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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

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   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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# STUDY OF FINANCIAL INCLUSION IN BANKING INDUSTRIES IN INDIA

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*LUCKNOW*

**ABSTRACT**

*For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if its weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India's position and highlighting key factors necessary for financial inclusion. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes. Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system.*

## KEYWORDS
Economic growth, Financial Inclusion or Inclusive Financing, Financial Services, Financial Assistance.

## INTRODUCTION
Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services."Depending on the stage of development, the degree of Financial Inclusion differs among countries. It's been surprising fact that India ranks second in the world in terms of financially excluded households after china. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Thus, the term Financial Inclusion can be defined 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.

In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. The first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100countries, India has been ranked 50. In order to increase this number the Reserve Bank of India had the Government of India take innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, banks are now offering .No-Frill Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance and they are now considering Financial Inclusion as a business opportunity in an overall environment that facilitates growth [10].

## FINANCIAL INCLUSION EQUATION
**NFA + BC = FI**
**Where, BC = Banks + OFIs + MFI + IT**
**NFA** = No Frills Saving Bank Account
**BC** = Banks + Other Financial Institutions + Micro Finance Institutions + Information Technology
**OFI** = Insurance Companies, Mutual Funds, Pension Companies

## INITIATION OF FINANCIAL INCLUSION CONCEPT IN INDIA
In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank [4]. Mangalam Village 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 bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. 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. The broad strategy for financial inclusion in India in recent years comprises the following elements [6]:
(i) Encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as NGOs, business correspondents (BCs)
(ii) Using technology for furthering financial inclusion
(iii)Advising banks to open a basic banking 'no frills' account
(iv) Emphasis on financial literacy and credit counseling
(v) Creating synergies between the formal and informal segments.

## FORTHCOMING PLAN OF BANKS TO SUPPORT FINANCIAL INCLUSION IN INDIA

- **Initiation of no-frills account:** – These accounts provide basic facilities of deposit and withdrawal to accountholders makes banking affordable by cutting down on extra frills that are no use for the lower section of the society. These accounts are expected to provide a low-cost mode to access bank accounts [3].
- **Simplification of KYC norms:-**RBI also eased KYC (Know Your customer) norms for opening of such accounts. Account opening process has been simplified for people who intend to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs. 100,000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.
- **Banking service reaches homes through business correspondents**: – The banking systems have started to adopt the business correspondent mechanism to facilitate banking services in those areas where banks are unable to open brick and mortar branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this unbanked population.
- **EBT – Electronic Benefits Transfer:** – To plug the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This "human-less" transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government's cost of transfer and monitoring.
- **Rural intermediaries**:-In January 2006, the RBI permitted banks to appoint the following organizations as business intermediaries for facilitating financial inclusion[6]:
- ❖ Nongovernmental Organizations(NGOs/SHGs),
- ❖ Microfinance Institutions(MFI),and
- ❖ Other civil society organizations
- **Financial education:-**Financial literacy will go a long way in achieving financial inclusion. Accordingly, the RBI has initiated several financial education measures. For example, it publishes comic strips to explain the concept of savings.
- **Simplified branch authorization:-**With the objective of facilitating uniform branch growth, the RBI has permitted; banks can open branches in any centre – rural, semi-urban or urban – in the Northeast without applying for permission each time, again subject to reporting.
- **Easier credit:-**Banks have been advised to introduce a general purpose credit card facility, General Credit Cards (GCCs), to be precise, with a Rs. 25,000 limit in their rural and semi-urban branches. For customers, this translates to easy access to revolving credit sans the need to furnish security or statement of purpose.

## LITERATURE REVIEW

An empirical study of **Sendhilvelan .M and Karthikeyan .K (2006)** revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of "no frills" account [3] .Further efforts must be made to move from the concept of anytime, anywhere banking. To anytime, anywhere and to everyone banking. **Usha Thorat (2007)** reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy centre and credit counseling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently underway for furthering financial inclusion [5].

The work of **Ghorude .K.N (2009)** indicated that attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion [1]. Developing micro entrepreneurship with organizational and community based support is a way of strengthening inclusive growth. **Muthiah Manoharan .P and Krishnaveni Muthiah (2010)** found limited access to affordable financial services such as savings, loans, remittance and insurance services to the vast majority of the population in the rural area and unorganized sector is believed to be a constraint to the growth impetus in these sectors[2]. The behavioral pattern shows that many people were not comfortable with formal financial services. The reasons were difficulty in understanding language, various documents and conditions that come with financial services etc.sustained growth of the nation and its continued prosperity depend critically on universal financial services covering all people. Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity**(Dr. Joji chandran,2008).**Financial inclusion means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded **(Thorat, 2006).[5]** Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy **(Leeladhar, 2006).**

## NEED 0F FINANCIAL INCLUSION

There has been a many objectives related to the need for financial Inclusion such as:-

- **ECONOMIC OBJECTIVES**
  For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.
- **MOBILIZATION OF SAVINGS**
  If the weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilized for the capital formation and growth of the economy.
- **LARGER MARKET FOR THE FINANCIAL SYSTEM**
  To serve the requirements and need of the large section of society there is a urgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
- **SOCIAL OBJECTIVES**
  Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.
- **SUSTAINABLE LIVELIHOOD**
  Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.
- **POLITICAL OBJECTIVES**
  There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

## SCOPE OF THE STUDY

There are various types of banks which operate in our country to meet the financial requirements of different categories of people. On the basis of function, the banks can be classified into five Categories Viz. central bank, commercial bank, development bank, co-operative bank and Specialized bank. This study had focused on the role of banking sector in financial inclusion in India and especially the Central Bank i.e. Reserve Bank of India.

## OBJECTIVES OF THE STUDY

The main objectives of this study were:

- To study the measures taken by the banks for financial inclusion.
- To analyze the difficulties involved in the adoption of financial inclusion.
- To explore the need and significance of financial inclusion for economic and social development of society.
- To analyse the current status of financial inclusion in Indian economy.
- To study the access of rural people to bank branches and the number of ATM opened in those areas.
- To study the progress of State Cooperative Banks in financial inclusion plan.
- To suggest the appropriate measures to improve the efficiency of the Cooperative banks.

## RESEARCH METHODOLOGY

Research methodology is partly descriptive and partly exploratory. For this study Secondary data is used. The data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

## FINDINGS

### SURVEY REPORTS ON FINANCIAL INCLUSION

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011, which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The survey suggest in developing countries India lags behind in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions[9]. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies as can be seen from the table 1. The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money. Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centers.

**TABLE - 1: KEY STATISTICS ON FINANCIAL INCLUSION IN INDIA: A SURVEY**

(percent)

| Share with an account at a formal financial institution | | | | Adults saving in the past year | | Adults originating a new loan in the past year | | Adults with a credit card | Adults with an outstanding mortgage | Adults paying personally for health insurance | Adults using mobile money in the past year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Adults | Poorest income quintile | Women | Using a formal account | Using a Community based Method | From a formal financial institution | From family or friends | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| India | 35 | 21 | 26 | 12 | 3 | 8 | 20 | 2 | 2 | 7 | 4 |
| World | 50 | 38 | 47 | 22 | 5 | 9 | 23 | 15 | 7 | 17 | 7 |

*Source: Asli Demirguc - Kunt and Klapper, L. (2012); Measuring Financial Inclusion‟, Policy Research Working Paper, 6025, World Bank, April [9]*

### INTERPRETATION OF TABLE - 1

Thus, a lot has to be done to bridge the gap between the formal financial institutions and the rural people needs. To make them aware of the fact about the facilities available for their benefit and which can help India to turn out to a developed nation from a developing nation. As can be seen from the below table-2 that the financial inclusion plan has shown a tremendous growth in the past two years[9]. Banks are gaining momentum in areas like opening up of new banking outlets in rural areas, deploying new business correspondents (BC),opening of new frills accounts, granting more credit through KCC(Kisan Credit Card) and GCC (General Purpose Credit Card).

**TABLE 2: PROGRESS OF SCB'S IN FINANCIAL PLAN (EXCLUDING RRB'S)**

| Particulars | March 2010 | March 2011 | March 2012 | Variation March 2012 over March 2010 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| No. of BCs/BC agents Deployed | 33,042 | 57,329 | 95,767 | 62,725 |
| No. of banking outlets in villages with population above 2,000 | 27,353 | 54,246 | 82,300 | 54,947 |
| No. of banking outlets in villages with population less than 2,000 | 26,905 | 45937 | 65234 | 38329 |
| Total no. of banking outlets in villages | 54258 | 100183 | 147534 | 93276 |
| a) Through branches | 21475 | 22662 | 24701 | 3226 |
| b) Through BCs | 32684 | 77138 | 120355 | 87671 |
| c) Through other modes | 99 | 383 | 2478 | 2379 |
| Urban locations covered through BCs No-Frill accounts | 433 | 3757 | 5875 | 5442 |
| Number (millions) | 50.3 | 75.4 | 105.5 | 55.2 |
| Amount (Rs. In billions) | 42.6 | 57.0 | 93.3 | 50.7 |
| Overdraft availed in No-Frill Accounts | | | | |
| Number (millions) | 0.1 | 0.5 | 1.5 | 1.4 |
| Amount (Rs. In billions) | 0.1 | 0.2 | 0.6 | 0.5 |
| Kisan Credit Card (KCC) | | | | |
| Number of accounts (millions) | 15.9 | 18.2 | 20.3 | 4.4 |
| Outstanding amount (Rs. In billions) | 940.1 | 1237.4 | 1651.5 | 711.4 |
| General Purpose Credit Card (GCC) | | | | |
| Number of Accounts (millions) | 0.9 | 1.0 | 1.3 | 0.4 |
| Outstanding amount (Rs. In millions) | 25.8 | 21.9 | 27.3 | 1.6 |
| ICT Based Accounts through BCs | | | | |
| Number of Accounts (millions) | 12.6 | 29.6 | 52.1 | 39.5 |
| Number of transactions during the year (millions) | 18.7 | 64.6 | 119.3 | 183.9 |

Source: Asli Demirguc - Kunt and Klapper, L. (2012);Measuring Financial Inclusion‟, Policy Research, Working Paper, 6025, World Bank, April [9]

**INTERPRETATION OF TABLE-2**

As can be seen from the above statistics of SCB's( Schedule co-operative Bank), the number of Business Correspondents have increased and the number of rural banking branches have increased from 27,353 in 2010 to 82,300 in 2012.The primary mode which has gained momentum for opening new saving account in rural banks is through Business Correspondent (BC‟s).We can see the account opened by business correspondents in 2010 is 32,684 which has increased to 1,20,355 in2012.Also the opening of new no-frill account is on the higher Side i.e. From 50.3 million account to 105.5 million account. The distribution of KCC (Kisan credit cards) and GCC (General purpose credit card) has also been on increasing side but still there is major Scope for reaping its benefits. Hence the survey states that though the government has initiated many steps and the steps are also moving in positive direction and the financial inclusion has shown an immense growth Which if channelize in proper manner can make the life of many rural villagers easy and steady.

## SUGGESTIONS

The banks should offer all forms in the regional language of the customers. The banks must create awareness among the people concerning the significance of banking services by advertisement and financial inclusion campaign. ATMs are one of the most cost effective ways of reaching the rural poor. Thus, new biometric ATMs have to be established to assist the customers who are unable to memorize PIN. The banks should constitute Grievance Redressal Machinery to redress the customer's discontent promptly. And also it should offer no frills account in order to turn unbankable into bankable. The banks should appoint a business correspondent to disseminate its service to the unreached area. Technology can play a major role in reducing the cost of availing financial services.
SHG should also be encouraged [7] .Thus, banks should adopt advanced technology to open up new avenues for service delivery.

## CONCLUSION

Financial inclusion becomes a major prerequisite of poverty alleviation. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth. There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt banking sector is playing a significant role and is working on the positive side. Reserve Bank of India has taken various measures for promoting financial inclusion and uplifting the standard of living of weaker sections of the society.

## LIMITATIONS

- The study is based on the data of past three or four years only.
- The data for study is mainly based on a Cooperative Bank so; the comparative study with other banks was not possible.
- The time period of the research was limited.

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