e-ISSN : 2347 - 9671 p- ISSN : 2349 - 0187
Impact Factor : 0.998
EPRA International Journal of Economic and Business Review
www . epratrust.com
December 2014 Vol - 2 Issue- 12

ROLE OF INDIAN BANKS FOR FINANCIAL INCLUSION

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ABSTRACT

The article explores the geographical distribution of Indian banks and its impact on financial inclusion. The major portion of the paper deals with role of Indian banks for financial inclusion, such as status of public, private, RRBs and foreign banks performance in financial inclusion. No-frills accounts (NFAs) provide the opportunity for a common man to open bank account. Reserve Bank of India (RBI) initiated scheme of NFAs in 2005 to improve financial inclusion. As per the RBI statistics, the number of Automated Teller Machines (ATMs) increased to 1,960 (65%), and about value of transactions through ATMs Rs.16, 664 billion. And the number of bank branches had gone up to nearly 3, 84,000. Out of these, 1, 15,350 bank branches had increased in 2013-14. And at August 25th, 2014, out of 24.7 crore households in the country, 10.2 crore (41.3%) do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account.

KEY WORDS: *Indian banks performance, financial services, financial inclusion and financial system*

1. INTRODUCTION

The term financial inclusion has acquired universal acceptance as a kind of entry point for any discussion on the more access to financial services as well as deeper enquiries into inclusive development. India's Finance Minister (Arun Jaitley) has emphasised financial inclusion in the budget speech (February, 2014). At various fores, the Reserve Bank of India (RBI) and senior Government officials, and also, India's Prime Minister (Narendra Modi) had been hinting at a "big bang" action plan for financial inclusion. There were reports of the authorities getting ready with a Comprehensive Financial Inclusion Plan (CFIP), which will breathe taking in scope and extremely ambition. The RBI in the recent past had taken several steps to further financial inclusion. Very recently, it circulated for public comment two sets of draft guidelines for issuing licenses to payment banks and small banks. The latest financial inclusion plan is Pradhan Mantri Jan Dhan Yojana (PMJDY) launched on August 28th, 2014. Initially, the PMJDY targets the opening of bank accounts for 7.5 crore families in a year, by August 15th, 2015. Around 2 crore bank accounts were opened on the first day of the scheme's launch (*Pravakar Sahoo, 2014*). The Government of India has taken several steps to spread the banking habit; formidable tasks lie ahead. Of the 24.67 crore households in the country, 10.2 crore (41.3%) do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account (*Narasimhan, 2014*).

2. STATEMENT OF THE PROBLEM

To achieve greater financial inclusion, financial services should be reaching the poor of socially excluded groups particularly poor people. Private finance banks and other financial institutions have played a vital role in filling up this gap. This study helps us to know the financial inclusion position, awareness level, towards no-frills accounts (NFAs) and saving and credit behavior of the low income groups.

3. OBJECTIVE OF THE STUDY

The objective of the study is to know the scope and coverage of financial inclusion in Indian banks.

4. METHODOLOGY OF THE STUDY

The study based on the secondary data which is collected from websites and review of literatures. The data used for analysis is 2009-2014 the article examines role of Indian banks for financial inclusion contribution and role towards rural, urban, semi-urban, and metropolitan areas.

5. THE SCOPE AND COVERAGE OF FINANCIAL INCLUSION IN INDIA

There is a long history of financial inclusion in India. It has traditionally been understood to mean opening new bank branches in rural and unbanked areas. Now a day, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of the various shortcomings in delivering subsidies, direct transfers using technology have been thought of. The beneficiary needs to have at least one bank account. Since in logistics points of view it is impossible to open that many physical branches - the brick and mortar type - the accent will be on opening electronic accounts. Technology adoption would be a key feature in this scheme for financial inclusion.

5.1 Understanding and Extent of Financial Inclusion:-

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public goods, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. "Recently, the RBI Governor Raghuram Rajan outlined, "Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indirectly delivered public services and from venal politicians," he said. Further, "in order to draw in the poor, the products should address their needs - a safe place to save, a reliable way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age."

Table 1: Position of Households Availing Banking Services

	Census 2001			Census 2011		
Areas	Total No. of households	No. of households availing banking service	Per cent	Total No. of households	No. of households availing banking service	Per cent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: *GOI, An overview of financial inclusion, Dept. of financial services, New Delhi (www.financialservices.gov.in)*

An analysis of table 1 shows the position of total number of households for availing banking services, the census of India 2011, 58.7 per cent of the households in the country avail of banking services. The proportion of banked households rose by 23 percentage points over the decade 2001-11. The rise of 24 percentage points was more in the case of the rural sector as compared to the urban sector (18 percentage points). Some measures have been developed in recent years to capture financial inclusion with its multiple dimensions. These are discussed here.

Table 2: Number of branches opened by Scheduled Commercial Banks (SCBs)

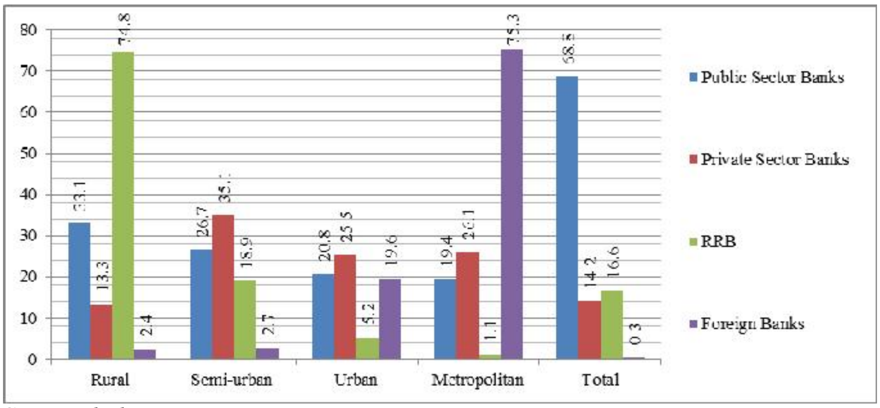
Year	Rural	Semi-urban	Urban	Metropolitan	Total
2008-09	706	1,290	1,046	953	3,995
2009-10	1,021	1,729	1,417	1,139	5,306
2010-11	1,422	2,258	919	981	5,580
2011-12	2,453	2,686	1,186	982	7,307
2012-13	1,598	1,422	546	451	4,017

Source: ibid

An analysis of table 2 shows the Number of bank branches opened by SCBs in 2009-10 & 2011-12, a substantially large number of rural, semi-urban, urban and metropolitan bank branches were opened by the SCBs. In addition, 63 per cent (cumulative over the five years) of the new branches were set up in rural and semi-urban areas. This indeed is a great achievement. But it is obvious that sheer increment in numbers would not ensure that people would access and use banking services. Especially, in the rural areas access is seriously constrained by physical factors like geographical terrain, distance, and lack of transportation. It may be noted that of all the Automated Teller Machines (ATMs) deployed in the country, only 11 per cent are in rural areas as of March 31st, 2013.

Diagram 1: Explain the number of banks group-wise (% share in number of branches), in March 31st, 2013, there are 102,343 banks in the country. In India total number of public sector banks is 70,421 (68.8%), and about 23,286 (33.1%) in rural, 18,854 (26.7%) in semi-urban, 14,649 (20.8%) in urban, 13,632 (19.4%) in metropolitan areas. The total numbers of private sector banks is 14,584 (14.2%); out of these, 12,647 (86.7%) bank branches in metropolitan, urban, and semi-urban, but only 1937 (13.3%) banks in rural areas. 331 (0.32%) foreign banks (FBs) have in India. 94.1 per cent of FBs in metropolitan, and urban, but only 17 (5.1%) in semi-urban and rural areas. The total number of Regional Rural Banks (RRB) is 17,007 (16.6%), and about 12,722 (74.8%) in rural, and remain 25.2 per cent of bank branches in urban, semi-urban and metropolitan areas.

Diagram 1: Number of Banks Group-wise: Percentage share in number of branches



Source: ibid

5.2 Financial Inclusion Plans (FIPs):-

The RBI has adopted a bank-led model for financial inclusion which leverages technology and existing banking infrastructure. The RBI continued efforts to create a conducive and enabling environment of access to financial services to extend door step banking facilities in all the unbanked villages in phase-wise manner. Phase I (April 2010–March 2013), 74,414 unbanked villages with population more than 2,000 identified and allotted to various banks through State Level Bankers' Committees (SLBCs) for coverage through various modes, that is branches, BusinessCorrespondents (BCs) and other modes such as ATMs and satellite branches etc.. All these unbanked outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes.

In phase II (2013-16), under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 183,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes.

5.3 Performance of Banks in FIPs (2010-14):-

The RBI has used FIPs to gauge the performance of banks under their FI initiatives. With the completion of the first phase, a large number of bank accounts have also opened.

Table 3: Progress of Financial Inclusion under FIPs

S. No.	Particulars	March 2010	March 2013	March 2014	Progress (April, 2013 to March, 2014)
	1	2	3	4	5
1	Banking Outlets in Villages – Branches	33,378	40,837	46,126	5,289
2	Banking Outlets in Villages – Branchless Mode	34,316	2,27,617	3,37,678	1,10,061
3	Banking Outlets in Villages – Total (1+2)	67,694	2,68,454	3,83,804	1,15,350
4	Urban Locations covered through BCs	447	27,143	60,730	33,587
5	BSBDAs through branches (No. in million)	60.2	100.8	126.0	25.2
6	BSBDAs through branches (Amt. in Rs. billion)	44.3	164.7	273.3	108.6
7	BSBDAs through BCs (No. in million)	13.3	81.3	116.9	35.7
8	BSBDAs through BCs (Amt. in Rs. billion)	10.7	18.2	39.0	20.7
9	BSBD Total (No. in millions) (5+7)	73.5	182.1	243.0	60.9
10	BSBD Total (Amt. in Rs. billion) (6+8)	55.0	182.9	312.3	129.3
11	OD facility availed in BSBDAs (No. in million)	0.2	4.0	5.9	2.0
12	OD facility availed in BSBDAs (Amt. in Rs. billion)	0.1	1.6	16.0	14.5
13	Kisan Credit Cards (KCCs) (No. in million)	24.3	33.8	39.9	6.2
14	Kisan Credit Cards (KCCs) (Amt. in billion)	1240.1	2623.0	3684.5	1061.5
15	General Credit Cards (GCC) (No. in million)	1.4	3.6	7.4	3.8
16	General Credit Cards (GCC) (Amt. in billion)	35.1	76.3	1096.9	1020.6
17	ICTAs – BC- Transaction - (No. in million)	26.5	250.5	328.6	328.6
18	ICTAs-BC-Transactions- (Amt. in Rs. billion)	6.9	233.9	524.4	524.4

Source: *RBI, Annual Report 2013-14, Mumbai. (www.rbi.org.in)*

An analysis of table 3 shows the progress of financial inclusion under FIPs, during 2013-14, the number of bank branches have gone up to nearly 3,84,000. Out of these, 1, 15,350 bank branches were increased. Progresses of rural branches were average increased to 5,300 during the last year. Out of these, nearly 4,600 branches were opened in unbanked rural centres. Average 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March, 2014. More than 60 million Basic Saving Bank Deposit Accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million. KCCs progressed had 6.2 million small farm sector credits during 2013-14, there are nearly 40 million such accounts as on March 31, 2014. In March, 2014,nearly 328 million transactions were carried out in ICTAs- BC during the last year as compared to around 250 million transactions during 2012-13.

5.4 Technology and Inclusion Banking:-

It has revolutionised banking by making it possible for the customers to effortlessly engage with banking activities 'anywhere any time'. The other major innovation, the ATMs has facilitated significant expansion of banking outreach. As per the RBI statistics, their numbers have been increasing to 1,960 (65%) on April 30, 2014. The value of transactions using ATMs (credit and debit cards together) in 2013-14, Rs.16, 664 billion while the volume stood at 5,533 million (*RBI*-2014). The metropolitan and urban areas accounted for about two-thirds of the increase in the number of ATMs; the increment in ATM deployment in rural areas was only about 11 per cent of the total. The electronic payment systems registered phenomenal growth between 2011-14 years, as shown in the table 4.

Table 4: Payment System Indicators – Annual Turnover

S. No	Particulars	Volume (million)			Value (Rs. Billion)		
		2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
	1	2	3	4	5	6	7
1	RTGS (SIFMIs)	55.1	68.5	81.1	539,307.5	676,841.0	734,252.4
2	CBLO	0.1	0.2	0.2	111,554.3	120,480.4	175,261.9
3	GOVT Securities Clearing	0.4	0.7	0.9	72,520.8	119,948.0	161,848.2
4	Forex Clearing	1.3	1.4	1.5	221,996.1	261,170.1	284,459.5
	Total SIFMIs (1+2+3+4)	56.9	70.8	83.7	945,378.7	1,178,439.5	1,355,822.0
	Total Financial Markets Clearing (2+3+4)	1.8	2.3	2.6	406,071.2	501,598.5	621.569.6
5	Cheque Truncation Systems (CTS)	180.0	275.0	589.3	15,103.7	21,779.5	44,203.1
6	MICR Clearing	934.9	823.3	439.0	65,093.2	57,504.0	31,129.8
7	Non-MICR Clearing	227.0	215.3	225.7	18,815.1	20,898.3	17,681.8
	Retail Payments, Total Paper Clearing (5+6+7)	1,341.9	1,313.7	1,254.0	99,012.1	100,181.8	9,3014.8
8	ECS DR	164.7	176.5	192.9	833.6	1,083.1	1,268.0
9	ECS CR	121.5	122.2	152.5	1,837.8	1,771.3	2,492.2
10	EFT/NEFT	226.1	394.1	661.0	17,903.5	29,022.4	43,785.5
11	IMPS	0.1	1.2	15.4	0.4	4.3	95.8
12	NACH	-	-	86.5	-	-	214.8
	Total Retail Electronic Clearings (RECs) (8+9+10+11+12)	512.5	694.1	1,108.3	20,575.3	31,881.1	47,856.3
13	Credit Cards	320.0	396.6	509.1	966.1	1229.5	1539.9
14	Debit Cards	327.5	469.1	619.1	534.3	743.4	954.1
15	PPIs	30.6	66.1	133.9	62.0	78.7	82.4
	Total Cards Payments (13+14+15)	678.1	931.8	1,262.1	1,562.5	2,051.5	2,576.3
	Total Retail Payments (5 to 15)	2,532.4	2,939.5	3,624.4	121,149.9	134,114.4	143,447.4
	Grand Total (1 to 15)	2,589.3	3,010.2	3,708.0	1,066,528.5	1,312,554.0	1,499,269.4

Notes:1. SIFMIs= Systemically Important Financial Market Infrastructure, MICR= Magnetic Ink Character Recognition, IMPS= Immediate Payment Services, PPIs= Prepaid Payments Instruments, **2**. 10 lakh equals one million, **3**. 1000 million/100 crore equals one billion, **4**. 1000 billion equals one trillion.

Source: *ibid.*

An analysis of table 4 shows the various payment system indicators - annual turnover, during 2013-14, the Real Time Gross Settlement Systems (RTGS) processed around 81 million transactions valued Rs.734 trillion. As on April 30, 2014 the number of RTGS enabled bank branches stood at 109,506. National Electronic Fund Transfer (NEFT) facility was available at 111,619 branches of 158 banks. During 2013-14, NEFT handled 661 million transactions valued at around Rs.44 trillion. In March 2014, NEFT processed a record volume of 82.8 million transactions. In 2013-14, the Electronic Clearing Service Debit Report (ECSDR) handled 193 million transaction valued at around Rs.1,268 billion and Electronic Clearing Service Credit Report (ECSCR) processed nearly152 million transactions valued at around Rs.2,493 billion. The number of ECS centres now stands at 34 in addition to the 12 RECs centres in various centres. In 2013-14, 509.1 million transactions valued at Rs.1,540 billion transacted through credit cards, while 619.1 million transactions valued at Rs.954.1 billion undertaken through debt cards. In India 78 banks are permitted to carry out Mobile (M) banking services on 8th July 2014. During 2013-14, M banking services handled 95 million transactions valued at around Rs.60 billion (*RBI Annual Report, 2013-14*).

6. CONCLUSION

The financial inclusion drive, apart from developing various elements of the banking infrastructure, succeeded in increased the penetration of bank branches to 1,15,350 villages with a population of over 2,000, and led to the opening of tens of millions of NFAs, later re-designated as BSBAs. Overall, the electronic payment and settlement systems registered a healthy growth in volume at 23.2 per cent during 2013-14. However, around half of these accounts have been non-operational, and the vast majority of the remainder only has access to minimum savings facilities with a single bank. The product offered is NFAs savings account, and technology is not interoperable, meaning that the customers can only perform transactions with a single bank.

The commercial banks have generally remained quite indifferent to financial inclusion. They have not benefited from financial inclusion in terms of deposits and have not had the revenues from any appreciable volume of transactions. BC organisations which manage BC agents have made losses and had to scale down operations while the agents themselves received low salaries and commissions with many of them also opting out of performing this activity.

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