Financial Inclusion Strategy and Tools: A Discussion On Initiatives Undertaken.

Anjali Devi[1],Dr. Uttam Kr. Baruah[2],Dr. Balin Hazarika[3]

[1]*Research scholar, Department of Commerce, Gauhati University- Guwahati.*

[2]*Ph.D., supervisor under Department of Commerce, Gauhati University and Senior Assistant Professor, Darrang College-Tezpur,*

[3]*PhD Supervisor, Department of Commerce, Gauhati University and Associate Professor, Kaliabor College, Nagaon,*

Abstract - The term 'Financial inclusion' has assumed greater importance since early 2000 and has become an inseparable part of strategic tools designed for delivery of financial services in India. Financial Inclusion has been defined as a strategic tool to reach out the hitherto non-bankable people thorough delivery of credit and other financial services at affordable costs. There has been continued thrust on bringing the unbanked people within banking fold. Starting with the formation of Cooperative Credit Societies since 1904 to the introduction of Financial Inclusion Plan (FIP) in 2010, many schemes and programmes have been floated. Similarly, huge chunk of funds from government exchequer has been spent directly or indirectly for the cause but the success rate is that the country has yet to travel a long distance to achieve inclusion. There has been much discussion on factors tailoring the success or failure of Financial Inclusion initiatives among scholars and academicians. This paper departs from other papers in the sense that a discussion has been made about the initiatives undertaken by the Government and Reserve Bank of India in recent period. Based on the discussion views are drawn which may be considered for critical evaluation by academicians and policy makers. The paper is paragraphed with abstract, introduction, methodology and objectives, discussion and finally conclusion.

Key words: Financial inclusion, Policy measures, Financial tools, Achievement.

I. INTRODUCTION:

The term 'Financial inclusion' has assumed greater importance since early 2000 and has become an inseparable part of strategic tools designed for delivery of financial services. Financial Inclusion has been defined as a strategic tool to reach out the hitherto non-bankable people through delivery of credit and other financial services at affordable costs. There has been continued thrust on bringing the unbanked people within banking fold. Starting with the formation of Cooperative Credit Societies since 1904 to the introduction of Financial Inclusion Plan (FIP) in 2010, many schemes and programmes have been floated targeting vulnerable sections of the society to bring about improvement in their economic conditions. 'Financial Inclusion' is one of such tools designed to cover hitherto non-bankable people within the fold of formal banking system. Financial inclusion basically refers to delivery of financial services at affordable costs to the underprivileged sections and low income segments of the society. UNITED NATIONS defines Financial Inclusion as 'A financial sector that provides access to credit for all 'bankable' people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible, use each of the services, but they should be able to choose or use them if desired.'(www.wikipedia). It is argued that without discrimination, banking and payment services should be made available to the entire population i.e., rich or poor. Unfortunately, very few people have access to banking services (Ravichandran and Alkhathlan (2009). There are number of factors affecting access to financial services by weaker section of society in India. These of course include the lack of awareness, low incomes and assets, social exclusion, illiteracy are the barriers from demand side. The supply side includes the distance from bank branch, branch timings, cumbersome banking procedure, over requirement of documents for opening bank accounts, unsuitable banking products/schemes, Language, high transaction costs and attitudes of bank officials. Since independence, Indian government encouraged financial institutions to get involved in making the hitherto non-bankable people bankable and for that purpose several strategies have been made. For example, social control on banks was introduced in 1968 followed by nationalization of banks in two phases, once in 1969 and another in 1980. The establishment of Regional Rural Banks in 1975 is also a step in that direction. Government of India simultaneously initiated many rural poverty alleviation/ developmental schemes such as community development programmes, service area approach, lead bank scheme, Integrated Rural Development Programme (IRDP) and more recently Swarnajayanti Gram Swarozgar Yojana (SGSY) which were sought to be implemented with active participation of banks. With all these efforts, the network of branches increased drastically through out rural India, as now for every six villages one-bank branch is there. In the process average population per bank branch came down significantly from 64,000 in 1969 to 12,921 in 2012 (http://www.rbi.org.in). Unfortunately, with the main focus on branch expansion and credit expansion targeting the fulfillment of financial inclusion plan of the Government, banks, particularly scheduled commercial banks are compelled to compromise with solvency and profitability principle of banking. As a result, scheduled commercial banks suffered from typical banking problems such as high Non Performing Assets, low profitability, deterioration in capital base so on. Government, in its efforts to provide standby support to these banks has been infusing a good lump sum amount in the name of capitalization of SCBs every year. For example, in 2014, central government maintained a fund worth Rs. 11,200 crore while in 2015 Rs. 9740 crore used for the sake of capitalization of selected public sector banks. Now question arise why are the performances of public sector banks deteriorating? Whether stringent financial inclusion policy of the government affecting the growth of banks? This paper throws light on the Government/Reserve Banks' policy towards this end and its impact on the performances of scheduled commercial banks.

Objectives of the paper: The objectives of this paper are:

1. To discuss the financial inclusion strategies and tools of the Government and the Reserve Bank of India during recent past.

2. To analyse the achievements of the Scheduled Commercial Banks and

3. To give conclusion on the basis of analysis.

II. METHODOLOGY:

Data used in this paper have been drawn from secondary sources. Reports released by Reserve Bank of India, Finance Ministry, and Wikipedia are compiled. Data are being analysed in four steps. First step consists of policy initiatives undertaken in India in respect of financial inclusion, second step deals with achievement of Scheduled Commercial Banks (SCBs) in terms of Financial Inclusion (FI); thirdly, the performance of SCBs, analysed in terms of NPA and Earning Per Share. Finally, the paper is summed up with concluding remarks.

III.DISCUSSION:

It was 1904 when Government of India passed Cooperative Societies Act that opened up the door for forming cooperative credit societies as alternative credit source of finance for rural people. Cooperative societies were in need of the hour in order to save the farmers from the clutches of unscrupulous money lenders. After independence, Government of India took many initiatives to popularize the banking habits among the people. In 1969, major commercial banks were nationalised with a view to extend banking services to rural and unbanked areas. Thereafter, Regional Rural Banks were established in 1975, more banks were nationalised in 1980, Lead bank scheme & Local area banking concepts were introduced, NABARD was set up in 1982 and entitled with the responsibility of rural banking expansion, new private sectors banks were allowed to set up since 1994 and government schemes starting with Integrated Rural Development Programme (IRDP) to Swarnajayanti Gram Swarozgar Yojana (SGSY) have been introduced targeting rural and unbanked people. In all the cases, commercial banks have been involved and they have been asked to achieve government vision with larger participation. Of late, Government of India in association with Reserve Bank of India has framed several strategies and tools targeting vulnerable section. Some of these are:

(1) Opening of branches by commercial banks in all habitations of 2000 or less than 2000 population.

(2) Opening of bank branches without prior permission of RBI subject to reporting.

(3) Opening of at least 25% of the total number of branches proposed to be opened in unbanked centers with population up to 9999.

(4) Permission given to scheduled commercial banks to operationalise mobile branches in selected areas.

(5) Thrust on providing of branchless banking through use of technology to habitations in excess of 2000.

(6) Establishment of ultra small branches.

(7) Introduction of electronic benefit transfer as on of the financial products.

(8) Development of Geographical Information System (GIS) for mapping of all the branches in the country so as to determine the deficit areas in banking.

(9) Use of the "One District – Many Banks – One Leader Bank Model", an operational guidelines for implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan etc.

(10) KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000.

(11) General Credit Cards (GCC) were issued to the poor and to the disadvantaged with a view to help them access easy credit. This scheme allows the beneficiary to borrow upto Rs. 25000/- without insistence on collateral securities.

(12) The RBI freed the location of ATMs from obtaining prior authorization and Regional Rural Banks are permitted to install ATMs on sharing basis with other banks.

(13) Banks have been asked to scale up IT initiatives for financial inclusion. The RBI has been giving

advice to banks on issues relating to technology, security standards, and customer protection.

(14) Direct benefit transfer scheme has been introduced. Under this scheme all government benefits in the form of subsidies or financial assistance have been linked with bank accounts of the beneficiaries.

(15) Introduction of Pradhan Mantri Jeevon Jyoti Bima Yojana; Pradhan Mantri Jan-Dhan Yojana and Atal Pension Yojana.

IV. ACHIEVEMENT OF SCHEDULED COMMERCIAL BANKS:

Figures produced in the Table-I show the achievement of Scheduled Commercial Banks in financial inclusion drive. There has been high achievement record in terms of formation of Business Correspondent, opening of no-frills accounts, geographical areas covered, Kishan Credit Cards issue or credits sanctioning etc. As seen from the table, Business Correspondent figured to 95,767 recording 109.4% increase over the previous year. Again, banking services have been expanded to 82,300 villages registering 51.72% increase. Again, the number of No-frills account opened stood at 105.5 million as on march, 2012. It can be said that the strategies designed for financial inclusion have proved highly successful.

Table-I: Achievement of SCBs in Financial Inclusion drive (excluding RRBs)

Particulars	March, 2010	March, 2011	March, 2012	Variation over 2011
No. of BC	33042	57329	95767	62725 (109.4%)
No of villages covered*	27353	54246	82300	28054 (51.72%)
No of villages covered**	26905	45937	65234	19297 (42%)
No of no-frill accounts (in million)	50.3	75.4	105.5	30.01(39.8 %)
Overdrafts availed in no-frill account (Rs. in billion)	0.1	0.2	0.6	
No of KCC account (in million)	15.9	18.2	20.3	2.1
Outstanding credits in KCC accounts(Rs. in billion)	940.1	1237.4	1651.5	414.1 (33.46%)
General purpose Credit Card (in million)	0.9	1	1.3	0.3
Outstanding amount in General purpose Credit Card(in billion)	25.8	21.9	27.3	5.4(24.65%)
ICT based account through BC (in million)	12.6	29.6	52.1	22.5
No of transactions during the year (in million)	18.7	64.6	119.3	54.7 (84.67%)

* above 2000 population, ** below 2000 population

Source: RBI Annual Report, 2012

V. PERFORMANCE OF SCHEDULED COMMERCIAL BANKS

As seen from the discussion made in the previous section that Scheduled Commercial Banks have been very successful in the drive meant for bring unbanked people within banking fold. In this section, the dark side of image is raised and discussed. As seen from the figures produced in the Table-II, the performance indicators like Capital Adequacy Ration, Non Performing Assets, Return on Equities etc. show the very dismal performance of Scheduled Commercial Banks.

Table-II: SCBs performance

	Indicators	Year 2012	Year 2013
	CRAR	14.2	13.8
	Gross NPA to gross advances	2.9	3.4
	Net NPA to net advances	1.2	1.5
	Return on total assets	1.1	1.0

	Return on equity	13.4	12.8
	Efficiency(Cost/income) ratio	45.3	46.3
	Liquid assets to total assets	28.9	28.9
Source: RBI Annual Report, 2013			

The capital position of Scheduled Commercial Banks (SCBs) remains well in excess of the regulatory requirements, but the CRAR (13.8 per cent) has declined in 2013 than in the previous year (see Table-II). The asset quality of SCBs deteriorated further during 2012-13 and the blame is made on the economic condition driven by a lackluster domestic environment. Another indicator i.e., Non Performing Assets (NPA) shows poor performance in comparison to previous year. In terms of magnitude, the gross NPAs of SCBs increased from 2.9 per cent in 2011-12 to 3.4 per cent in 2012-13. This shows the increase in outstanding credits, i.e., installments in respect of interest and principal amount has been remaining past due. The higher provisioning, in turn, meant a lower net profit, which grew by 12.8 per cent during 2012-13 compared with 14.6 percent a year ago. Accordingly, the Return on Equity and Return on Assets of SCBs also registered declines. SCBs, however, continue to hold around a third of their assets in liquid form, which stood at 28.9 per cent at end-March 2013. Thus, the performance of Scheduled Commercial Banks in achieving the commercial goal is unsatisfactory. This condition may have aroused because of burden of Financial Inclusion shouldered forcibly on SCBs. Many of SCBs had to wipe out of their capital base. The situation forced the government to strengthen the capital base of through infuse by making budgetary provision. It is reported that central government provisioned Rs. 11200 crore in 2013 (Ministry of Finance, 2014) and Rs. 9740 crore in 2015 (http://www.financialexpress.com) to strengthen the capital base of weak banks. This means the success of Financial Inclusion drive has cascading adverse impact on the financial performance of these banks. It is the high time to reduce the burden on commercial banks for the shake of bringing people under banking system. Government should frame such policies regarding financial inclusion drive which do not have any bearing on commercial principle of banks.

VI. CONCLUSION

No country can develop economically or financially unless banking services reach every knock and corner of the country. Equally, for survival and growth, banks must be allowed to function on commercial lines which will help to keep their capital base intact and can earn adequate return on investment. Government should adopt bank-friendly ways and means for bringing non-bankable within their fold. This paper emphasises on the following mappings;

(1) 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.

(2) Offer banking services to new and existing account holders through a variety of channels by leveraging on Information Technology.

(3) Advise banks to plan for an increase in the proportion of branches that cover unbanked villages.

(4) Advised banks to integrate their business plans with financial inclusion drive and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

(5) Micro financé institutions other than SCBs may be requested to come forward for financial inclusion.

(6) Instead of unnecessary increase in the number of bank branches, make individual banks economically viable and frame strategies to reach villages through setting up of mobile banks/bank agents/ representatives. The incentive structure for agents/representatives should be based on commission of business generated.

(7) Popularise internet and mobile phone banking alongwith installations of Automated Teller Machines through financial literacy programmes.

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