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A CASE STUDY ON INCREASE IN FINANCIAL INCLUSION LEADS TO DEVELOPMENT OF BANKS IN INDIA

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Abstract

Even after 72 years of independence, a large section of Indian population still remains unbanked. This restlessness has led generation of financial instability and necessity among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services at affordable cost to socially deprived and low-income segments of society. Financial inclusion is a critical step that requires political will, bureaucratic support and determined persuasion by RBI. It is expected to unleash the hugely untapped potential of that section of Indian economy, which is at the bottom of pyramid. Financial Inclusion will be the next revolution for growth and prosperity in Indian economy.

INTRODUCTION

Financial Inclusion is defined as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. During April 2012, World Bank carried out a study which revealed that only 9 per cent individuals' avails new loans from banks in the previous year and 35 per cent population are having formal bank accounts in India whereas in the case of developing economies it is 41 per cent.

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Financial inclusion strives to remove the barriers that exclude people from participating in the financial sector and using these services to improve their lives. It is also called inclusive finance.

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. Financial inclusion broadly refers to the degree of access of households and firms, especially poorer households and small and medium-sized enterprises (SMEs), to financial services. But in India, lot of households, especially in rural areas, are financially excluded from the country's main stream of banking sector.

It can play a key role in facilitating inclusive economic growth particularly in a developing economy. An inclusive finance must provide better banking services to all sections of society, especially low-income and weaker sections. The uniqueness of having a bank account is that it not only provides basic banking facility but also finance for investment/production purposes which opens opportunities for enhanced employment.

Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. But inclusive growth cannot be possible with poverty in rural areas. Inclusive growth refers to both the pace and distribution of economic growth. In order for growth to be sustainable and effective in reducing poverty, it needs to be inclusive. According to Dr. Chakrabarty, Deputy Governor, Reserve Bank of India, 'Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities.' Therefore, a new form of financial institutions have been emerged to provide financial services with affordable cost to the poor and disadvantages households, firms, social enterprises to reduce poverty and for economic developed. According to Kamath R. (2007), the social financing institutions will be considered the substitute of the formal sectors banking system in rural areas of any economy.

How Financial Inclusion Works

As the World Bank notes on its website, financial inclusion "facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies." What's more, it adds, "As accountholders, people are more likely to use other financial services, such as savings, credit and insurance, start and expand businesses, invest in education or health, manage risk, and weather financial shocks, all of which can improve the overall quality of their lives."

While the barriers to financial inclusion have been a longtime problem, a number of forces are now helping broaden access to the kinds of financial services that many affluent consumers take for granted.

For its part, the financial industry is continually coming up with new ways to provide products and services to the global population, and often turn a profit in the process. The increasing use of financial technology (or fintech), for example, has provided innovative tools to address the problem of inaccessibility to financial services and devised new ways for individuals and organizations to obtain the services they need at reasonable costs.

FINANCIAL INCLUSION AND GROWTH OF INDIAN BANKING SYSTEM

Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty. Lack of access to financial services in most of rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension service create the need and scope of financial inclusion. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. Financial inclusion is integral to the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population deposit mobilization and credit intermediation.

The term financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people.

Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self-help group, entrepreneurial credit etc.

In short Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion

Where, NFA = No frills bank account

OFIs = Other financial Institutions

MFI = Micro financial Institutions

IT = Information Technology.

Thus, financial inclusion is needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity. Around 45% of Indian population suffers from poverty and hunger in which only 31% has access banking services and 80% populations are without life, on-life and health insurance etc. Due to seeking vast opportunity of Growth of Indian banking system India's national vision has mission to open nearly 600 million new customers' banks account and services through a variety of channels as micro finance, micro insurance, Regional rural banks, NABARD, Self-help groups, new bank branches in unbanked areas etc. For this purpose there are three major aspects has taken:

1. Access Financial Market: At present there are 99 blocks in the country which don't have any bank branch. In which 86 are in north east and 13 are in other parts of country. In current budget the government has granted a sum of Rs. 150 crore for banks to open branches in unbanked and difficult areas. But due to less population (< 10000) in most north east areas, branches should not be opened. Thus, RBI has proposed to use branchless banking with help of technology to promote inclusion through micro finance bodies, business correspondent, co-operative societies, grocery shops etc. This step is taken to access easily the financial market.

2. Access Credit Market: There is need for more products that meet credit and insurance need of people. For meeting credit needs a saving linked financial model can be adopted for these segment, which should kept simple and guarantee the beneficiaries of credit limit. In the rural part of state, primary agriculture co-operative societies are pretty active through it is being paid little attention, because it exist side by side with district central co-operative banks(DCCBs).Thu8s, now state governments have taken initiating steps to rationalization functioning of co-operative societies in area like procurement, fertilizers and pesticides sale etc.

3. Learn financial matters: Due to lack of awareness, poor infrastructure is one of the major reasons of financial exclusion. Thus Reserve Bank of India setting up pilot project for credit counseling and financial inclusion on June 18, 2007. RBI launched a multinational website in 13 in all matter concerning banking & common people. Example: United bank of India & Dena bank launched 198 village knowledge center for providing knowledge to farmers which provide basic infrastructure internet connection and updated libraries.

The objective of financial inclusion is to extend the scope of activities of financial system to include people with low income. Although the banking network has rapidly expanded over the years but the key challenges would be to extend the banking coverage to include the target population living in 6 lakhs villages.

INITIAL STEPS FOR FINANCIAL INCLUSION TAKEN BY RBI AND THE GOVERNMENT

Reserve bank of India and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration in the country. Before 1990s several initiatives has been undertaken which included creation of State Bank of India in 1955, nationalization of commercial banks in 1969 and 1980, initiating the Lead Bank Scheme in 1970, was a big step to expand financial inclusion. Priority sector lending norms, branch licensing norms with focus on rural and semi urban branches, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 mainly to provide refinance to the banks extending credit to agriculture, establishment of regional rural banks in 1975 are also the major steps for same aim which encourage branch expansion in rural area. It also regulate interest rate ceiling for credit in weaker sections. After 1990s there are major important steps taken for financial excluded people as launching Self-help groups linkage programmed in 1992 by NABARD, which facilitates and provides door step banking. Simplifications of Know your customer (KYC) norms are another milestone. Where NGOs are set up to organize the poor, build their capacities and facilitates the process of empowering them. In 1998 Kisan credit card has been launched and on the suggestion of NABARD in 2005 General credit card has been launched which facility up to Rs. 25000/-.In January 2006 NGOs, SHGs, AND Micro Finance Institutions are permitted by RBI. Now MFIs currently cover 8.3 million borrowers. MFIs, self-help groups (SHGs) also meet the financial service requirements of the poorer segments.

GOVERNMENT, RBI AND BANKS INITIATIVE ON FINANCIAL INCLUSION AND LITERACY

1. RBI launched multilingual websites in 13 languages on all matter concerning banking. A meaningful dimension of financial education is credit counseling. RBI has also created a sub-site for the common person to give him the ease of access information for use in dealing with banks.
2. The community finance learning initiative (CFLIs) were also introduced with a view to promote basic financial literacy among housing association tenants.
3. State bank of India has set up 100 centers in Agri-lending branches for agriculture counseling.

4. Union bank of India and Indian overseas bank use of handheld and biometric cards in village of Tamilnadu.
5. Union bank of India and Dena bank introduced 198 village knowledge centers for imparting knowledge to farmers. These centers also provide basic infrastructure, internet connection and updated libraries.
6. Union bank of India introduced "Union Mitra Scheme" for providing financial education and debt counseling services to rural population free of cost.
7. Dena bank introduced "Dena Bhoomiheen Kisan Credit Card" for tenant farmers, share croppers and landless laborers.
8. In financial year 2009-2010, the government has announced the ground level credit target for agriculture at s. 3,25,000 crore. For the financial year 2010-2011, the Government has set agriculture credit flow target at Rs. 3, 75,000 crore.

RECENT PROJECT FOR FINANCIAL INCLUSION INITIATED BY THE GOVERNMENT

1. **Aadhar:** Millions of people have lack of proper proof as driving license, Pan card , credit cards etc. so that they face difficulties to access public services like bank account, ATM facility, loan facilities etc. The project ADHAR (The brand name of UID) serve the KYC guidelines for the people who have lack of Identity. Thus, UID (Unique Identification Number) could act as a tool to drive financial inclusion for the rural an poor people.
2. **Swavalamban:** A co-contributory pension scheme launched on September 26, 2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government will contribute a sum of Rs. 1000 per annum. Swavalamban scheme totaling to 40 lakhs subscribers by March 2014.
3. **Swabhiman:** The central government has launched in a way to achieve financial inclusion programme Swabhiman on February 10, 2011 in which five crore household of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 Crore no frills account till march 2012.
4. **PFRDA (Pension Fund Regulatory & Development Authority's):** Government has set a regulatory body for the pension sector on August 23, 2003. PFRDA's effort are an important milestone in the development of the sustainable & efficient voluntary defined

contributor based pension system of India. PFRDA also works for financial literacy and awareness campaigns as a part of its strategy to protect the interest of subscribers under Swavalamban scheme.

Present Scenario of Branch Penetration and Insurance Penetration

The access and usage of a varied range of affordable and quality financial services in a simple yet controlled manner by the low income sections of society is called financial Inclusion. It is a process by which financial services are made accessible to all sections of the population. It is a conscious attempt to bring the Un-banked people into banking.

There are two different aspects of Financial Inclusion are Financial Literacy and Financial Inclusion. Financial Literacy stimulates the demand side, making people aware of what they can demand, whereby, Financial Inclusion acts from supply side providing the financial market/services what people demand. The only means of saving, in absence of bank account is formal institution, was through physical assets like cash, jewelry and chit funds.

The meaning and scope of financial inclusion can be more summarized by the figure shown below:

Everyone should be facilitated with the banking services for achieving the inclusive growth of each sector of the economy. Since 2005, concerted efforts have been made by Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) to extend financial inclusion across India. Around 80 percent population have access to bank accounts in 2018 in India as compared to the 53 percent in 2013.Out of bank accounts opened during 2014 to 2017,the number of Jandhan Accounts opened in India is about 28.17 crore, constituting almost 55 percent of the accounts opened globally during this period.

The Government initiated the National Mission for Financial Inclusion (NMFI), namely, Pradhan Mantri Jan Dhan Yojana (PMJDY) in August, 2014 to provide universal banking services for every unbaked household, based on the guiding principles of banking the unbanked, securing the unsecured, funding the unfunded and serving unserved and underserved areas.

Progress of Banking outlets in Rural India:

Bank branches in Rural and Semi-urban areas is increasing day by day considering the needs of Rural households. Now a days, Government and Banks are trying to provide banking services to every citizen of India so, Number of branches and ATMs are increasing rapidly.

Performance of Pradhan Mantri Jan Dhan Yojna:

1. **Rapid financial inclusion of women:** Out of total savings accounts, there were overall 27% female accounts in March 2014. However, under PMJDY, women accounts constitute 53% of the total Jan Dhan accounts as on 30.3.2019.
2. **Rapid growth in deposits in the PMJDY accounts:** As against an average balance of Rs. 1,065 in accounts opened under PMJDY in March 2015, the average balance has grown to Rs. 2,725 as on 30.3.2019 with an overall balance in PMJDY accounts of Rs 96,107 crore.
3. **RuPay Debit cards:** A total of 27.91 crore RuPay debit cards have been issued till 30.03.2019 to PMJDY accountholders. Apart from banking convenience, these cards come with an inbuilt accident insurance cover of Rs 2 lakh. As on 30.03.2019, a total 4,657 accidental claims under this RuPay card linked insurance coverage have been paid.
4. **Overdraft facility for PMJDY account holders:** An overdraft facility of up to Rs 5,000 (since enhanced to INR 10,000) after satisfactory operation in the account for six months is available to provide hassle free credit to the beneficiaries under PMJDY.
5. **Pradhan Mantri Suraksha Bima Yojana (PMSBY):** The Scheme is available to people in the age group 18 to 70 years with a bank / Post office account who give their consent to join / enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhar would be the primary KYC for the bank account. The risk coverage under the scheme is Rs. 2 lakh for accidental death and full

disability and Rs. 1 lakh for partial disability. The premium of Rs. 12 per annum is to be deducted from the account holder's bank / Post office account through 'auto-debit' facility in one instalment. The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are offering the product on similar terms with necessary approvals and tie up with Banks and Post Offices for this purpose. As on 31st March 2019, the gross enrolment by banks, subject to verification of eligibility criteria, is about 15.47 crore under PMSBY and 32,176 claims of Rs. 643.52 Crore have been disbursed.

6. **Life Insurance cover under Pradhan Mantri Jan Dhan Yojana (PMJDY):** For availing life insurance cover of Rs.30,000/- under this scheme, a person should be between 18 to 59 years of age and he/she should have been enrolled under PMJDY between 15.08.2014 to 31.01.2015 (subject to Govt. guidelines and eligibility criteria provided). Specified periods. The scheme is being implemented through Life Insurance Corporation of India (LIC). During the financial year 2017-2018, an amount of Rs. 311.10 lakhs has been paid towards total number of 1037 claims

STATING CASE DILEMMA / CONCLUDING PARAGRAPH:

The inclusive growth of an economy mostly depends on the financial inclusion. The major obstacles of the financial inclusion and inclusive growth of an economy are poverty, unemployment and illiteracy. In India a large portion of total population mainly in rural and poor people are excluded from the formal financial system. New emerging nonbanking financial institutions popularly name as social financing institutions have come forward to tackle the poverty, unemployment and illiteracy. The study showed that they not only provide affordable credit to its customers but also provide different types of skill development training and workshop for financial literacy to develop economic and social condition. They support people, mainly undeveloped and financially excluded from main stream of banking sector, to be self-employed so that they can reduce their poverty. So they play a vital role to reduce poverty, unemployment and illiteracy. Therefore it can be conclude that social financing institutions may be a viable option for financial inclusion and inclusive growth in India. But it may not be the substitute of formal banking system.

TEACHING NOTES FOR THE CASE:

TEACHING OBJECTIVES:

The following Teaching Objectives may be considered with respect to the case:

1. To understand the concept of financial inclusion and inclusive growth.
2. To analyze the role of financial inclusion in the growth of Indian banking system and to seek the role of Reserve bank of India and government in promoting financial education.
3. To understand the recent projects for Financial Inclusion initiated by the Government.
4. To Study of Present Scenario of Branch Penetration and Insurance Penetration in India.

LEVEL OF ANALYSIS:

The present case is a type of descriptive case. The analysis attracts understanding of perspective & dilemma surrounding the Inclusion of Financial Services into the rural areas. This case is suitable for the practical & case study approach at the level of Management Students. To be specific BBA students, B.COM students, M.COM students & MBA Students shall have a deserving benefit out of this case. More specifically the case will be beneficial for the Financial Management students. Banks at large will be a party to the benefits of the learning from the case.

CASE ASSIGNMENTS:

As part of the case study delivery, participants may be assigned certain tasks pre & post delivery of the case.

Pre discussion Task: Gather fair understanding on Financial Inclusion of Indian Banking Sector in rural areas through, reading journals & books in Library and through E-Sources.

Post discussion Task: Conduct review of further literature pertaining to the theme of the case. Post discussion schedule shall also include dicussion round on a few questions peratining to the case.

BROAD DISCUSSION QUESTIONS:

Q.1: Discuss the present scenario of financial Inclusion in India.

Q.2: Explain the major factors affecting access to financial services.

Q.3: Elaborate how does financial inclusion indicates the growth of the overall Banking sector.

READING REFERENCES:

The following references may be helpful in gaining further insights on the theme of the case:

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POTENTIAL BENEFITS OF THE CASE:

- **Students of Higher Education:**
  The Case benefits the students with the opportunity of pondering into the need & status of the economy because of financial inclusion. The data presented in the case support the learning of the students and supports them to reach the focal point of discussion regarding understanding of the Indian Banking Sector.
- **Benefits to the Banking Sector and Government:**
  The case will be beneficial for the banking sector as they will study the case they will get the answer the regarding the schemes they have provided. The government can also benefit from the case by using it as a reference for their research works.

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