INITIATIVES FOR FINANCIAL INCLUSION IN INDIA

Dr. Dilip K. Chellani
Assistant Professor, Faculty of Commerce
The Maharaja Sayajirao University of Baroda, Vadodara

ABSTRACT

In this paper we study the policy initiatives taken by RBI/GOI in building need based, strong multi-agency banking infrastructure in India to provide the door step banking and para-banking services to masses in the country side and the claim of Government of Pudhucherry in its State Level Bankers Committee (SLBC) in the year 2013 that the Union Territory (UT) of Pudhucherry has achieved 100% (cent per cent households possessing bank accounts) Financial Inclusion (FI1). We also study the policy initiatives and role in this achievement played by the Indian Bank, a nationalized bank, as the RBI designated lead bank in the Union Territory of Pudhucherry to set the record of top position in the sphere of FI at the All-India level. The CRISIL the oldest rating agency in India in its report on FI index based on RBI data (using three parameters viz.; branch penetration, deposit penetration and credit penetration based on per lakh population) using robust and transparent methodology on the scale of 1 to 100 (with 100 signaling that an entire population has access to banking services), released by the then Finance Minister Mr. P. Chidambaram in 2011 revealed that one out of every two Indians has a savings account, but only one in seven has access to bank loan. Further, the report states that the southern region leads in FI with the score of 62.2. The western region comprising of Gujarat and Maharashtra stands second with a score of 38.2 (however, behind the national average), followed by the northern region (37.1), eastern region (28.6), and north-eastern region (28.5) with the All-India score at 40.1(compared to 35.4 in 2009), which the report termed as low. Report also reveals that the number of savings accounts (624 million) is almost four times the number of loan account (160 million) and that 618 out of 632 districts reported an improvement in 2011 over 2009 in terms of FI index. Report found Puducherry, Chandigarh and Kerala ranked top three states respectively in terms of FI. Among the bottom five states includes Arunachal Pradesh, Chhattisgarh, Bihar, Nagaland, and Manipur, the lowest with a rating of 16.6. According to the CRISIL report, four of the 10 most inclusive states and union territories are in the south with Puducherry on top. The already efforts put in by SLBC Indian Bank and other banks in Puducherry were specifically highlighted by RBI in its Annual Policy Statement for the year 2006-07 and advised other SLBC conveners in their States and UTs to identify at least one district in their area for achieving 100% FI on the lines of the initiative taken in Puducherry. Finally, Paper also examines the progress of financial inclusion under National Democratic Alliance (NDA) Government's ambitious Jan-Dhan Yojana, launched three years ago on 28-8-2014 which aims to bring the poor, downtrodden and marginalized/excluded sections of the society under the ambit of mainstream banking system.

Keywords : Financial Inclusion, Banking Infrastructure, Union Territory.

INTRODUCTION

The Committee (2008) Headed by Dr. C. Rangarajan on Financial Inclusion (FI) defines FI as the "process of ensuring access to financial services and timely & adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". It include reviewing basic retail financial services such as cheque cashing, remittances, money orders, stored value cards, short term loans, savings accounts and other services that promote asset accumulation by individuals and financial stability. Similarly, CRISIL Report (2011) states "FI is not just about opening of savings bank account, it includes creation of awareness about financial products and offering of advice on money management and debt counseling". For the first time, the Eleventh Five Year Plan (2007-12)

1 FI is basically delivery of financial services at an affordable cost to vast sections of disadvantaged and low income groups Viz.; Marginal/ Landless Farmers, Self Employed, Urban slum developers, Minorities/ Migrants, Social excluded groups, Senior citizens, Women. Financial Services include: Savings, Credit, Insurance, Remittance Facilities, etc. merits of FI are: Reduction in transactions costs to savers, Reduction in transactions costs to banks & Low risk cost, etc.

envisaged inclusive growth as a key objective as well as a strategy for economic development. FI can therefore, be very well called as 21st century banking. Its main aim is to extend the banking and financial services to every person or class of people, projects (activities in various sectors) and places/parts (rural/semi urban or urban area) of the country. According to 2011 Census of India, out of the total 121 crore population, rural India populat ion is around 83.3 crores (nearly 70%) with around 2/3rd of total rural population is dependent upon agriculture as source of income and livelihood. We have 6.27 lakh villages with 99.7% of total rural population living there in. The population spread in Indian villages is presented in the following table.

The population spread in villages

Population Size	Villages (in numbers)	Population (in %)
More than 10000	1831	0.3
5000 to 10000	7145	1.0
2000 to 5000	46754	8.4
1000 to 2000	94658	16.9
500 to 1000	136232	24.7
Less than 500	340380	48.7
Total	627000	100

Thus, there are now only 1831 total number of villages in India with population more than 10000 persons. (Definition of rural area in banking business is a place with population up to 10000 persons.) The strong saving habit of people in India is such that even the relatively low income families tend to save about a third of their annual earnings. The rural savings to income ratio is much higher than that of the urban population. Further, at present we have an extensive banking infrastructure comprising of around 35000+ rural and semi-urban branches of commercial banks,

over 15000+ branches of Regional Rural Banks (RRBs), around 12000+ branches of District Central Co-operative Banks (DCCBs) and nearly 100000 Cooperatives Credit Societies (PACS) at the village level (There are also 4 lakhs+ Banking Correspondents (BC), Business Facilitators (BF) touch points). This translates into availability of 1 primary credit delivery outlet for around 5000 population or using a definition of a family (consisting of 5 members) we have 1 credit delivery outlet in rural area for every 1000 households. This is a remarkable and extensive work probably having no parallel in any other country in the world. Given the availability of huge banking infrastructure/ network the moot question is; "Are the financial service needs of the large number of rural people compre hensively met by this network?" The position is none too impressive, going by the available data on the number of savings accounts and assuming that one person has only one account, on an All-India basis only 59 per cent of adult population in the country has bank account. Further, the extent of credit inclusion is even lower at 14 per cent of adult population. The un-banked population is higher in the North-Eastern and Eastern Regions as compared to other regions 2. The financially excluded sections largely comprises of marginal farmers, landless labourers, self-employed and unorganized sector enterprises, urban slum dwellers, migrants and others like socially excluded groups, senior citizens and women. It was therefore appropriate to consider the urgent need for financially including rural masses in the formal banking system for the faster growth of the Indian economy. FI requires huge efforts in understanding the needs of people living in rural areas. The financial education (financial literacy and financial counseling) and banking technology are two essential component of the FI. Also, in pursuit of the FI, there are many issues and challenges both on the access and affordability – the two pillars of the FI. In this Paper an attempt is made to study policy initiatives under RBI/GOI directed programmes and procedures in building need based, strong multi-agency banking structure to provide the door step banking and para-banking services to masses in the country side and the claim of Government of Pudhucherry in its State Level Bankers Committee (SLBC) in the year 2013 that the Union Territory (UT) of Pudhucherry has achieved 100% (cent per cent households possessing bank accounts) FI. We also study the policy initiatives of Indian Bank, the RBI designated lead bank in the Union Territory of Pudhucherry which set the record of top position in the sphere of FI at the All-India level. Why is FI important3? It is important simply because it is a necessary condition for sustaining equitable growth. FI will make it possible for Governments to make payment such as social security transfers, national rural employment guarantee programme wages into the bank accounts of beneficiaries through the electronic benefit transfer method. This will minimize transaction costs including leakages. The benefits at the macro level include are that FI provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channel them into investment. Second, the large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposits and help them to better manage both liquidity risks and asset-liability mismatches.

2CRISIL Report, 2011.

3Financial Inclusion: Challenges and Opportunities. Remarks by Dr. D. Subbarao, Governor, RBI at the Bankers' Club in Kolkata on December 9, 2009.

FINANCIAL INCLUSION – APPROACHES

FI refers to initiatives focused on expanding access to banking and para-banking services for underserved populations. Since 2006, RBI has adopted a planned and structured approach to address the issues of FI. This includes the institutionalization of BCs/BFs and use of 'Brick and Mortar' structure with 'Mouse and Click' technology for extending FI in geographically dispersed areas 4. In the Budget Speech 2005-2006, Shri P. Chidambaram, the then Honorable Union Minister of Finance quoted that, "the FI provides business opportunity for the banks and financial institutions at the bottom of the pyramid to expand the volume of business". RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of populations, urged banks to review their existing practices to align them with the objectives of FI. The then Governor, RBI, Dr. Y. V. Reddy, mooted the idea of reaching the unreached and called upon in his special address to Bankers in Pudhucherry on 21-11-2005 to take up a 'National Pilot Project on FI (NPPFI) in the UT of Pudhucherry for a period of 1 year from 1-1-2006. He also called upon the State Level Bankers Convener (SLBC) Indian Bank with young and visionary Dr. K.C. Chakrabarty as Chairman and Managing Director, to put in place the project. Indian Bank completed the FI process of providing No-Frills Savings Bank account to all the households of Mangalam village in the Union Territory of Puducherry. Thus Mangalam village became the first village in the country where in all the households were financially included. To start with, Bank provided 'No-Frills' accounts. As a next step small overdraft facilities were provided in the savings bank accounts (OD/SB) in order to cater the account holder's general purpose or consumption needs, with an aim to obtain the credit history for the future to sanction on easy lines the enhanced line of credit accommodations. Those who took up the income generation activities were provided with General Credit Card (GCC) facility with a flexibility of rollover. For the Self Help Groups (SHGs), instead of giving loans based on exten t of savings, a line of credit with simplified accounting procedures, giving flexibility to the SHGs and ultimately to members of the group, was extended. The efforts put in by SLBC Indian Bank and other banks in Puducherry were specifically highlighted by RBI in its Annual Policy Statement for the year 2006-07and advised other SLBC conveners in their States and UTs to identify at least one district in their area for achieving 100% FI on the lines of the initiative taken in Puducherry. The process of FI since nationalization of major commercial banks in 1969 can be classified into following three phases: During the first phase (Period up to 1990) the planners and regulators focused primarily on reorienting banks for faster rural development including establishment of new rural banks (RRBs) for financing the rural poor, geographical wide spread of commercial bank branches (Under the branch expansion policy initiatives from 9-11-1971) in rural areas, establishment of Apex Bank on 5-7-1982 (National Bank/NABARD) for the all-round development of rural sector, provision of directed credit from 2-10-1980 under the state sponsored programmes at the affordable terms and priorities to the neglected sectors of the economy. Special emphasis was laid for the first time under the 6th Five Year Plan (1980-1985) on providing credit to weaker sections of the society etc. Second phase (Period of post reform up to 2005) focused mainly on revitalising and strengthening the banks and financial institutions as part of financial sector reforms and put them on appropriate technology driven CBS platform so as to meet their customers banking and financial services needs comprehensively from distance. FI in this phase was encouraged mainly by the introduction of innovative SHG -bank linkage programme in the early 1990s and technology driven Kisan Credit Cards (KCCs) for providing any time ready credit facilities to farmers. The SHG-Bank linkage programme was launched by NABARD in 1992, with policy support from the RBI, to facilitate collective decision making by the poor & needy and provide them the 'door step' banking. Also, to facilitate the low income groups both in urban and rural areas in opening bank accounts the 'Know Your Customer' (KYC) procedure for opening accounts with balances not exceeding Rs 50,000 was simplified etc. In the present third Phase (2005 onwards), FI is explicitly made as a policy objective by RBI (as RBI for the first time in its policy Statement of April 2005 recognised the problem of financial exclusion) and some of the more major initiates include providing facility of savings deposits through 'No Frills' accounts, issuance of General purpose credit card facility (GCC) by banks without insistence on collateral or purpose, with a revolving credit limit up to Rs. 25000 to enable hassle-free access to bank credit to rural households, direct deposit of government payments and subsidy amount in the bank accounts of the beneficiary etc. Since then, most of the banks have also launched their campaign for FI to cover all households at least in one village per branch for 100% FI. In particular in 2006, RBI permitted banks to use the services kirana,

4 Financial Inclusion in India – The Journey so far and the Way Ahead by Shri S. S. Mundra, Dy. Governor, RBI,at the BRICS Workshop on Financial Inclusion in Mumbai on 19-9-2016.

medical and fair price shop owners, individual Public Call Office (PCO) operators, agents of small savings schemes and insurance companies, individuals who own petrol pumps, retired teachers and SHGs linked to banks, Non-Governmental organizations (NGOs), micro-finance institutions, retired bank employees, ex-servicemen, retired government employees for providing financial and banking services. Further, RBI in June 2012, advised banks to set up Financial Literacy centers (FLC) 5 in all the districts of the country. Banks have been further advised to scale up financial literacy efforts through conduct of outdoor financial literacy camps, at least once a month, both by the FLCs and also by all the rural branches.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) under the Department of Financial Services, Ministry of Finance, launched on 28-8-2014 is National Mission for FI of the present NDA Government at the Center to bring poor/ financially excluded people into banking system (Achievements is presented at the end) with following benefits viz. at least one basic banking account for every household with no minimum balance required, easy transfer of money across India. After satisfactory operation of the account for 6 months, an overdraft facility upto Rs.5000/- in only one account per household, preferably lady of the household is made available. In addition, account holders are provided RuPay debit card with inbuilt accident insurance of Rs. 1 lakh 6. The scheme provides life cover of Rs. 30,000/- payable on death of the beneficiary, subject to fulfillment of the eligibility condition. The long term vision of the PMJDY is to lay the foundation of a cashless economy and is complementary to the Digital India Scheme 7 . Last but not the least, to further the cause of FI, RBI recently granted in-principle approval for two new differentiated banks in the existing commercial banking structure namely “Small Finance Banks” (SFBs) and “Payments Banks”. “Small” for SFBs refers to the kind of customers the banks targeted to deal with and are intended to generate at least 75% of their loan business from the designated priority sector (largely agriculture) from the unbanked areas, unserved and underserved sections of the population, small business units, small and marginal farmers, micro and small industries and other unorganized sector entities which do not have access to finance from the larger banks. Besides, 50% of their loans are mandated to be below/under Rs 25 lakhs. Payments Banks, on the other hand, are those specialized small banks which can only receive deposits and offer remittance services, but cannot give loans. These payments banks are also not allowed to hold a balance of more than Rs 1 lakh per customer in their bank accounts

BUILDING NEED BASED BANKING INFRASTRUCTURE

Since independence, the GOI and the RBI have put concerted efforts in developing strong and varied need based banking infrastructure, special policies/schemes and developmental programmes particularly for the rural areas to ensure availability of banking services viz.; deposit facilities and reasonably priced/concessional interest rate credit in a timely manner to various classes of persons living there in. Among other measures this includes:

a) Nationalization of RBI on 1-1-1949. RBI was also conferred with wide powers of supervision, control, direction and inspection of scheduled and non-scheduled banks under the Banking Companies Act, 1949 which was later renamed as Banking Regulation Act, 1949 in the year 1966.

b) Nationalization of Imperial Bank of India on 1st July, 1955 and renaming/ restyling it as State Bank of India (SBI). Thereafter, bringing the banks of erstwhile princely states under the umbrella of SBI as its associate banks (formerly called ‘subsidiaries’) in 1959. The GOI has already facilitated the merger of all the remaining five (05) associate banks along with the Bharatiya Mahila Bank Ltd. into SBI with effect from the current fiscal 8.

c) Apart from SBI, total of 20 commercial banks in private sector were nationalized in two phases, first on 19th July, 1969 (14 banks having deposits of Rs. 50 crores and above which constituted 87.5% of total deposits of the scheduled banks in the private sector as on 31-12-1968) and again on 15th April, 1980 (6 more banks having deposits of Rs. 200 cores and above). Later, New Bank of India was merged with Punjab National Bank in July 1993.

d) Establishment of RRBs in 1975 as a new institutional arrangement exclusively for financing rural poor,

e) The formulation of Lead Bank Scheme (LBS) by RBI in 1969 and restyling it as Service Area Approach in1986 for all round development of district economy. Under the LBS a major bank is designated by RBI as

8 “Consolidation of PSBs; Driven by Basel III Capital Requirements?”, By, Dr. R K Sinha and Dr. D.K.Chellani, The Indian Banker, Vol.V, Issue 3, Published by IBA, Mumbai. October 2017. Initiatives for Financial Inclusion in India

Lead Bank and is entrusted with responsibilities of planning and coordination with all other banks and financial institutions operating in the district for provision of adequate and timely credit and savings facilities mainly for rural and semi-urban areas. The idea is supply led approach in which the bank credit plans are made to align with government expenditure plans under the district collector as convener.

f) Formulation of DRI Scheme-1972, in which Public Sector Banks (PSBs) were directed to disburse at least 1% of outstanding credit at low interest rate of 4% to designated borrowers. (It is pertinent to note here that commercial banks were directed to lend at 2% below the then prevalent Bank Rate of 6%. However, thereafter Bank Rate was changed by RBI from time to time but lending rates and targets under DRI scheme were not changed at all and continue to remain same till date).

g) In 1978 PSBs were also directed to provide finance to the neglected sectors and sections of the economy. For this, a minimal ratio of 331/3% of total advances was prescribed to be achieved by banks by March, 1979. This ratio was further raised to 40% of gross bank credit to be achieved by end of 6th Five Year Plan Period and same is expected to be maintained with adjusted net bank credit and directed credit for potential projects, places & various class of persons living in rural areas under priority sector advances

h) Establishment of NABARD in July 1982 as a development financial institution accredited with all matters connected with rural financing/development. Further, a High Level Committee (2008) was established by RBI to better the effectiveness of the lead bank scheme with stress on FI. A road map is drawn by Committee to provide banking services in any form to all rural areas with a population of more than 2000 by March 2012. Also, all banks in India particularly under the deregulated environment are spending heavily to bring banking operations using IT infrastructure to meet the rising expectations of customers in delivering any-time/convenient technology enabled banking services at doorsteps. All these developments aim at to achieve the FI and also help banks grow their business radically as well profitably.

MICROFINANCE AND FINANCIAL INCLUSION

Microfinance 9 programme is mainly intended to reach poor segments of society as they lack access to formal financial services. It therefore, holds greater promise to further the agenda of FI as it seeks to reach out to this excluded category of population largely in the homogenous group of 20 members or less rather than individual borrowers. The innovation is that all the members of the group are equally benefitted and also the repayment by each member is guaranteed by all other members of the group. India has adopted the Bangladesh model in a modified form.

The NABARD led 'SHG-Bank Linkage Programme' since the last decade of the by-gone century, is by far the major programme initiative perhaps having no parallel in

any parts of the world for achieving the FI. The programme has demonstrated across the country its effectiveness in linking village level credit co-operatives/banks with excluded category of poor segments of population particularly women. The group members are also made free from the clutches of village lalas/money lenders

TECHNOLOGY TO CONNECT PEOPLE WITH BANKING SYSTEM FOR FI

To achieve FI is to connect people with banking system for availing bouquet of financial services including access to payment system. The technology holds the key to farther the process of FI in remote and far flung rural areas. It enhances access to financial services in a cost effective manner (as with increasing volume leads to more affordability). The technology initiatives in India are: All commercial and

cooperative banks operations and procedures are put on Core Banking Solution (CBS) platform. To outreach ATMs with operating instructions in vernacular language are installed by banks both on and off site. Also, ATMs with voice recognition for the illiterates for transactions relating to savings, credit and payment services, Bio metric enabled ATMs to bring more illiterate poor to the banking fold, Mobile teller/ low cost ATMs in the remote areas, KIOSK banking using the internet facility etc.

Banks are increasingly adopting and adapting to outsource the entire banking operations (below Rs. 50,000 per annum and In case it exceeds the amount, the operations are shifted to branches) to the identified trained technology enabled BC/ technical partners to reach out to people in far flung and remote rural areas to achieve FI. The BCs in turn have Customer Service Points (CSP s) mainly SHGs at village levels. (Important to note is that CSPs are permanent residents of that village and to ensure this, mainly daughter-in-laws of the village are preferred). These CSPs provide banking and Para banking facilities in rural areas with the use of technical devices. and their main functions are: Biometric enabled Smart Card (this stores customer Account Number and the finger scans of the customer), New Field Communication (NFC) enabled mobile set with proprietary application, (to perform transaction and capture customer registration data), Finger print scanner (to capture and authenticate the customer), Printer (to print transaction receipts), Camera (to capture customer photograph and an image of the customer application form). Data collection device (to consolidate customer data, process and transfer it to the central card personalization unit), and last but not the least, Data server (to receive and transmit the customer transactions thrice a day from the mobile handsets of CSP's and once to bank server) to receive/ transmit transaction from service provider server. All the CSPs are trained to operate these technical devices.

The branch of the bank validates the data by comparing with the original application already available with them. Upon validation, the branch sends the confirmation back to DAU who in turn sends the same to Central Data S erver (CDS) of Bank to open the account/s as a part of CBS. Full traceability and audit trail of the transaction is maintained. Thus, the technology held FI process takes the banking services to the poor rather than poor people coming to the bank.

CONCLUSION

The development of especially need based technology enabled multi-agency banking and financial services sector in India, particularly in the post reform period has been revolutionary and now, perhaps has no parallel in the world. However, wide disparities still exist across India and within States in terms of access to financial services to the larger sections of community in the rural areas. India's six largest cities have 11 per cent of the country's bank branches while four districts have only one branch each. The bottom 50 districts of the total 632 have just 2 per cent of the country's bank branches. According to ratings agency CRISIL Report, the developed states like Gujarat and Maharashtra lag behind the national average of 40.1 ultimately resulting in a loss of GDP due to lack of FI. The southern region has raced ahead of all the regions in India and particularly UT of Puducherry is on the top across all three dimensions of FI -- branch penetration, deposit penetration, and credit penetration. The already efforts put in by SLBC Indian Bank and other banks in Puducherry were specifically highlighted by RBI in its Annual Policy Statement for the year 2006-07and advised other SLBC conveners in their States and UTs to identify at least one district in their area for achieving 100% FI on the lines of the initiative taken in Puducherry.