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Role of Indian Banking System and Financial Inclusion for Rural Development

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Abstract

Financial inclusion is a process to make the financial services sector accessible at an affordable fair and in transparent way by the institutional players to these vulnerable groups. Indian banking sector is one of the main pillar of this Indian financial system. The financial inclusion does not mean giving credit to poor or merely opening an account, it also covers all other formal financial services such as insurance, borrowings, savings and other remittance facilities. This article also reveals the need of financial inclusion for the empowerment of the rural population. The banking sector in India is contributing great efforts to increase the financial inclusion in rural India. This work explains the various initiatives by the Reserve Bank of India by considering the rural area for development. The focus should be at the grass roots level to check whether the schemes or initiatives taken by various stakeholders are being implemented successfully or not. With this regards, coordination is needed among the various stakeholders to fulfill the goal of financial inclusion.

Keywords: Financial Inclusion, Rural Development, Micro-Finance, DBT

Introduction

The main agenda of development all over the world is to reduce the poverty and vulnerability of people. In the era of modernization, each sector of the economy wants to increase its performance and its scope. In the traditional concept of business, the profit earning is only the sole motive of every sector but now to satisfy the wants of the customer as per their desires and comfort is the main concern of each business house. Apart from imparting customer satisfaction through its services, the aim of financial sector should also be to expand its reach and tap that section of society which is yet to relish the advantages of financial sector like the rural population, the tribal or socially backward society of the country. A large percentage of rural population engaged with the agriculture and other associated services are yet to receive the benefits of the services of country's financial institutions.

Financial inclusion is the answer to the problems associated with imparting financial services to the weaker section of the society. It refers to the process of making the financial services accessible and affordable to all specially to the weaker section of the society. Financial inclusion does not mean giving credit to poor it also covers all other financial services such as insurance, savings and other remittance facilities (The World Bank, 2014). It offers the delivery of credit and all other subsidiaries financial services at viable rates of interest to the weaker section of the society where people are still not connected with the formal banking sector. They are suffering from high rates of interest from the informal sector to avail credit and other remittance facilities (Oncu, 2012). Today the Indian banking system is dealing with the issue of financial inclusion. Opening new bank accounts is a traditional view of financial inclusion, now day's financial inclusion is beyond merely opening an account, it helps the weaker section of the society to create the awareness regarding the benefits of having a bank account which will fulfill their needs.

In India, almost half of the population of the country is unbanked with the formal banking sector of Indian financial system. The government of India and RBI (Reserve Bank of India) has been making numerous efforts to promote financial inclusion to fulfill the gaps concerned with the social and economic development of the country. These several measures are concerned with the nationalization of banks, boosting the branch network of scheduled banks, co-operatives and regional rural banks, niche banking, SHG(Self Help Group)- Bank Linkage programme etc. In rural areas, where the ease of access is a problem, the banking industry is using micro- credit network, business correspondents and also linking Indian post to bring more population under the umbrella of financial services.

Review of Literature

The Indian banking system focuses to expand the rural branch network to step up higher scale of operations. This expansion acts as an opposite trend seen in the past decade that limited the exposure of rural branches by the formal banking sector. But to reduce the additional cost incurred to ensure profit from the rural operations, banks have to adopt the technology in such a way that would make branchless banking accessible to all (Srinivasan, 2007). According to the committee on financial inclusion, Financial Inclusion, refers to the process to ensure the accessibility of various financial services to the vulnerable or the weaker section of the society at an affordable cost with adequacy of time and credit (Rangarajan, 2008). The banking sector is connecting the financially excluded disadvantaged people to the formal sector and also giving the competition to the local money lenders who are charging the higher rate of interest and exploiting these people. (Mahadeva, 2009).

Micropayments playing a vital role to fulfill the gap in existing financial system for providing the access to the rural and poor people further the author stated that the coordination among the different financial institutions is essential to tap the unbanked areas to meet the financial needs of the rural population (Unique Identification Authority of India, 2010). As per the study by (Ghosh, 2013), to ensure the efficient financial inclusion the central banks have to encourage the diversity of institutions and also build the proper coordination among these financial institutions. The progress in the financial inclusion also occurred with the announcement of DBT (Direct Benefit Transfer) because as compared to the accounts before 2010 now up to 2013 there are 51 % of males and 65 % females who have opened the accounts in the village of the Punjab (Sangwan, 2014). In region and provinces of Turkey, Yorulmz (2013) studied access, availability and usage as dimensions for constructing Financial Inclusion Index. It was found the positive relation between the level of income and the level of financial inclusion in the region and provinces of Turkey (Yourulmz, 2013).

Objectives of the Study

- To understand the role of financial inclusion in rural development.
- To know the status of households accessing the banking services during 2001-2011
- To give an overview of the various initiatives taken by the RBI for financial inclusion in rural India.

Why financial inclusion is needed for the rural development.

The development in rural India is needed for the overall development of the economy as whole. Many government policies and programmes were considered as remarkable strategies to address the rural development concern. Financial inclusion is the key to balance the accessibility of banking services between rural and urban areas. In order to ensure the success of rural development schemes of the government through financial inclusion, a special attention of people through voluntary participation is also required by their enrolment and participation. Microfinance plays a vital role in this relation to uplift rural society. Major share of the country's revenue is generated by the rural sector. According to NABARD and RBI, Microfinance is defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards" (NABARD 2000; RBI 1999).

Recently, A new integrated approach launched by the prime minister of India "**Pradhan Mantri Jan-Dhan Yojana (PMJDY)" to provide the accessibility of various banking services like providing the saving accounts, insurances and pension products and easy micro-credit to encourage the rural people to get their self-reliance and to build their moral. In the progress-report of Pradhan Jan-Dhan Yojana as on 31st March 2017, the progress has been mentioned in the following table:**

Table 1: Progress-Report of Pradhan Jan-Dhan Yojana

Type of Bank	Beneficiaries at Rural/ Semi-urban centre bank branches (In crore's)	Number of RuPay issued to beneficiaries (In crore's)	Balance in beneficiary accounts (In crore's)	Beneficiaries at Rural/ Semi-urban centre bank branches (In crore's)	Number of RuPay issued to beneficiaries (In crore's)	Balance in beneficiary accounts (In crore's)
	2015			2017		
Public Sector Bank	**5.33**	**9.12**	**8.17**	**23.15**	**17.90**	**50420.91**
Regional Rural Bank	**1.84**	**2.17**	**15.9**	**4.69**	**3.54**	**11642.32**
Private Banks	**.32**	**.52**	**.27**	**0.92**	**0.85**	**2100.03**

Source: (Department of Financial Services, 2017).

It is quite clear from the table there is tremendous change in the banking industry. Due to this intiative number of peoples attached with formal financial sector.

Status of the households enjoying the banking services as per census of India.

	Census 2001			Census 2011		
	Total Number of households	**Households getting banking services**	**Percentage**	**Total Number of households**	**Households getting banking services**	**Percentage**
Rural	138,271,558	41,639,950	31.1	167,826,731	91,369,806	54.4
Urban	53,692,377	26,590,692	49.5	78,865,937	53,444,938	67.8
Total	191,963,935	68,230,642	35.5	242,692,668	144,814,744	58.7

Source: Data taken from RBI.

Above mentioned data shows that about 70% of the population of the country is living in the rural areas in which only 31% of the rural households are getting access to the banking services out of total number of population in 2001. If we compare the data of rural households and urban households with 2001 to 2011, there is increase of accessibility to banking services in the rural area by 23% as compared to the urban area by 18%. It reflects that financial inclusion does help the rural people to avail the financial services. The overall data shows that people are more connecting themselves with the banking industry.

Various Initiatives taken by the Reserve Bank of India for promotion of financial inclusion

As advised by RBI, all the banks were to submit a Board approved three-year Financial Inclusion Plan (FIP) starting in. Banks were required to devise FIPs congruent with their business strategy and comparative advantage and to make FIPs an integral part of their corporate plans. The FIPs to included:

- Self-set targets for rural brick and mortar branches to be opened.
- Coverage of unbanked village with population above and below 2000 through
    - Branches
    - Business Correspondents (BCs)
    - Other modes
- Number of no-frills accounts to be opened covering
    - BCs / ICT
    - Kisan Credit Cards (KCCs)
    - Genral Credit Cards
    - Other products designed for financially excluded segments
- Include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

Providing no-frills accounts: It is difficult for the disadvantaged people to meet the basic requirements of the savings accounts the minimum amount is needed, but the RBI is providing the savings accounts to these people without any minimum requirement.

Simplify the KYC norms: Changes made in the filling of KYC norms so that the documentation be filled in a simple way because rural people many a times don't have their identity proofs that are required for opening an account. Small accounts can be opened with the concern of another account holder.

Appointing rural intermediaries

Business correspondents are appointed by the banks to increase the accessibility of the banks and also local people are more capable to remove the hesitation among the people regarding the banking industry in the form of SHGs, NGOs and local bodies.

DBT (Direct Bank Transfer): Introduction of DBT increasing the enrollment of the rural household in the banking sector to get their money from government funding like MANREGA workers are getting their wages directly in their account. Finance Minister Arun Jaitley announced in the budget 2015-16, Direct transfers of benefits is further extended to boost the number of beneficiaries from 1 crore to 10.3 crore.

- In tune with the Governments' mandate for transferring all benefits directly to the beneficiaries' bank accounts, RBI encouraged banks to implement Electronic benefit

Transfer (EBT), since the social security beneficiaries may be residing in smaller villages also. RBI issued guidelines to SLBC convenor banks in June 2012 mandating then to prepare a road map covering all unbanked villages of population less than 2000 and allot them to banks for providing banking services in a time-bound manner. RBI also advised banks to have a BC touch point in each of the villages in the country for provision of EBT services.

- Initially, in some states, “one bank-one district” model was adopted for implementing the EBTs. However keeping in view of the difficulties faced in implementing across all the villages of the district under this model, RBI advised implementation of EBT through “one district-many banks-having presence in the concerned district would participate in EBT, though for administrative convenience, the Government would deal with only one leader bank (Sangwan S. S., 2014).

RBI on the above lines adopted a planned and structured approach to achieve financial Inclusion through the FIPs, as a self-set targeted intervention with measurable and monitorable outcomes. For the implementation of these plans, banks are closely monitored by RBI on monthly basis through a quantitative reporting format. Qualitative aspects are monitored on a quarterly basis. Annual comprehensive review is undertaken at the level of Deputy Governor of RBI on a one to one Basis with CMDs of major banks. RRBs which migrated to Core Banking Solution(CBS) in the end of 2011 also formulated similar comprehensive FIPs.

Financial Inclusion Plan 2013-16:

By the end of March 2013, there has been significant progress in the penetration of banking services and opening of basic bank accounts, but the number of transactions through ICT based Business correspondents (BC) outlets is low. To ensure the access of formal financial services, the continuation process has been ensured for the progress that made during the year 2013-14, for the nine months period ending December 2013, is quite encouraging as could be seen from the flowing data :

- Banking connectivity has been extended to nearly 328679 villages (200760 Villages in March 2013)
- Total number BSBD accounts have a gone up to 229 million of which 108 million are ICT based accounts
- In the nine months period, about 238 million transactions have been carried out in ICT based accounts through BCs, as against 250 million transactions during the year 2012-13.

Conclusion

Financial inclusion is an ongoing process it is not for short span of time. Financial inclusion is a big mission which requires coordination and team efforts among the various stakeholders which include government and non-government bodies, Indian financial system, the regulatory bodies, the private players to work at large level to overcome financial exclusion. Financial inclusion is not just limited to opening an account, the work of financial inclusion can't be over until the weaker section of the society gets benefited to the maximum. The focus should be at the grass roots level to check whether the schemes or initiatives taken are being implemented successfully or not. The change is required in the mind set of regulators only then the purpose of financial inclusion can be achieved. The concept of financial inclusion empowered rural people to get self-reliance and self-respect.

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