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Financial Inclusion and Economic Development in India: Role of Banks and the Government

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Abstract:

India is a country where a large amount of population lives in rural areas that are engaged into agriculture and allied activities. These people consist of the vulnerable groups, who remain excluded from even the most basic amenities provided by the financial sector. The prime objective of financial inclusion is to provide the financial services to such areas and enables them to better integrate into the economy. Commercial banks play a major role in the economic development of a country like India. This paper discusses the initiatives of commercial banks for the purpose of financial inclusion. It is my endeavour to analyze the initiatives taken by the Government of India and Reserve Bank of India for Financial inclusion.

Keywords: financial inclusion, Demonetisation, PMJDY, Commercial banks.

Introduction:

Financial inclusion involves the inclusion of all the people towards the financial system of the economy. It ensures the holding of bank accounts to each household and offering their inclusion in the banking system. Access to financial services will ultimately lead to the social inclusion, self-confidence and empowerment. Emerging economies like china, Indonesia, the Philippines, India and Malaysia are expected to grow by double digits annually by the year 2030. The present scenario of Indian economy is growing, and the rate of growth is more than many other developed countries, but that is not a balanced growth. For this we need to extend financial services to those areas which are lagging behind in it.

The Government of India's 'Committee on Financial Inclusion in India' *defines financial inclusion "as to make sure of inclusion of the vulnerable section of the society to the financial services provided by the economy and timely and adequate credit wherever needed by the weaker sections at an affordable cost."*

The Reserve Bank of India established a commission (Khan Commission) in 2004 for the purpose of better version of Financial Inclusion and the recommendations of the commission were included in the Mid-term review of the policy (2005-06). In the report RBI encouraged the banks to make available a basic "no-frills" banking account to the weaker section. In India, Financial Inclusion first characterised in 2005, with its introduction as a pilot project in UT of Pondicherry, by **Dr. K. C. Chakraborthy**, the chairman of Indian Bank. Mangalam

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Village became the first village in India where all households were offered banking amenities.

India has paced its efforts to promote financial inclusion through implementation of the historic **Pradhan Mantri Jan Dhan Yojana (PMJDY) programme**, launched in 2014. As of 2014, India contained about 21 percent of the world's unbanked population. Recognising the opportunity to envelop underserved individuals into the formal financial sector, India has amplified its commitment to financial inclusion through a number of policy and regulatory initiatives. Both the customer and banks are to be held responsible for the proper implementation of the financial inclusion. If the customers will not create demand, there will be no use of the supply creation by banks. So, banks and other financial institutions are largely expected to lessen the supply side constraints that thwart poor and disadvantaged groups from acquiring the access to financial system and ultimately the supply side factors will become the promoters for financial inclusion rather than threats.

Demand side challenges	**Supply side challenges**
Lack of education & Knowledge, lack of awareness about financial products and services, lack of sufficient income, lack of trust in formal banking institutions etc., and availability of easy credit from money lenders.	Non-availability of branches in areas, high rules and regulations and high bank charges, and limited number and types of financial service providers.

Objectives of Financial Inclusion:

1. To bring low income groups within the perimeter of formal banking sector.
2. To mitigate the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.
3. Furnishing them with the confidence to make knowledgeable financial decisions.

Review of Literature:

1. **Dr. Deepali Pant Joshi (2011),** Chief General Manager-In-Charge, Reserve Bank of India explained the basics of Financial Inclusion and discussed the road ahead i.e. the future of Financial Inclusion with the help of Financial Literacy. She elaborated the twin aspects of Financial Inclusion: Demand side and Supply side.

2. **Radhika dixit & Munmun ghoshthe (2013)** focused on the understanding of inclusive growth phenomenon and its need, this Paper attempts to discuss financial inclusion as an instrument to attain it all the Indian states. The paper explains the meaning and need for inclusive growth, the role of financial inclusion in inclusive growth and to the extent of diversity in Indian states with regard to financial inclusion.

3. **Shahana Khan (2013)** studied the Role of Banks in promoting financial inclusion in India. Financial education was more emphasised this study because if the financially excluded section will be educated about their rights they will be more involved in the financial system of the economy. They will be more conscious about their rights.

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There is a need for coordinated and combined action between the banks, the Government, customers and others to make possible the access to bank accounts amongst the all those who are financially excluded. Financial inclusion or opening of bank accounts should be perceived more as an obligation than a business opportunity by the banks.

4. **DR. A. Tamilrasu (2014)** studied the Role of banking sectors on financial inclusion development in India – an analysis. He said that financial inclusion is the key for inclusive growth. In his study he talked about role of banking sectors on financial inclusion. He discussed that India is considered as largest rural populations in the world and belongs to agriculture activities so he argued that financial inclusion is aimed at providing banking and financial services to all people. He said that Financial Inclusion growth is possible only through proper mechanism which channelizes all the resources to all the direction of the customers. He concluded in his paper that although the strategies adopted by the Government are going well but still there is a long road ahead.

5. **Raihanath. MP & Dr. K.B. Pavithran (2014)** studied the Role of commercial banks in the financial inclusion programme. They talk about the role of commercial banks to be performed as part of financial inclusion programme in which he discuss about Financial literacy, Credit counselling, BC/BF model, KYC norms , KCC/GCC ,No-frill accounts, Branch expansion and Mobile banking. They elaborated the Phases of financial inclusion.

6. **Ankita Birla (2016)** explained the Role of commercial banks in financial inclusion: a study in respect to Indian economy. She said that In India there are lots of poor people and vulnerable sector which needs the financial literacy and financial assistance. Financial inclusion is the key to the growth of Indian economy. The initiatives taken by government of India have mixed impact on Indian economy as the performance is unsatisfactory on some financial parameters. The position of India at Quality of life Index, social Progress Index, Where to be born Index is among average performing countries. It should take into consideration by government to bring the performance on track.

7. **Poonam Srivastava** directed her paper towards understanding the importance of Financial Inclusion. She explained the challenges of financial inclusion with the help of demand side and supply side factors. She gave the idea of technological innovation, appropriated business model, spreading financial literacy, technological intervention.

Research Methodology: For this study data and information has been collected from secondary sources, with the help of Newspapers, Research Articles, Research Journals, E-Journals, RBI Publication, NABARD and Government of India, Ministry of Statistics and Programme etc. This study is based on descriptive research.

Research objective:

1. To assess the role of Banking System in making the weaker section financially included in economy.

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2. To analyze the initiatives taken by Government of India and Reserve Bank of India for Financial Inclusion.

Role of Banks in Promoting Financial Inclusion:

By the time, it has been realised by the Indian Government that Financial Inclusion is an important priority for the economic development of the country. The main purpose of financial inclusion is to achieve that complete economic development and to extend financial amenities to the un-served population of the country. Commercial banks are playing a fundamental role in the economic development of a country like India. Following are some of the role of commercial banks to be performed as part of financial inclusion programme:

a) **Financial literacy:**
Financial literacy is one thing in which a country like India is lagging behind even in today's scenario. Financial literacy refers to knowledge required for administration of personal finance. The ultimate goal is empowerment of people and the economic development of the country.

b) Easy KYC Norms:
KYC stands for Know Your Customer which ensures that the persons belonging to the low income group do not face any difficulty in opening bank account. This is a simple process of account opening for banks to seek only a photograph of the account holder and self certification of addresses.

c) BC/BF Model:
Business Correspondents are legally recognized to carry out transactions on behalf of the bank as agents whereas the BFs can refer clients, help the bank to carry out its transactions, but are not supposed to transact on behalf of the bank. Nearly 2,48,000 BC agents had been deployed by banks as on March 31, 2014 who are providing services through more than 3,33,000 BC outlets. Nearly 117 million basic saving bank deposit accounts (BSBDAs) opened through BCs remained outstanding as on March 31, 2014.

d) No Frills Account:
In November 2005 RBI advised the banks to provide a basic saving banking account which was known as "No-frill Account" with low, nil or minimum balances. It was meant for the people who are from the weaker section or the below poverty line.

e) Mobile Banking:
Mobile Banking is a term used in doing all the banking transaction through mobile device. It has encouraged introducing technology based products and services such as pre paid card/debit cards, mobile banking (The total tele-density in the country is 35.67% in February 2009- Rural 11.81%, urban 83.66%).

f) Easy credit facilities:
RBI has introduced General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches with the help of banks. GCC has the facility of rotating credit entitling the holder to withdraw up to the limit sanctioned by the bank. The interest rate on the facility is entirely deregulated.

g) Simplified branch authorization:

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To address the issue of un-even spread of bank branches, in December 2009, domestic scheduled commercial banks were allowed to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general authorization, subject to reporting.

h) Other rural intermediaries:
Banks were authorized in January 2006, to use other rural organizations like Nongovernmental organizations, self-help groups, microfinance institutions etc for supplementing the cause of financial inclusion.

TABLE 1: Progress of Commercial Banks in India in Different Periods

IMPORTANT INDICATORS	March 2010	March 2011	March 2012	March 2013	March 2014	March 2015
No. of Commercial Banks	169	169	173	155	151	152
(a) Scheduled Commercial Banks	165	165	169	151	146	148
Of which: Regional Rural Banks	82	82	82	64	57	56
(b) Non-Scheduled Commercial Banks	4	4	4	4	5	4
Number of Offices of Scheduled Commercial Banks in India	85393	90263	98330	105437	117280	125672
(a) Rural	32624	33683	36356	39195	45177	48498
(b) Semi-Urban	20740	22843	25797	28165	31442	33703
(c) Urban	17003	17490	18781	19902	21448	22997
(d) Metropolitan	15026	16247	17396	18175	19213	20474

Source: (RBI Publication: Progress of Commercial Banking at Glance)

In the above table 1, we can see that numbers of bank offices are increasing year by year. In rural area the number of offices of commercial banks are increased by +48.65%, +62.5% in Semi- urban Areas, +35.25% in Urban and +36.25%in Metropolitan area from 2010 to 2015. It symbolize that banks are opening more branches in rural and Semi Urban areas to include rural and unbanked people into the financial system. The data for 2016 was not available so the information has been taken only till 2015.

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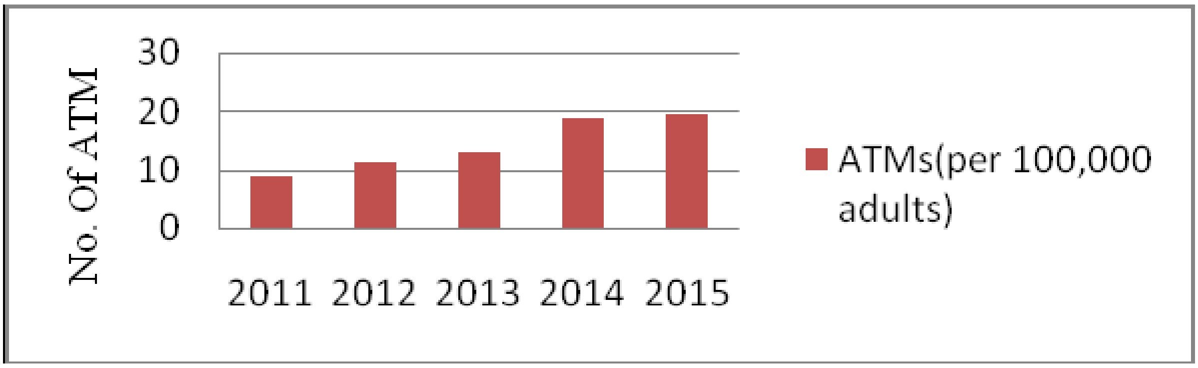
Figure 1: Total Number of ATMs



Source: World Bank Data

By taking the above Figure1 into consideration it can be said that the number of ATMs is increasing from the year2011 to the year 2015 which shows that banks are providing more financial services to the people and people can access more ATMs to fulfil their requirements as numbers of ATMs are increasing year by year.

Financial Inclusion - India's Position Compared with Other Countries:

Table 2: India's position in financial inclusion as compared with other countries:

	(per 0.1 million adults)		(per 0.1 million adults)		(as % of GDP)		(as % of GDP)	
Country	Number of Branches	Rank	Number of ATMs	Rank	Bank Credit	Rank	Bank Deposit	Rank
India	10.91	7	5.44	9	43.62	5	60.11	3
Austria	11.81	6	48.16	6	35.26	6	32.57	8
Brazil	13.76	5	120.62	3	29.04	7	47.51	6
France	43.11	1	110.07	4	56.03	3	39.15	7
Mexico	15.22	5	47.28	7	16.19	9	20.91	9
UK	25.51	3	64.58	5	467.97	1	427.49	1
US	35.74	2	173.75	2	46.04	4	53.14	4
Korea	18.63	4	250.29	1	84.17	2	74.51	2
Philippines	7.69	8	14.88	8	27.57	8	53.02	5

Source: World Bank, Financial Access Survey (2010)

Bengal has shown that SHGs create a smooth path of financial inclusion for the rural poor. The number of total deposit accounts has enhanced to 734.8 million and credit account to 118.6 million in 2010 for all banks and the number of no-frill accounts in all public and private banks has increased to 33 million in 2009 from seven million in 2006 (RBI, 2010). Besides, KCC scheme has brought 95 million farmers under the purview of the banking system in 2010 as against 84.6 million farmers in 2009 and the SHG bank linkage program

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has helped seven million rural people to have access to formal savings and formal credit (Government of India, 2011)

Government Initiatives & Strategies adopted by RBI:

1. **Demonetisation &Contribution from Labour Departments -** The Narendra Modi government is using demonetisation as an opportunity to push its agenda of financial inclusion. State governments, Central governments, banks and employers have been asked to open bank accounts for temporary and contractual workers and pay them by depositing salaries in their bank accounts. A **campaign was started to open bank accounts of those workers of organised and unorganised sectors** who do not have their own bank accounts even now," Financial Express quoted Ministry of Labour and Employment Secretary M Sathiyavathy's letter to chief secretaries of various states as saying. **Chief Labour Commissioner AK Nayak**, in a letter to all deputy chief commissioners said: "All principal employers and contractors should be advised to ensure payment of wages to all employees, including contract workers, only through bank accounts."

2. **Pradhan Mantri Jan Dhan Yojana (PMJDY):**

   Indian Prime Minister Narendra Modi broadcasted this scheme for comprehensive and integrated financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014. It was targeted to provide 'universal access to all the banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. A bank account for each household was a "national priority". On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

3. In August 2015, the RBI issued **provisional payments bank licenses** to eleven different entities, including select mobile network operators and other nonbank entities such as India Post. All the mobile network operators and postal centres were made part of the scheme more directly so that the financial services market should help enhance financial inclusion by facilitating greater convenience for, and confidence among, customers. For example, India Post boasts about 155,000 branches, with about 90 percent of those branches located in rural areas; moreover, given that the Post has offered services such as basic accounts, remittance services, and even life insurance in the past, the brand has already built awareness and trust among many customers. In December 2015, the **“Report of the Committee on Medium-term Path on Financial Inclusion”** was discussed by the RBI. The report included a chain of recommendations for improving financial inclusion, including enhancing utilisation of digital government-to-person payments, creating a geographical information system to map all banking access points, and accelerating development of a multi-lingual mobile application for customers using non-smart phones.

Suggestions & Recommendations:

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Based on the above explanations the followings suggestions have been suggested for the further improvements of the financial inclusion services of the banking sectors in India,

- ✓ There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.
- ✓ Financial inclusion or opening of bank accounts should be perceived more as an obligation than a business opportunity by the banks. There is a need to introduce new products according to the needs of population both rural and urban.
- ✓ As people in India are still not aware of banking services there is a need for financial literacy programmes in rural areas as well as urban slum areas. Focus should be on customer service, education and protection .There is also a need of financial literacy at the time of account opening, incentives for branch managers delivering on socially responsible schemes, documentation of best practices on such projects, etc.
- ✓ The business correspondent model should be used more by the banks and should be made available in remotest parts of India. Farmers in India who need financing should be approached through the business correspondent models they need to be educated on financial schemes made for them so that they do not have to approach informal sources like the money lenders, there is need to reduce paper work and the regulatory norms in disbursing credit.
- ✓ The number of commercial banks should be increased specifically in remote and rural areas in India so that all the people can utilize the services of the banking sectors at the level best for the improvement of the life standard of themselves.
- ✓ The banking sectors have to liberalize the security level of the borrower to borrow money from the bank in an easiest way, they banking sectors have to announce the new schemes offered by them to all the citizen of India for the proper utilization of the fund.
- ✓ Though many of the banks are providing the technical services to the customers, most of the customers are not aware of the services provided by them, hence the banking sectors have to create the awareness to the members and the customers about the services provided by them, hence the banking populations can use all the financial and non-financial services of the all the banks in India.

Conclusion:

India is country where level of poverty is high. There are lots of section of society including vulnerable, deprived, low income group, illiterate household are still suffering from lack of availability of financial services. The cause of such unavailability can be lack of awareness, absence of financial literacy, lack of interest, absence of banking and saving habits etc. 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 it is playing a significant role and is working on the positive side. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives. Even though various measures have been taken and more flow of credit to various

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sectors of the economy is made, still majority of the rural population have not come under the purview of financial inclusion. Thus, financial inclusion is no longer a policy choice today but a policy compulsion. And, banking is a key driver for financial inclusion/inclusive growth.

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