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FINANCIAL INCLUSION: A STUDY OF CANARA BANK

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ABSTRACT

One of the main conditions promulgated by RBI, for the award of new banking licenses, is the opening of 25% of the branches in the rural areas. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborty, the chairman of Indian Bank. The study gives us an insight into the financial inclusion work done by the Canara bank over a period of time. The inclusion is not only limited to the opening of rural branches through business correspondents or branches yet it also includes the financial literacy efforts on the part of the bank. The research is an analytical research and the information has been obtained through secondary resources, published on the website of the bank, newspaper, research journals, articles etc. The financial inclusion index is based on three basic dimensions of an inclusive financial system – banking penetration, availability of the banking services and usage of the banking system. The Government has allotted 1,573 villages to the Bank all over the country, having over 2,000 population, for coverage under financial inclusion. Of these, 1,573 villages, 150 villages will be covered under Bank / Branch model and the balance 1,423 villages will be covered by Business Correspondent (BC) model. The Financial Inclusion villages during 2011-12 & 2012-13 have shown good results with more than 9.20 lacs a/cs and `1522 Crs business as at end of May 013, with an average of 3913 a/cs and `6.48 Crs business per branch. During the year 2012-13, 123 Farmers' club have been formed. The financial inclusion has an multiplier effect as the weaker section shall be exhorted to save and participate in the economy.

KEYWORDS

Business Correspondents, Canara Bank, Financial Inclusion, RBI.

INTRODUCTION



One of the main conditions promulgated by RBI, for the award of new banking licenses, is the opening of 25% of the branches in the rural areas. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services. The financial inclusion is not restricted only to the opening of the branches rather it is the base for the creation of financial literacy among the economically handicapped society.

Financial inclusion is the delivery of financial services at low or even zero level costs to the weaker and the low income level society, hassle-free and in complex form do include the micro insurance, pension and micro credit. The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborty, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities.

- Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000.
- General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.
- In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks.
- The Reserve Bank of India'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. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.
- Levels of income inequality (as measured by Gini coefficients) are negatively correlated with levels of financial inclusion

LITERATURE REVIEW

(Chauhan, 2013) highlighted, India is at the moderate level regarding financial inclusion as compared to other countries regarding the number of branches, ATMs, bank credit and bank deposits. The RBI have adopted various measures such as no-frill account, use of regional language, simple KYC norms etc to strengthen the financial inclusion but there is a need of viable and sustainable business models for its success.

(Ganeshkumar, 2013) Studied that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in India.

(Ananth, 2012), Three core operating principles differentiating the KGFS model: (1) complete coverage of the population in a focused geographic area, (2) customized client wealth management services, and (3) a broad range of products. The KGFS model demonstrates how a business model can be reconfigured to pursue complete financial inclusion: committing to reach as many households as possible in a service area, putting client needs at the centre, and offering a wide range of needed services.

IMPORTANCE OF STUDY

The study gives us an insight into the financial inclusion work done by the Canara bank over a period of time. The inclusion is not only limited to the opening of rural branches through business correspondents or branches yet it also includes the financial literacy efforts on the part of the bank. The Canara bank is doing a considerable work so as to spread financial literacy among the rural and other customers. Through the research, an attempt has been made to highlight the branch density/coverage of the bank in inclusion priority areas as well as the other inclusion activities undertaken.

RESEARCH OBJECTIVE

- To study the conceptual framework of financial inclusion and bank's contribution.
- To analyse the branch density of the bank in lead districts.
- To highlight the other initiatives of the bank with regards to the financial inclusion plan.

RESEARCH METHODOLOGY

The research has been under taken to analyse the contribution of the bank with regards to the financial inclusion plan. The research is an analytical research and the information has been obtained through secondary resources, published on the website of the bank, newspaper, research journals, articles etc.. An attempt has been made to exhibit the bank's activities vis-a-vis financial inclusion. A list of lead districts has been published by the bank on its website. On the basis of these lead districts, the states have been taken into consideration to analyse the branch density in the states.

MEASURING FINANCIAL INCLUSION

One of the measures of the level of financial inclusion is the Financial Inclusion Index. This index is based on three basic dimensions of an inclusive financial system –banking penetration, availability of the banking services and usage of the banking system. Banking penetration is definitely the most critical parameter for measuring the depth financial inclusion and is measured as a ratio of bank accounts to the total population. The second parameter, availability of banking services provides an indication to the number of bank outlets available per 1000 people to deliver financial services. The bank outlets may include the brick and mortar branches, ATMs, business correspondents, etc. The third parameter seeks to determine the usage of banking services going beyond mere opening of accounts. (M.Sharma, 2008)

Therefore, this is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.

FINANCIAL INCLUSION- CANARA BANK

The Canara Bank, commonly known as a “Small Man's Bank”, was founded by Shri Ammembal Subbarao Pai, a great visionary and Philanthropist, in July 1906 in a small port town in Karnataka. The Bank was driven by a mission of services rather than mere pecuniary motives. The founding principles and the philanthropy focused on people orientation. The Govt of India and RBI have come out with guidelines to cover the villages hitherto unbanked. The Canara bank has tried to take part in the supply side of these financial services along with the financial literacy programmes to support the demand side as well.

The Bank's Priority Sector lending stood at ` 70,757 Crores forming 44.08% of the net bank credit, against a norm of 40% during 2011. The Agricultural credit rose to an all time high of ` 29,656 Crore, forming 18.48% of the net bank credit as against a norm of 18%, assisting over 31 lakh farmers across the length and breadth of the country.

NATIONAL PRIORITIES

Apart from pursuing various goals under commercial banking and mandated priority sector lending activities, the Bank is also contributing to other CSR activities. The Government has allotted 1,573 villages to the Bank all over the country, having over 2,000 populations, for coverage under financial inclusion. Of these, 1,573 villages, 150 villages will be covered under Bank / Branch model and the balance 1,423 villages will be covered by Business Correspondent (BC) model.

COVERAGE BY BANK

STATES OVERALL COVERED	24
CIRCLES OVERALL COVERED	34
LEAD DISTRICTS	26
LEAD STATES ON LEAD DISTRICTS BASIS	5
VILLAGES LESS THAN 2000 POPULATION	5867
VILLAGES MORE THAN 2000 POPULATION	1622
TOTAL VILLAGES	7489

Source: Canara bank as on 28.02.2013

The table clearly shows the villages covered by the bank with regards to the financial inclusion plan. The Bank has achieved total financial inclusion in all the 26 lead districts spread over five States. During FY11, the Bank opened 6.02 lakh no-frill accounts taking the total tally of No-frill accounts to 27.84 lakh since inception. Bank has also issued over 92,000 smart cards to various no frill account holders.

TABLE 1: VILLAGES LESS THAN 2000 POPULATION AND COVERAGE (LEAD DISTRICTS BASIS)

S.NO.	STATE	ALLOTTED	BC
1	Kerala	0	0
2	Karnataka	2672	237
3	Tamil Nadu	378	38
4	U.P.	866	350
5	Bihar	566	0

Source: Canara Bank As on 28.02.2013

BC: Business Correspondents.

The table shows the villages allotted to the bank and their coverage up till 28.02.2013. The five states comprise the lead 26 districts. In Karnataka, 237 villages are provided with the banking correspondents models for financial services and rest villages are provided with the other type of business models. The villages are those whose population is less than 2000. In Kerala, no village has been allotted to the bank under area of less than 2000 population.

TABLE 2: VILLAGES MORE THAN 2000 POPULATION AND COVERAGE (LEAD DISTRICTS BASIS)

S.NO.	STATE	ALLOTTED	BC	USB
1	Karnataka	295	239	124
2	Tamil Nadu	494	439	192
3	U.P.	262	217	76
4	Bihar	155	141	23
5	Kerala	15	9	6

Source: Canara Bank As on 28.02.2013

The villages with population more than 2000 are also provided with the Ultra Small Branches for basic banking facilities. Like, in Tamil Nadu, 494 villages are allotted to the bank and out of these, 439 villages comprise bank correspondents. The ultra small branches have been incorporated as an additional effort by the bank.

OTHER INITIATIVES

- Pilot Scheme on LPG Subsidy in Mysore District.
- Canara Bank has successfully covered all the allotted 1624 villages (spread across 24 States) with population above 2000 for providing banking facilities.
- During 2012-13 the Bank added 64 branches in FI villages taking the tally of FI Branches to 275 under Branch Model.
- The Bank has engaged 1426 Business Correspondents Agents (BCAs) under Business Correspondents (BC) model.
- The Bank has opened 542 Ultra Small Branches, one of which has already been upgraded as a regular branch.
- The Bank has covered 1255 villages in the less than 2000 population category by mapping the villages with the existing BCAs.
- The Financial Inclusion villages during 2011-12 & 2012-13 have shown good results with more than 9.20 lacs a/cs and `1522 Crs business as at end of May 013, with an average of 3913 a/cs and `6.48 Crs business per branch.

POSITION OF BASIC SAVINGS BANK DEPOSIT ACCOUNTS (BSBDA):

The bank has opened about 17.31 lac Basic Savings Bank Deposit accounts (BSBDA) during the year, of which 8.12 lac BSBDA were opened in FI villages. The Bank has issued Smart Cards to 3.48 lac customers. During the year 3.40 lac transactions amounting to `35.15 crs were done through Smart Cards.

TABLE: 3 LEAD CIRCLES AND SAVING BANK ACCOUNTS

S.NO	STATE	CIRCLE	BASIC SAVINGS BANK ACCOUNTS					
			OPENED UPTO			BALANCES RS. CRORES		
			Mar-12	Feb-13	% Change	Mar-12	Feb-13	% Change
1	Karnataka	Bang(M)	73262	89313	22	14.97	17.58	17
		Bang(R)	140434	207208	48	22.13	29.22	32
		Hubli	151494	197031	30	21.6	27.07	25
		Mysore	74743	107905	44	11.81	16.77	42
		Shimoga	74728	102863	38	14.14	19.32	37
2	Tamil Nadu	Coimbatore	228184	333676	46	30.62	40.18	31
		Madurai	202605	301771	49	16.56	25.51	54
		Trichy	292689	479652	64	28.75	47.23	64
3	Kerala	Calicut	128883	156289	21	15.5	19.77	28
		Trivandrum	114323	123874	8	15.07	18.36	22
4	U.P	Agra	295733	375823	27	68.4	82.57	21
5	Bihar	Patna	246420	294027	19	63.71	89.97	41

Source: Canara Bank Website (Dec-2013)

The Table depicts that the Bank has enhanced the considerable number of saving bank accounts within one year in different circles. This has also increased the balances and in some cases like in Trivandrum the percentage increase in saving bank accounts is 8% whereas the percentage increase in balances is 22% within the period of one year thereby depicting the fact that demand side has increased manifold in the region. The correlation between percentage change in saving accounts in different regions and the percentage change in the balances in the bank is 0.743. This exhibits the positive correlation between them.

MICRO INSURANCE

The Bank provided life coverage to 31117 group members under Micro Insurance policy during the financial year 2012-13. During this year Bank has added 4926 members taking the total group members covered to 56111 cumulatively.

MICRO FINANCE BRANCHES

Bank is also catering to urban poor & Micro Finance Branches have been opened in urban Centres. A total of 19 Micro Finance Branches contributed business of ₹ 211 Crs.

CREDIT LINKAGE

Besides opening BSBDA, the Bank has endeavoured its effort to provide host of other facilities like In-Built Overdrafts (IODs), Kisan Credit Cards (KCCs), General Credit Cards (GCCs), Differential Rate of Interest scheme (DRI), Self Help Groups (SHGs), Micro Credit Groups (MCGs), Micro Insurance and Micro Pension under Canara Naye Disha Scheme.

FINANCIAL LITERACY CENTRES (FLCS)

During the year 2012-13, 123 Farmers' club have been formed. Presently the Bank has more than 1500 farmers' club all over the country. These farmers' club disseminate information to the rural people about the banking products and advanced technology.

ENGAGING ANCHOR NGOS FOR PROMOTING WOMEN SHGS (WSHGS) IN BACKWARD DISTRICTS

The Bank has the Lead Bank responsibility in Chitradurga Dist. in Karnataka state, Waynad and Palakkad dist. in Kerala state, which are classified as backward districts. As per the guidelines of the Ministry of Finance, Govt. of India, Bank has signed MOU with Shree Kshetra Dharmasthala Rural Development Programme (SKDRDP) in Chitradurga dist., Waynad Social Service Society Manantwadi in Waynad dist., & People Service Society and Hope Foundation in Palakkad dist. in Kerala state for implementation of the scheme.

POSITION OF FINANCIAL INCLUSION IN SPONSORED REGIONAL RURAL BANKS

Two sponsored RRBs are 100% CBS compliant and have implemented financial inclusion plan in all 368 allotted villages by opening 20 Brick and Mortar branches, 348 Ultra Small Branches and appointing 348 Business Correspondents.

IMPLEMENTATION OF DBT SCHEME IN THE BANK

The Bank has already campaigned for 'One Family One Account' as a precursor to Direct benefits transfer implementation. Bank has already ensured that CBS can capture Aadhaar numbers. Bank has provided adequate number of access points i.e. branch, ATM, cash dispenser, BCA, etc, to enable the beneficiaries to withdraw the money as per their ease and convenience. Aadhaar lookup facility has been enabled.

BIOMETRIC ATMS

The Bank has installed 29 Bio metric ATMs. These Bio Metric ATMs enable the rural illiterate customers to access their accounts using Biometric features like finger prints and withdraw the amount or get balance confirmation, using colour codes. All the new ATMs being installed in Rural / Semi urban areas can also be bio metric enabled based on need.

CANARA GRAMIN VIKAS VAHINI

The Bank has provided Canara Gramin Vikas Vahini Vehicles in 37 districts across the country, with an objective of providing Financial Literacy and awareness about Bank's products and Banking facilities among the rural households.

SUGGESTIONS

More focus should be on the Business correspondents as they can be helpful in providing the basic as well as other banking services to the rural poor. The attention must be given to the fact that how much the rural poor is accustomed with the banking services. The research undertaken by the bank should go beforehand and this would help the bank to reach out the bottom. (KAPOOR, 2013)

CONCLUSION

For the inclusive development, the contribution and support to the weaker section can not be ignored. The bank is running on a right track in providing the banking and other financial services to the priority sector/ weaker sector. The major responsibility on the part of the banking sector is to enhance the financial literacy among the rural customers. The financial behaviour of the account holders should be analysed with a view to know their banking habits. The information technology should be exploited at the best possible way so as to provide quality services to the poor. The financial inclusion has a multiplier effect as the weaker section shall be exhorted to save and participate in the economy. The commercial banks are making use of different business models in order to render services to the weaker strata but its pace should be enhanced for the future.

LIMITATIONS

The research is in relation to canara bank only. The contribution by the other banks can also be studied.

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