to fill the gap.

Limitations of the Study:

- The study is limited to rural geographical population only.
- The study is based on the reports furnished by various agencies and not actual samples.

Literature Review

Problem of Financial inclusion can be defined in the literature in the context of a lack of awareness or larger issue of social inclusion (or exclusion) in a society. It was an early attempt by Leyshon and Thrift (1995) in which they explained and defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system.

Joseph Massey (2010) subsequently defined and elaborated upon the role of financial institutions in a developing country and emphasized that it is vital in promoting financial inclusion in a society. The efforts by the federal agency of the government to promote financial inclusion can be further enhanced by pro-activeness by incorporating certain measures and regulations for capital market players including financial institutions to ensure its implication. Financial institutions have a very crucial and a wider responsibility to play in nurturing financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to persuade the financial institutions to take up larger responsibilities in including the weaker sections of the society or financially exclusive lot.

In their paper, Beck and de la Torre (2006) also refer to the Schumpeterian practice of 'creative destruction' whereby a well-developed financial system is able to assign resources to efficient newcomers. Empirical studies also show that small firms in countries with greater outreach and access face lower financing obstacles and grow at a higher rate (Beck et al, 2006).

It has been seen in case of government banks or government-controlled financial institutional systems, formal credit is prone to privileged lot gaining benefits leaving behind rural segment development aspect. In a study conducted aimed at India's vast banking system, Burgess and Pande

(2003) brought out that the efforts towards rural bank expansion, concerted efforts by the Indian government from 1977 – 1990, has resulted in up-liftment of the under privileged bringing drop in poverty from 61% in 1967 to 31% in 2000. Further, it has been brought out the major efforts in rural bank development and expansion was associated with non-agricultural growth.

Various models employed for implementation of financial inclusion are as under:

- No-frills accounts.
- KCC (Kisan Credit Card): For timely and hassle free manner credit for crop production
- Lead Bank Scheme: All districts in the country except Mumbai, Kolkata, Chennai and certain Union Territories were allotted among Public Sector Banks and a few Private Sector Banks to act as a consortium leader for co-coordinating the efforts for banking facilities and credit needs of the rural economy.
- Local Area Banks (1996): Local Area Banks allowed to perform all functions of a scheduled commercial bank Licenses are given out in under-banked or unbanked areas of the country.
- Swabhiman: Opening of Bank accounts covering the habitations with minimum population at least through Business correspondent model providing cash services.
- Ultra small Branches.
- Direct Benefit Transfer.
- Interest subvention scheme: Cheap credit from the banks indirectly through interest subsidies from the govt.
- Priority Sector Lending.
- Rashtriya Mahila Kosh (RMK): To facilitate credit support to poor women for their socioeconomic upliftment.
- Dedicated bank for Women (National Bank for Women).

RESEARCH METHODOLOGY

Primary research was focused to review the present status of financial inclusion in the area of interest i.e. rural sector. The information and data for the research has been collected through secondary sources i.e. published articles, white papers, journals, news papers, reports, books and websites.

DATA ANALYSIS

In order to improve credit delivery and promote financial inclusion, a number of initiatives were initiated by Reserve Bank of India (RBI) taken during 2017-18. These include alteration in guidelines on lending to the priority sectors with an emphasis on enhanced flow of credit to more employment intensive sectors, revamping of the Lead Bank Scheme (LBS) to ensure economic development of districts and also adopting innovative approaches to financial literacy to bring more people under financial inclusion.

The analysis of annual report of RBI dated 28 August 2018, reveals that the coverage of banking is out of per 0.1 million adults coverage in India. Foreign banks with 20 branches and above were on a five-year roadmap (2013-18), following which the sub-targets for lending to small and marginal farmers and micro enterprises were to apply after a review in 2017. Accordingly, after the review, it was decided to harmonize their priority sector targets with domestic banks and make applicable the sub-target of 8 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBE), whichever was higher, for lending to small and marginal farmers and the sub-target of 7.5 per cent of ANBC or CEOBE, whichever was higher, for lending to micro enterprises, effective from 2018-19. The details furnished in Table 1 indicates details of the agriculture credit which were planned and the targets achieved :

Year	Commercial Banks		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2016-17	6,250	7,998	1,500	1,428	1,250	1,232	9,000	10,658
2017-18 *	7,040	8,772	1,560	1,504	1,400	1,410	10,000	11,685

*Provisional
 Note: Figures might not add up to the total due to rounding off of numbers.
 Source: National Bank for Agriculture and Rural Development (NABARD).

Source: <https://rbi.org.in/Scripts/AnnualReportPublications>

Table 1: Progress of Banks under Financial Inclusion Plan as on March 31, 2018

It targets planned were indicative of the focus of RBI or government towards rural sector and the achievement also indicates the success towards the planned targets. Government in its efforts towards fulfilling the financial inclusion, instituted many new initiatives during 2017-18. They are as under:

- Revamping the Lead Bank Scheme (LBS).
- Small Finance Banks (SFBs) under the Lead Bank Scheme.
- Assignment of Lead Bank Responsibility.
- Committee on Medium-Term Path on Financial Inclusion.
- Financial Inclusion Plans (FIPs).
- Steps to ensure Penetration of Banking Services.

Table 2 brings details regarding efforts initiated by RBI to extend banking facilities in the unbanked villages in the country. The proliferation of communication and information technology (IT) infrastructure due to efforts by government has made it possible to increase outreach, scale and depth of banking services at affordable cost to far flung areas. Upon issuance of revised guidelines on branch authorization policy on May 18, 2017 clarifying on ‘banking outlet’, SLBC convener banks were advised to consider opening of a CBS enabled banking outlet or a part time banking outlet in the villages with population less than 2000 that still remain unbanked.

Particulars	End-March 2010	End-March 2017	End-March 2018(Provisional)
1	2	3	4
Banking Outlets in Villages – Branches	33,378	50,860	50,805
Banking Outlets in Villages>2000-BCs	8,390	1,05,402	1,00,802
Banking Outlets in Villages<2000- BCs	25,784	4,38,070	4,14,515
Total Banking Outlets in Villages – BCs	34,174	5,43,472	5,15,317
Banking Outlets in Villages – Other Modes	142	3,761	3,425
Banking Outlets in Villages –Total	67,694	5,98,093	5,69,547
Urban locations covered through BCs	447	1,02,865	1,42,959
BSBDA - Through branches (No. in Million)	60	254	247
BSBDA - Through branches (Amt. in ₹ Billion)	44	691	731
BSBDA - Through BCs (No. in Million)	13	280	289
BSBDA - Through BCs (Amt. in ₹ Billion)	11	285	391
BSBDA - Total (No. in Million)	73	533	536

BSBDA - Total (Amt. in □ Billion)	55	977	1,121
OD facility availed in BSBDA's (No. in million)	0.2	9	6
OD facility availed in BSBDA's (Amt. in □ Billion)	0.1	17	4
KCC - Total (No. in Million)	24	46	46
KCC - Total (Amt. in □ Billion)	1,240	5,805	6,096
GCC - Total (No. in Million)	1	13	12
GCC - Total (Amt. in □ Billion)	35	2,117	1,498
ICT-A/Cs-BC-Total Transactions (Number in million)	27	1,159	1,489
ICT-A/Cs-BC-Total Transactions (Amt. in □ billion)	7	2,652	4,292

Source: <https://rbi.org.in/Scripts/AnnualReportPublications>

Table 2: Progress of Penetration of Banking Services as on March 31, 2018

The details are indicative of the fact that there has been substantial growth in the past couple of years which may be attributable to better communication and IT infrastructure however major contribution is by the sustained and focused efforts by government and RBI. Here since the focus and interest area of the author is the rural banking where financial and social development and usage of technology to improve the banking services and its awareness. Hence the author has studied data and literatures related to the area of interest. The attractiveness of this topic is the strong believer of the author that efficient banking services to the rural population can promote or contribute towards financial inclusion which is the need of the society. Various literature surveys have been done to identify the overall status, reading of literature, identify the methodology, finding the recommendation and made the conclusion Almost 20-25 literatures have been reviewed out of which 09 important papers and published articles have been chosen for the review. Literatures in the field of challenges, awareness, application of service management tools, developments in rural banking and scope of financial inclusion in banking etc have been reviewed. Nonetheless, the authors could get details of limited researches have been made in rural banking in the Indian scenario.

RECOMMENDATIONS

- Policies and technology assisting financial inclusion needs to progressed further keeping pace with latest to make it safer and further accessible to masses. Various immediate policy measures which government of India has taken should implement, executed effectively and in an efficient manner.
- More robustness in banking system and cyber security safety aspects needs to be further strengthen to enable gain confidence of new users and masses. More stringent cyber security and IT laws needs to framed with robust execution at grass root level to win confidence of the users.
- Strengthen agency banking micro finance institutions, self-help group, business facilitators and business, correspondents and other financial institutions. Our very old post offices, Public Sector and Private Sector banks also needs to be organised accordingly to pursue the future and long term goals of financial inclusion in rural India.

CONCLUSION

With much scope in the avenues and facing the important challenges of operations in banks in the current scenario is to find and inlist the major components stand out in the midst of hard-hitting regulations of the apex body. Globalization, risk management, banking documents, consolidation and want of expertise are drastically redefining the banking taxonomy. This research paper has summarized, interpreted and critically evaluated the existing literature in order to enhance the current knowledge. Researchers have found that the financial inclusion mainly requires Awareness of the Banking Services, Knowledge of Technology, Investment in Research Development, Profitable and useful Operations in Rural areas with Infrastructure support and modernization to the banks and effective implementation of Government sponsored schemes, programs and policies. Therefore, the

researchers believe that the rural banking has a wide scope to work in order to achieve the financial inclusion progress in the country; there must be a favors and strong supports from the government, Bankers and the current/ potential Customers themselves. This paper has enabled the researchers to establish and support their views on the need for additional research in the area specified.

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