Volume-7, Issue-4, July-August 2017
International Journal of Engineering and Management Research
Page Number: 451-456

Initiatives by Indian Commercial Banks towards Financial Inclusion for Sustainable Growth

E.Dhowbika Begum[1], Dr. Felicita[2]
[1,2]St.Joseph's Institute of Management, St.Joseph's College, Tiruchirapalli, Tamilnadu, INDIA

ABSTRACT

Financial inclusion has become synonymous with the opening of bank accounts. It needs to be much more. We found a clear differentiation between bank accounts linked with livelihood and those just opened for the sake of opening a bank account. An analysis of 50 lakh individual, no-frill accounts revealed that the average balance in livelihood-linked accounts was about Rs.11000, while in others, the average balance was just Rs.176. The banking environment in India had grown more competitive with the relaxation of restrictions and adoption of International standards banks are forced to adopt measures to survive. The recent financial reforms and greater competition in the banking industry have made it necessary for banks in India to concentrate towards the excluded mass. Successful banks in India focus on the rural sector by providing financial inclusion service. 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. This topic studies on the initiatives by commercial banks in financial inclusion. An effort has been made to study and find out whether commercial banks has made any progress towards ensuring broader banking services for the rural poor people in strengthening the India's position in relation to financial inclusion.

Keywords--- rural banking, no-frill account, commercial banks, sustainable growth, financial inclusion

I. INTRODUCTION

About 2.9 billion people around the world do not have access to formal sources of banking and financial services. In India alone 560 million people are excluded from formal source of finance, a figure in tight correlation with the 41.6 percent (457 million) of the populace that still lives below the poverty line. While India has enjoyed growing domestic demand and globally recognized prowess in the areas of information technology, automotive, life sciences, telecommunications and even exploration, its continued success and growth as an economic power can only be assured if concrete steps are taken to ensure that the social and economic development is inclusive. Leading banking and financial institutions are engaged in providing banking services to the financially underserved through various ways such as Self Help Group (SHG), Business Correspondents (BC). However, the needs of the vast majority of the deserved and unbanked have not yet been addressed. Today the term bottom of the pyramid refers to the global poor most of who subsist in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to steer them out of their conditions of poverty. Accordingly, there is always a need for policy support in channeling the financial resources towards the economic upliftment of resource poor in any developing economy. Financial inclusion is a planned exercise guided by the central bank to connect people with banks for consequential benefits. It is a process 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 institutional players.

II. REVIEWS OF LITERATURE

Srinivas, M and Upender, P. (2014) investigated the role of Indian banking sector & RBI in economic Development through financial inclusion. The study highlighted that more than half of Indian population is financially excluded. Most of the account holders do not use their account even once in a month. Real rate of financial inclusion in India is very low. Financial inclusion process help in bringing people out of miserable poverty condition. Further, it is revealed that financial inclusion leads to the economic growth which ultimately leads to economic development.

Pavithran & Raihanath (2014) investigated the role of commercial banks in the financial inclusion programme. The study revealed that commercial banks play a very crucial role in making financial inclusion a success. Many financial inclusion programme such as, financial literacy, credit counselling, BC/BF model, KYC norms, no frill accounts, branch expansion, mobile banking, etc. have been undertaken by commercial banks for success of financial inclusion.

Unnamalai, S.W. (2015) has published an article entitled “Role of Indian Bank’s in Financial inclusion policy through Pradhan Mantri Jan Dhan Yojana (PMJDY)”. The researcher find out in their study the public sector banks are the leader in opening an account, account balance maintained with them, issue of Rupay debit cards, etc., He also suggests that the government of India can open a number of branches for regional rural banks and may give permission for the private sector banks for opening branches.

Paramasivan, C. and Kamaraj, R. (2015) have published an article entitled “Commercial Bank’s performance on Pradhan Mantri Jan Dhan Yojana”. The authors concluded that the PMJDY scheme has created an impressive results in the banking sector with regard to eradicate of financial untouchability in the country.

Sonam Kumari Gupta (2015) highlighted on Performance of the Pradhan Mantri Jan Dhan ojana (PMJDY) and latest trends being implemented for financial inclusion by PMJDY. It is found that, of the accounts opened at public sector banks under the Jan Dhan Yojana, 71% are zero balance, against 64% for private banks released by the ministry, only 28% of the accounts opened under the scheme are active, with about Rs. 9,000 crores deposited in these.

Jitender Goel and Rashmi Goel (2015) found that more than 8.32 crores bank accounts were opened out of which 74.27 per cent accounts were zero balance. The performance of Public Sector Banks is at the top with more than 80 per cent contribution in PMJDY followed by Regional Rural Banks and Private Banks with 17 per cent and per cent respectively. In order to ensure successful and effective implementation of the scheme, it is suggested that the government should give due focus on motivation and counselling to private banks and RRBs, establishment of adequate number of Financial Literacy Centres, measures to control the duplication of accounts, and improving connectivity and infrastructure. It is also suggested that life insurance cover, accidental cover and credit facilities should be given to all account holders without any exclusion.

III. THE REALITY OF FINANCIAL EXCLUSION

There are two parts to financial exclusion: One supply side issues that range from access to a bank account to product gaps like savings, micro-pensions and micro-insurance, etc., backed by a technology-enabled, low – transaction cost mechanism front ended by intermediaries like bank branches, banking correspondents, post office and a variety of other outreach mechanisms that also need to work under a financial literacy umbrella of some sorts. These are well-defined issues with relatively simple answers and therefore, often get confused as the be-all and end-all of financial inclusion. It is the demand side issues where far more daunting challenges lie.

There is a large overlap between poverty and permanent financial exclusion. Both poverty and financial exclusion result in a reduction of choices which affects social interaction and leads to reduced participation in society. A major cause of poverty among rural people in India today is the lack of access for both individuals and communities to productive assets and financial resources. High levels of illiteracy, inadequate health care and extremely limited access to social services are common among poor rural people.

IV. RURAL FINANCE

The Consultative group to Assist the Poor (CGAP) defines rural finance as ‘ financial services offered and used in rural areas by people of all income levels’, and agricultural finance as ‘a Sub-set of rural finance dedicated to financing agriculture related activities, such as input, supply, production, distribution and wholesaling, and marketing’. Rural finance encompasses all the savings, lending, financing and risk minimizing opportunities (formal and informal) and related norms and institutions in rural areas. This definition recognizes that rural financial markets are part of the domestic financial system and are therefore, affected by government and central bank policies. Rural financial markets tend to be fragmented and consist of formal, semi-formal and informal financial intermediaries. It is this very feature that the process of Improvements in financial services, both formal and informal, must be tailored to the needs of the poor. This requires innovative approaches for increased awareness about the benefits and the kind of financial services and finally, their accessibility in remote unbanked areas.

ISSN (ONLINE): 2250-0758, ISSN (PRINT): 2394-6962

TABLE 1: NUMBER OF BRANCHES OF SCHEDULED COMMERCIAL BANKS

Population Group	Number (as on 2016)
Rural	50554
Semi Urban	35959
Urban	24363
Metropolitan	21958
Total	**132834**

Source: Handbook of statistics of Indian economy 2015-2016

Table 1 depicts the distribution of commercial bank branches in India among different population groups. In rural areas the commercial bank branches amounted to 50554, in semi-urban areas it was 35959, in urban areas it was 24363 and in metropolitan areas it was 21958. In India total branches of commercial banks amounted to 132834.

TABLE 2: DISTRIBUTION OF DEPOSITS AND CREDIT OF SCHEDULED COMMERCIAL BANKS

(Amount in Billion)
(No.of Accounts in Thousands)

Population Group	2015 -2016			
	Deposits		Credit	
	No. of Accounts	Amount	No. of Accounts	Amount
Rural	493970	9156.76	52777	6553.61
Semi Urban	404661	13172.51	39526	7966.09
Urban	266228	19649.01	23777	11790.94
Metropolitan	275033	47242.83	28160	42474.08
Total	**1439892**	**89221.11**	**144240**	**68784.72**

Source: Handbook of statistics of Indian economy 2015-2016

Table 2 provides data related population group wise distribution of deposits and credits of scheduled commercial banks. In rural areas the deposits amounted to Rs.9156 billion for 493970 accounts in the year 2015 - 2016.2012. Credit amounted to Rs.6553 billion for 52777 accounts. All over India the deposits amounts to Rs.89221 billion and Credit amounts to Rs.68784 billion.

Financial inclusion has to be viewed as a business strategy for growth;

a) Enhanced financial inclusion will reduce the farmer's indebtedness
b) Enhanced financial inclusion means better risk management tools for the farmers, they will be encouraged to adopt new technologies at a faster rate;
c) By providing greater access to educational loans to all sections of society, improved financial inclusion will mean India becoming more equal opportunity nation, a pre-condition for promoting inclusive growth; and
d) Enhanced financial inclusion will promote grassroots innovations and entrepreneurship

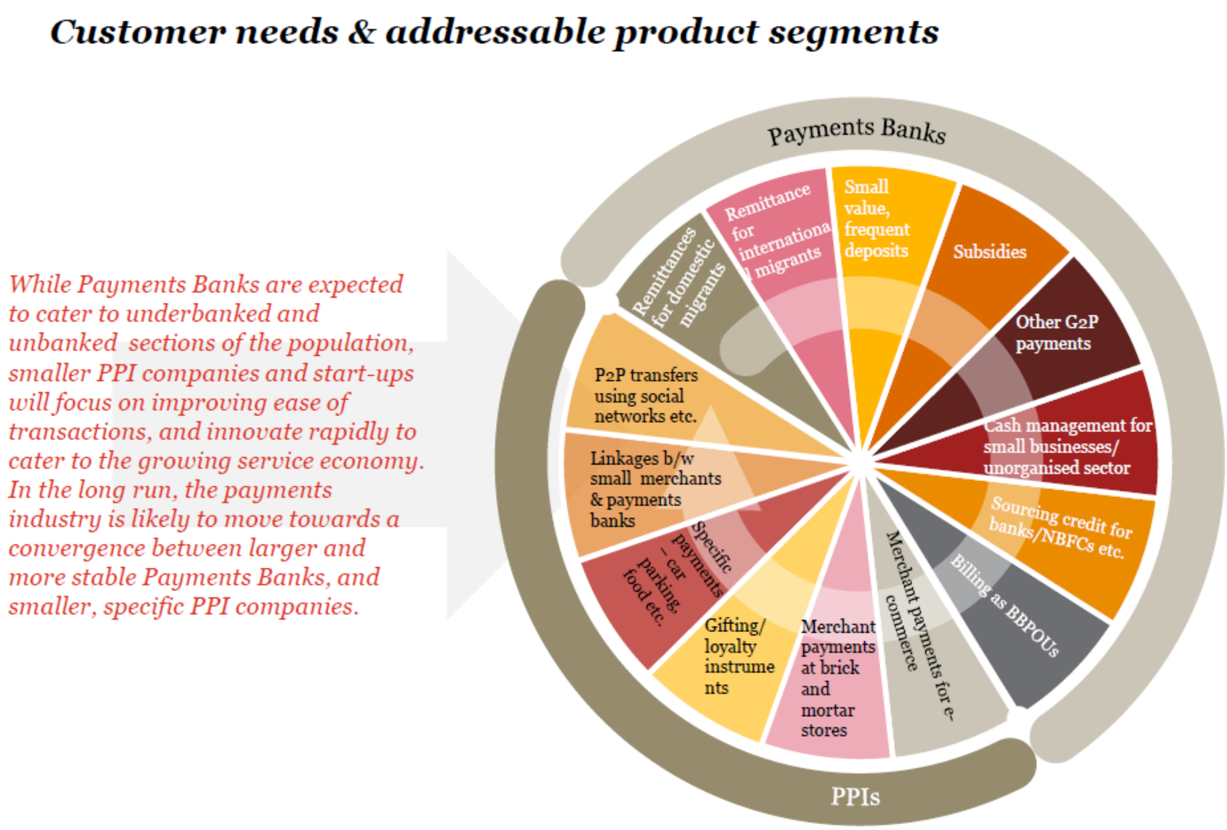
India's stable political environment and strong economic growth over the last 10 years has put the country in a position to become the third largest economy in the worked by economic development is characterized by a widening income gap between rich and the poor. The increasingly favorable economic climate in India presents a great opportunity to speed up financial inclusion initiatives and alleviate poverty on a large scale. Scaling-up access to finance for India's rural poor, to meet their diverse financial needs. Through flexible products at competitive prices, presents a formidable developmental challenge in a country as vas and varied as India. But the

ISSN (ONLINE): 2250-0758, ISSN (PRINT): 2394-6962

opportunities too are painful, and the government has an important role to play in creating space and a flexible architecture for innovations. Financial inclusion is, and needs to be seen as, crucial in achieving pro-poor growth and poverty reduction goals.

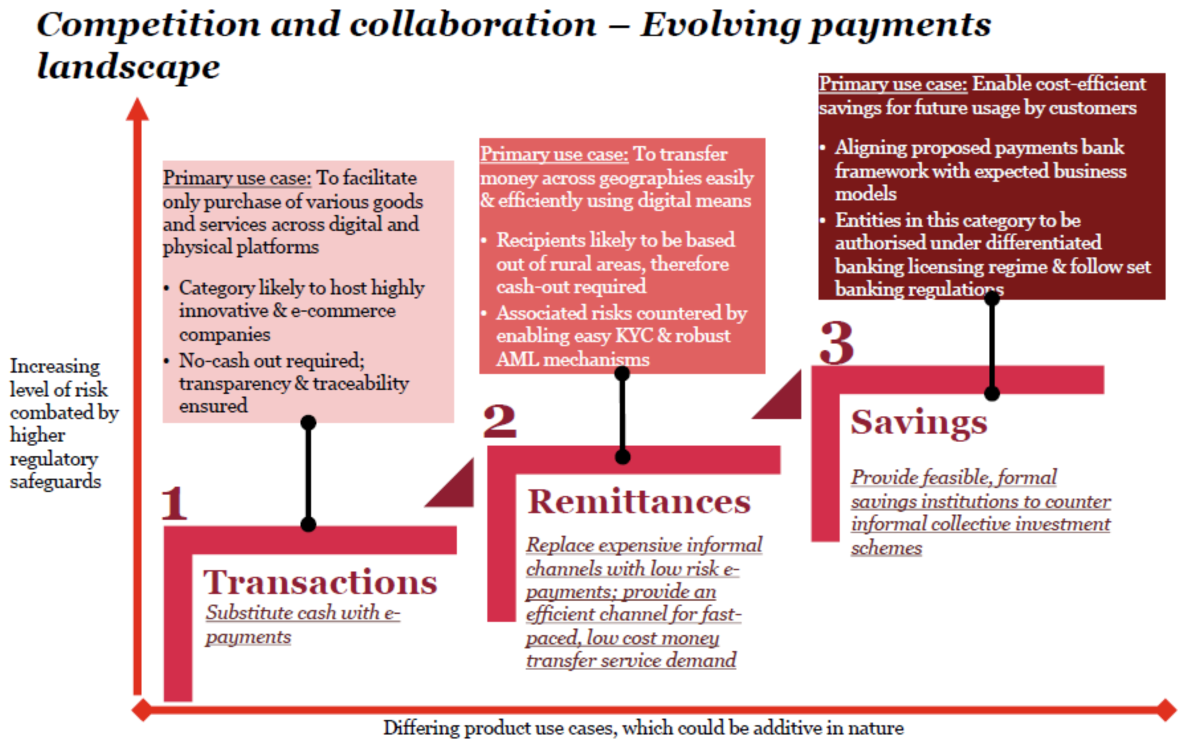
V. RECOMMENDATIONS FOR IMPLEMENTATION

IBA and IDRBT have to play a major role in synchronizing the different requirements of the Banks and provide the technological solutions within a time frame. We would further like to add that various banks are using different solutions at the core level and their approach and status of computerization is at different levels.



Broadly, the following aspects need to be adequately addressed:

- A uniform structure for enrolment of customers, conforming to extant KYC norms needs to be developed and followed by all the Banks for the purpose of Financial Inclusion.
- Standards to be prescribed for the use of proximity/near field smart cards which are interoperable in different devices.
- A centralized hub/switch to be established on the lines of ATM switch for interfacing with the CBS systems of different Banks.
- Service area approach should be adhered for extending financial inclusion with specific villages to be allotted to specific Banks.
- Banks should endeavor to bring total prosperity and growth in the allotted villages, developing them into multiple and microeconomic hubs of modern India.
- Qualification and Training of Business Correspondents (e.g.; similar to insurance agents)



Standards need to be set up in following areas:

- For identifying and appointing the BC /BF
- Terms and conditions, agreement to be signed between the banks and BCs
- Fidelity and insurance coverage for the field level agents
- Standard for data storage in these devices
- Standard for secured data transmission and related issues
- Accounting standards for agents' financial transactions with Banks
- Centralized hub/switch to be established online of ATM Switch, for interfacing with the CBS Systems of different Banks
- Service area approach may be adapted, for extending financial inclusion with specific villages to be allotted to specific Banks

VI. CONCLUSION

Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognizing the importance of inclusive growth in India, efforts are being taken by the Government of India (GOI) and RBI to make the financial system more comprehensive. The focus of financial inclusion is on a promoting sustainable development and generating employment for a vast majority of the population especially in the rural areas. As a supporting agent for the commercial banks and the co-operatives, Regional Rural Banks are serving a class of clientele belonging to the rural poor like rural artisans, petty shopkeepers, small traders, village entrepreneur and people engaged in service sector and also people belonging to the lower income group in these rural areas, physically handicapped persons and widows as well. These banks are playing a significant role in ensuring sustainable development through financial inclusion. Commercial bank network will have to be leveraged for benefiting the people of the rural areas through broader banking services; these institutions take a long stride towards inclusive economic growth by promoting various financial products.

REFERENCES

[1] Afroza, P. and Rumana, P. (2012). Commercial Bank Selection Process Used by Individual Customers: Factor Analysis on Banks of Bangladesh. *Journal of Business and Technology (Dhaka), 7*(2), 20-36.

[2] Jitender Goel and Rashmi Goel. (2015). Pradhan Mantri Jan Dhan Yojana(PMJDY): An innovative scheme for Financial Inclusion in India. *TIJ's Research Journal of Social Science, 4 (9).*

[3] Kabita Kumari Sahu, (2013) .Commercial Banks, Financial Inclusion and Economic Growth in India,

International Journal of Business and Management Invention. 2(5), 01-06.

[4] Kaul, R. C. (2011). Financial Inclusion-A business Opportunity for Banks, *Indian Economic Panorama, 21(*1).

[5] Manoharan, B. A study on commercial banks in India – An overview.*Indian Journal of Marketing,* 45(1).

[6] Mishra, Chitta Ranjan. (2012). Financial inclusion for sustainable development: A critical literature review-the role of commercial banks & low-income peoples. *International Research Journal of Commerce & Behaviour Science, 01*(08), 22-27.

[7] Nalini (2011). Role of Banks in Financial Inclusion, *Research journal of commerce and behavioral science*, 4, 33-36.

[8] Paramasivan. C and Kamaraj, R. (2015). Commercial Bank's Perforamance on Pradhan Mantri Jan Dhan Yojana. *International Journal Of Scientific Research And Education, 3 (6),* 3395-3603.

[9] Pavithran, & Raihanath, (2014). Role Of Commercial Banks In The Financial Inclusion Programme, *Journal of Business Management & Social Sciences Research (JBM&SSR), 3*(5), 75-81

[10] Rachana, Tejani, (2011). Financial inclusion and performance of rural co-operative banks in Gujarat. *Research Journal of Finance and Accounting, 02*(06), 40-50.

[11] Sonam Kumari Gupta. (2015). Performance Appraisal of the Pradhan Mantra Jan Dhan Yojna. IOSR Journal of Business and Management (IOSR-JBM), 17(9),35-39.

[12] Srikanth, R. (2013). A Study on - Financial Inclusion - Role of Indian Banks in Reaching Out to the Unbanked and Backward Areas. *International Journal of Applied Research and Studies,* 2(9).

[13] Srinivas, M., & Upender, P. (2014). Financial inclusion - a proactive role played by Indian banking sector & RBI in economic development. *International Journal of Innovative Technology & Adaptive Management, 1*(5), 143-149.

[14] Unnamalai, S.W. (2015). Role of Indian bank's in Financial Inclusion Policy Through Pradhan Mantri Jan Dhan Yojana (PMJDY). *Sai Om Journal of Commerce & Management, 2(12).*