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CONTENTS

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RESEARCH METHODOLOGY
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A STUDY ON FINANCIAL INCLUSION IN RURAL INDIA BY REGIONAL RURAL BANKS

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ABSTRACT

Financial Inclusion is a necessity for a country where a large part of the poor resides. We know that 70% of the population lives in rural areas of India. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. Financial inclusion is a means of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream financial institutional players. In our country, Reserve Bank of India (RBI) has formulated the policy of financial inclusion with a view to provide banking services at an affordable cost to the disadvantaged and low-income groups. Since 1975, Regional Rural banks (RRBs) are being regarded as a significant Rural Financial institution for promoting sustainable economic growth. This study is an attempt to investigate the significance of regional rural banks in the financial inclusion. Since the bank has penetration to the rural areas, it might have influencing role in the development programmes in rural India.

KEYWORDS

financial inclusion, financial services, RRBs, banking penetration

JEL CLASSIFICATION CODES

G21, G28.

1. INTRODUCTION

Formal financial institutions are largely inaccessible to the financially weaker sections as these are often costly, hard to reach, and offer products that seldom suit their needs. As a result, households often make costly choices, such as selling valuable assets in response to economic distressed conditions and failing to take advantage of potentially beneficial investments in their households and businesses. Financial Institutions with their services actively contribute to the welfare economic development of the society. Every individual should be provided with affordable institutional financial products and services. These are ensured by government in their financial inclusion plans. Thus, Financial inclusion is the delivery of financial services & products to the sections of disadvantaged and low income segments of society, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. 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.

RBI launched National Strategy for Financial Education on July 16, 2012 with a vision to build "A financially aware and empowered India" with the following goals:

- Create awareness and educate consumers on access to financial services, availability of various types of products and their features.
- Change attitudes to translate knowledge into behaviour.
- Make consumers understand their rights and responsibilities as clients of financial services.

At present, banking sector witnessed tremendous changes in terms of technological advancements, internet banking, online money transfers, etc. But it is a reality that access to such technology is restricted only to certain sections of the society. There is a growing part, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc.

2. REVIEW OF LITERATURE

Many researchers have conducted the study on Financial Inclusion from different perspectives. To conduct the research, I have gone through the following past studies:

Vijay Kelkar (2010) analysed in his study that financial inclusion plans will significantly reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides. The second important benefit is that it will lead to more rapid modernization of Indian agriculture.

Satya R. Chakravarty and Rupayan Pal (2010) conducted a study titled Measuring Financial Inclusion: An Axiomatic Approach. This paper demonstrates that the axiomatic measurement approach developed in the human development literature can be usefully applied to the measurement of financial inclusion.

Chattopadhyay, Sadhan Kumar (2011) conducted a study in West Bengal in order to identify the financial inclusion in rural Bengal and the results disclose that around 38 per cent of the respondents do not have sufficient income to open a savings account in the bank.

Hemavathy Ramasubbian and Ganesan Duraiswamy (2012) mentioned that over the past six years the Financial Inclusion Strategy had improved the life style of BPL, but missing focus on savings and credit improvement strategies degrades the benefits of Financial Inclusion.

Rama Pal and Rupayan Pal (2012) conducted a study and measured the effects of various socio, economic and demographic characteristics of households on propensity of a household to use formal financial services, and compared them for rural and urban sectors. The study identified that greater availability of banking services fosters financial inclusion, particularly among the poor.

Ashima Thapar (2013) in her study concluded that though the banks are complying with RBI norms in terms of opening branches within areas of at least 2000 population, offering no frills account, kisan credit card, simplifying KYC norms, but still is lot of effort to be put in for financial inclusion progress. Biometric cards should be introduced for security in transactions as well as saving time. Business correspondents should be employed in villages and trained in advance for promoting financial inclusion program. Banks need to open its more branches within rural areas and creating more awareness about banking services among rural people by telling them about the benefits of the banking services.

M.M. Gandhi (2013) mentioned that financial inclusion may be a social responsibility for the banks in the short-run but will turn out to be a business opportunity in the long-term. It is no longer an option, but it is a compulsion. The present policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Pursuit of financial inclusion by adoption of innovative products and processes does, however, pose challenge of managing trade-offs between the objective of financial inclusion and financial stability.

Dinesh Borse and D. M. Gujarathi (2013) expressed that Financial Inclusion has definitely gained some ground in India. But progress as now is slow. Difficulties in picking the required pace are (a) Transaction cost too high, (b) Appropriate business model yet to evolve, (c). BC model too restrictive, (d) Limitation of cash delivery points, and (e) Lack of Interest / Involvement of Big Technology Players. Insurance is one area where lot needs to be done to improve penetration among financially excluded. Investment advisory services should be launched at high speed for complete financial inclusion. There is a need of speed of implementation with the help of technology.

Mukesh Kumar Pandey (2014) concluded that poor segment of the population of poor states are bypassed with the development process of the country. Banks and financial institutions prefer to start their business entities in those states where level of education is high, serve those clients who are credit worthy and rich. This fact is as true today as it was in 70's. Whatever, be the claims of financial inclusion by different governments in the country, local moneylenders still dominantly imparting credit needs in rural areas. Lower strata of the population like SCs/STs, Women are most vulnerable among them.

3. OBJECTIVES

1. To highlight the position of India in Financial Inclusion in comparison to other countries.
2. To study the extent of progress made by all banks including rural banks in rural India
3. To examine the role of rural banks in financial exclusion in rural India
4. To study the financial strength of rural banks in formulating financial inclusion.

4. RESEARCH METHODOLOGY

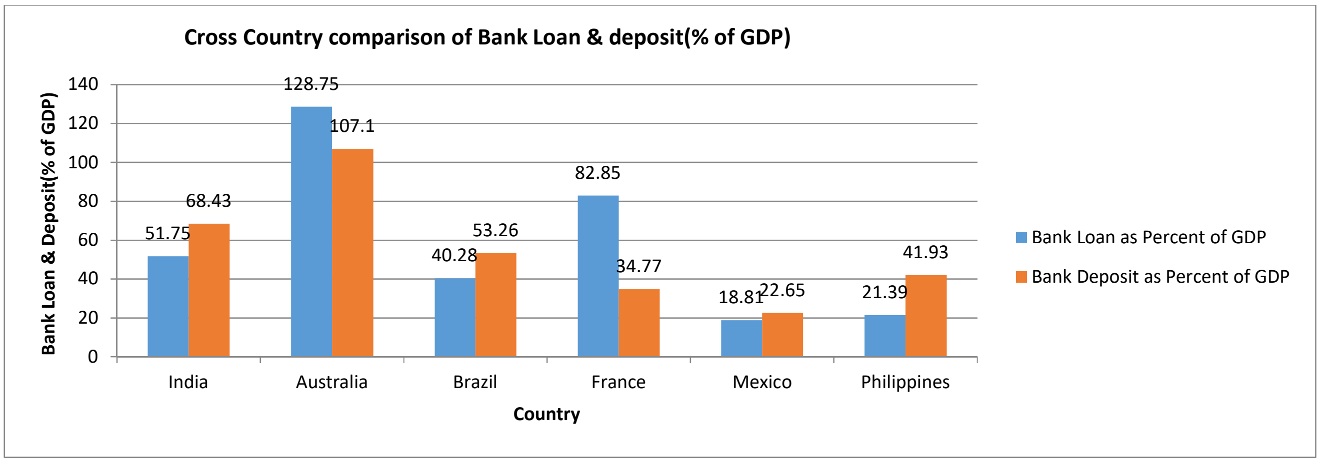
Secondary sources of data are used. Data published by various institutions such as Government of India, World Bank, Consultative Group to Assist the Poor (CGAP), Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD, State Level Bankers‟ Committee (SLBC), etc. are used for the purpose of the present paper. Study period ranges between 2008-09 to 2014-2015.

5. ANALYSIS

5.1 FINANCIAL INCLUSION IN INDIA WITH RESPECT TO OTHER COUNTRIES

It has been pronounced by the World Bank that financial institutions have not been able to reach the poor households in developing countries. World Bank estimate (1995) shows that in most developing countries the formal financial service reaches only the top 25% of the economically active population; the bottoms 75% have no access to financial services apart from moneylenders. In India too, the formal financial institutions have not been able to reach the doors of poor households, and people in the unorganised sector. Chart 1showed that both bank loan and deposit as per cent of GDP are highest in case of Australia followed by India, France, Brazil, Philippines and Mexico. India has second position in bank deposit. But, France has second position in bank loan.

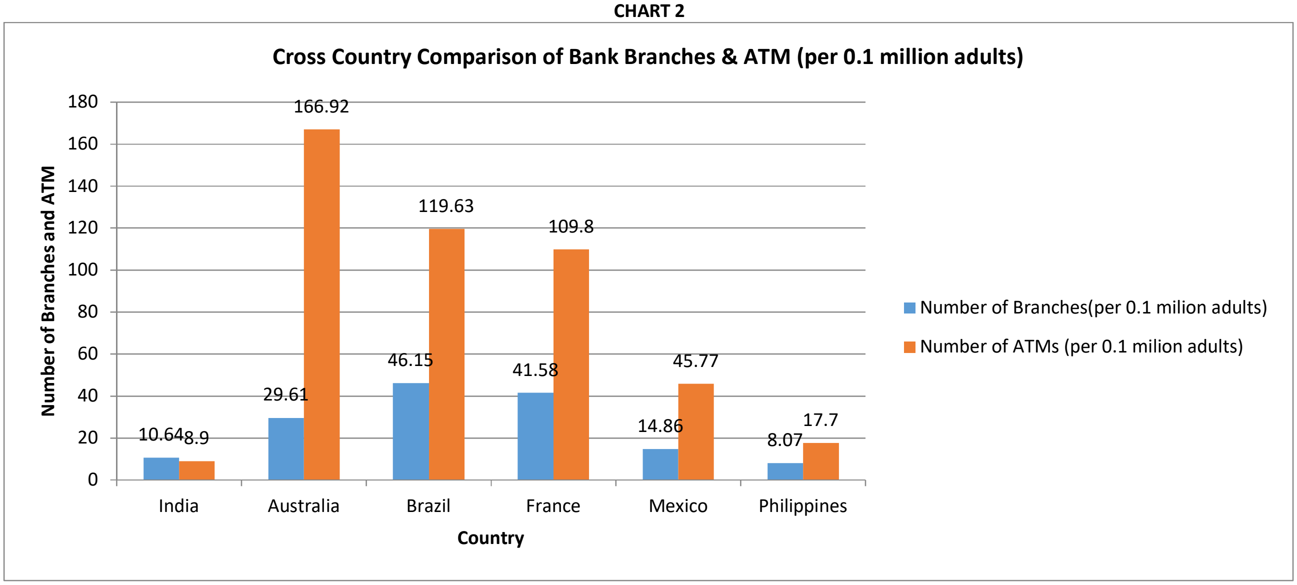
CHART 1



Source: Report on Trend & Progress of Banking in India, Reserve Bank of India 2011-12.

Chart 2 shows that both number of branches (per 0.1 million adults) and number of ATMs (per 0.1 million adults) are higher in Australia, Brazil, France and Mexico in comparison to Philippines and India.

CHART 2



Source: Report on Trend & Progress of Banking in India, Reserve Bank of India 2011-12.

5.2 PROGRESS IN FINANCIAL INCLUSION MADE BY ALL BANKS INCLUDING RURAL BANKS IN RURAL INDIA

With the objective of attracting the financially excluded rural population into the formalised financial system, the RBI has introduced a multi-institutional and multi-instrument approach to comprehensively address the issue of financial inclusion. Some of the important measures taken in this direction are: a) Opening of

Banking Outlets in villages; b) Opening of Basic Savings Bank Deposit Account; c) Issue of General Credit Cards; d) Issue of Kisan Credit Cards; e) Formation of Self-Help Group; f) Credit to the Priority Sectors; and g) Insurance Products. Table 1 showed that number of banking outlets have been increased gradually with the adoptions of financial inclusions plans by all banks including RRBs. Sharp growth of Savings Deposit, KCCs, GCCs, ICT A/Cs, etc., have also seen in case of banking sector in India. This implies that a steady progress of financial inclusion has been initiated by all banks in India.

TABLE 1: PROGRESS UNDER FINANCIAL INCLUSION PLANS, ALL SCBs INCLUDING RRBs

Variable	Mar-10	Mar-11	Mar-12	Mar-13	Absolute Change (2010-13)	Percentage Change (2010-2013)
Banking Outlets in Villages >2000	37,949	66,605	1,12,288	1,19,453	81,504	214.8
Banking Outlets in Villages < 2000	29,745	49,603	69,465	1,49,001	1,19,256	400.9
Basic Savings Bank Deposit Account (BSBDA) Total (in million)	73	105	139	182	109	147.9
Basic Savings Bank Deposit Account (BSBDA) Total (Amount in billion)	55	76	120	183	128	232.5
KCCs Total (No. in million)	24	27	30	34	9	39
KCCs Total (Amount in billion)	1240	1600	2068	2623	1383	111.5
GCCs Total (No. in million)	1	2	2	4	2	161.2
GCCs Total (Amount in billion)	35	35	42	76	41	117.4
ICT A/Cs – BC Total Transactions (No. in million)	27	84	156	250	224	844.4
ICT A/Cs – BC Total Transactions (Amount in billion)	7	58	97	234	227	3279.8

Source: RBI

5.3 ROLE OF RURAL BANKS IN FINANCIAL INCLUSION OF RURAL INDIA

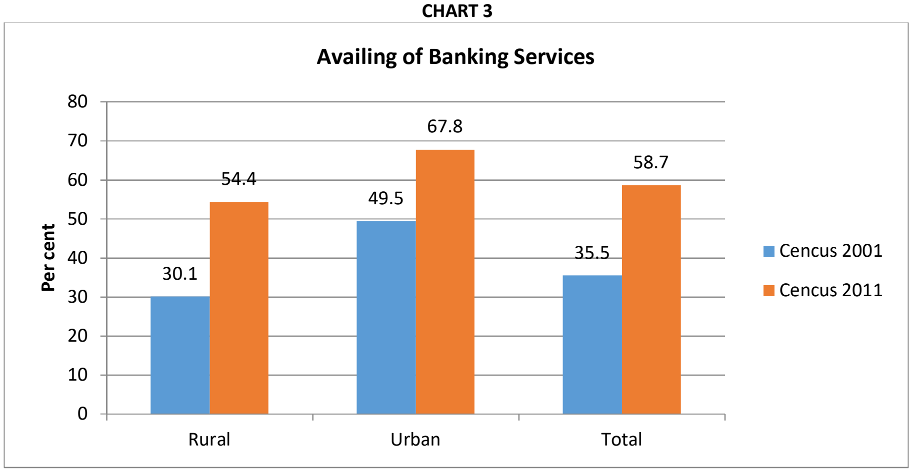
Within the Indian financial sector, the role of the rural banks is important but not apparently greatest. The contribution of the commercial banks to the rural/semi-urban banking network is far higher than the contribution of rural banks to the total of 87,000 bank branches in India. Despite the importance of commercial banks even in the rural areas however they are neither able nor willing to serve the poorest sections of the population.

Responsibility of RRBs to the rural population can be assessed under the following broad heads:

5.3.1 Geographical Penetration

Government has declared in his policy decisions to provide banking services in remote areas so as to open bank account in every household. In this aspect, rural banks perform more vital role by providing financial services to the rural people in India. It is evident from chart 3 that only 58.7% of total households (as per census 2011) are availing banking services in India. But, in rural areas 54.4% of households are availing banking services. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas.

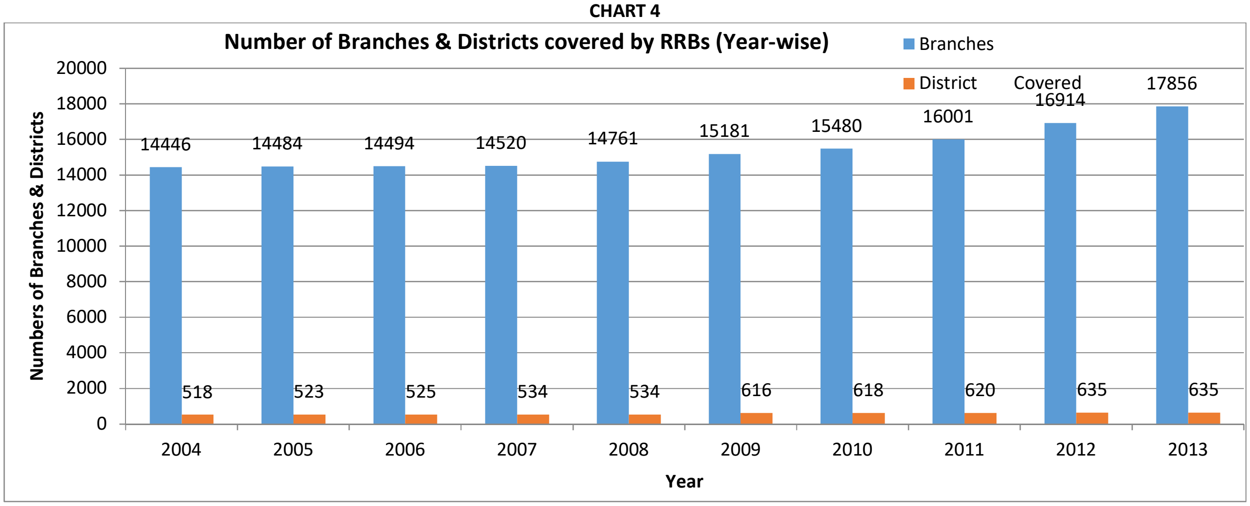
CHART 3



Sources: Department of Financial Services, Government of India

5.3.2 Branch Penetration

CHART 4



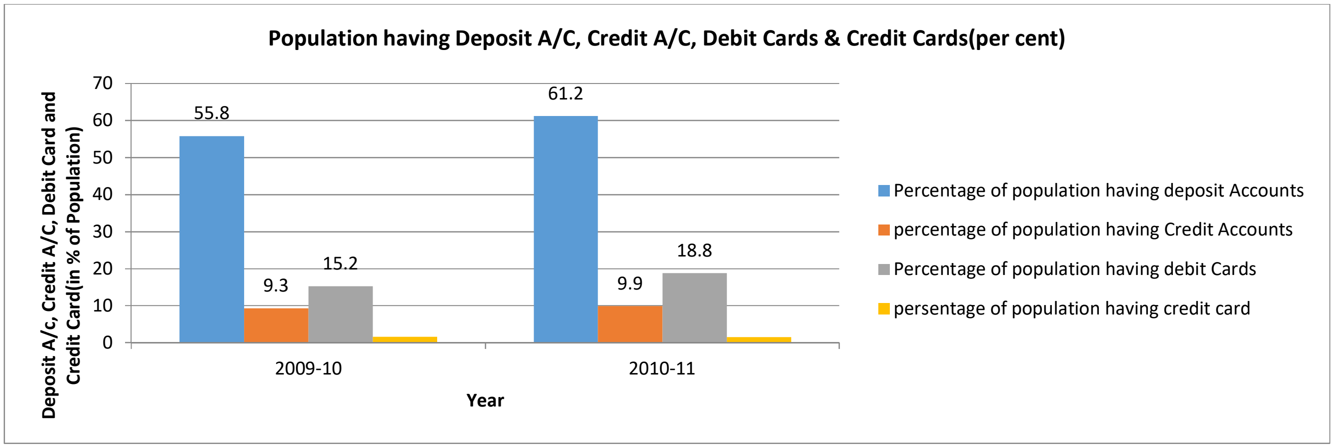
Source: NABARD

RRBs have increased their branches to provide banking services to the rural people. They have spread their activities into new districts. Chart 4 shows that they have total 17856 numbers of branches at the end of 2013 as compared with 14446 numbers of branches in 2004. They also extended their activities to the 635 districts at the end of 2013.

5.3.3 Availability of Banking Services

As per directions of RBI, rural banks have made relaxations in opening accounts for the rural population. As a result, the number of savings deposit accounts and credit accounts are increasing day by day. Moreover, banks are encouraging rural population to access the facilities of debit cards and credit cards. Chart 5 shows that population having savings deposit accounts, credit accounts and debit cards have increased in 2010-11 in comparison to 2009-10. But credit card users have not increased.

CHART 5

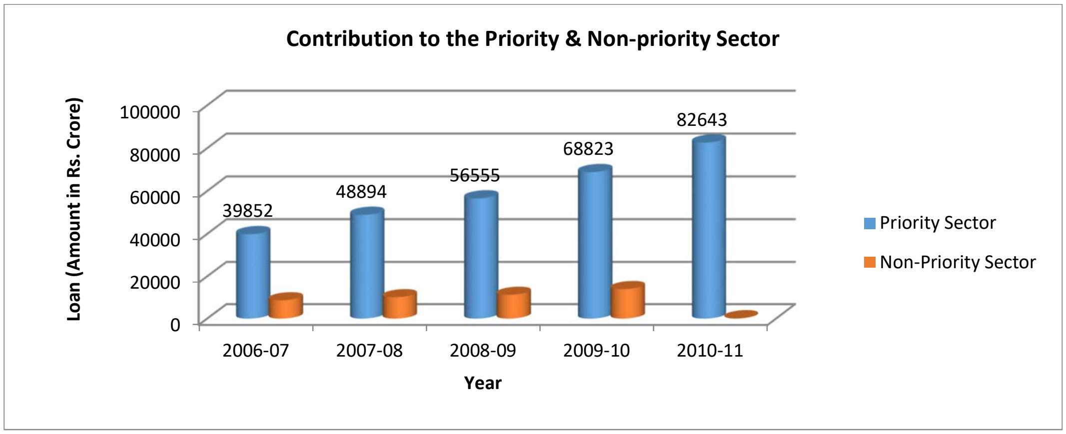


Source: Report on trends and progress of banking in India, various issues.

5.3.4 Serving to the rural

Priority Sector Lending: As evident from Chart 6, priority sector's loans & advances have been increasing gradually in contrast to the non-priority sector. At the end of March, 2011, priority sector lending has increased to Rs. 82643 crore from Rs. 39852 crore at the end of March, 2007. It indicates that rural banks are disbursing major part of loan amounts to the marginal farmers, artisans, shopkeepers etc., of the rural population.

CHART 6

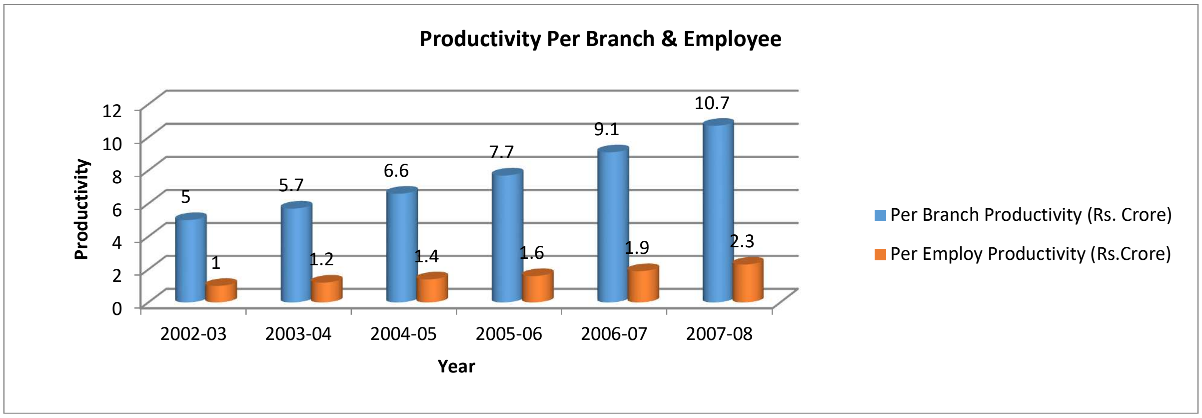


Source: Report on trends and progress of banking in India, various issues.

5.4 PERFORMANCE LEVEL OF RURAL BANKS IN FORMULATING FINANCIAL INCLUSION

Performance level can be judged by both productivity per branch and productivity per employee. It is seen that productivity per branch has been increasing continuously from 5 crores in 2002-03 to 10.7 crore in 2007-08. Per employee productivity also increased from 1 crore to 2.3 crore for the respective period.

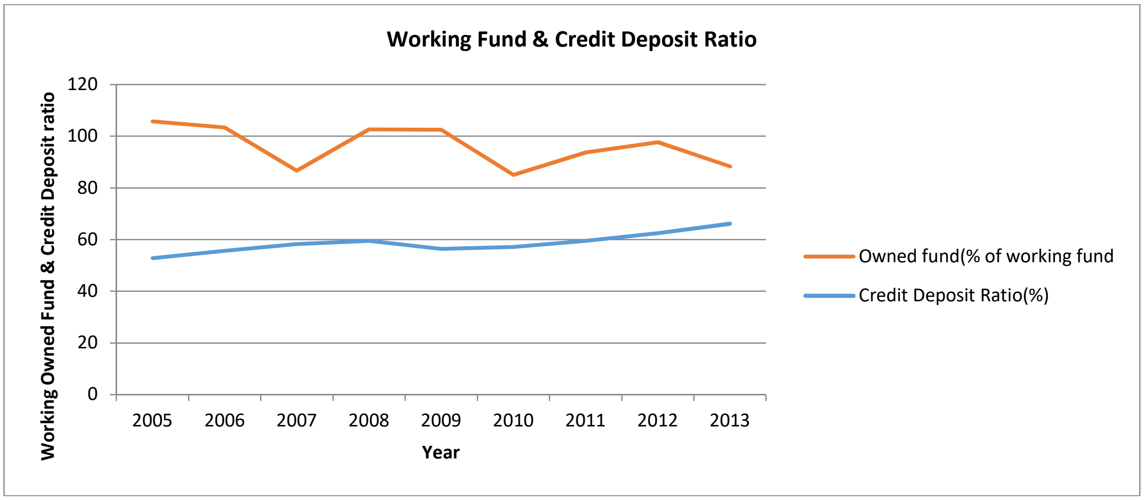
CHART 7



Source: NABARD

Working Fund and Credit Deposit Ratio: It also indicates that available fund is sufficient to meet the liquidity requirement of borrowers.

CHART 8



Source: NABARD

From the chart, it is clear that the owned fund is sufficient to meet the liquidity requirement as it is far above the credit deposit ratio. Moreover, the gap between the lines indicates that RRBs have unutilized capacity to provide more loan to the rural customers.

6. CONCLUSION

With the objective to include financially distressed rural people into the financial inclusion plans, rural banks along with the other commercial banks have taken important measures by providing financial products and services. Some of the important measures taken in this direction are Opening of Banking Outlets in villages, Opening of Basic Savings Bank Deposit Account, Issue of General Credit Cards, Issue of Kisan Credit Cards, Formation of Self-Help Group, Credit to the Priority Sectors, Insurance Products, etc. It is important to mention that number of banking outlets have been increased gradually with the adoptions of financial inclusions plans by all banks including RRBs. Sharp growth of Savings Deposit, KCCs, GCCs, ICT A/Cs, etc., have also seen in case of rural banks in India. This implies that a steady progress of financial inclusion has been initiated by all banks in India.

As per census 2011, number of households availing banking services in rural areas have increased (i.e., 54.4% of households) as compared to census 2001. RRBs have increased their branches to provide banking services to the rural people. They have spread their activities into new districts. They have total 17856 numbers of branches at the end of 2013 as compared with 14446 numbers of branches in 2004. They also extended their activities to the 635 districts at the end of 2013. Rrural banks have made relaxations in opening accounts for the rural population. As a result, the number of savings deposit accounts and credit accounts are increasing day by day. Moreover, banks are encouraging rural population to access the facilities of debit cards and credit cards.

Priority sector's loans & advances have been increasing gradually in contrast to the non-priority sector. It indicates that rural banks are disbursing major part of loan amounts to the marginal farmers, artisans, shopkeepers etc., of the rural population.

Moreover, it can be concluded that rural banks have requisite fund strength to meet the liquidity requirement of rural people of India.

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