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Transformation from Class banking to Mass banking- A review of Literature

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Abstract

Financial inclusion has been defined as the ability of individuals to access appropriate financial products and services (Treasury Committee, House of Commons, UK. 2004). According to the Committee on Financial Inclusion in India (Chairman: C. Rangarajan, 2008), financial inclusion is 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. The present paper is an attempt to understand the various dynamics of financial inclusion. This is more relevant topic considering the new government's initiative through PMJDY. In this direction, the methodology used is purely secondary sources and this will give a new direction for further research.

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An Overview

In India, passing of the Cooperative Societies Act in 1904 is often heralded as the first initiative to provide rural credit to the country's predominantly agricultural economy. Introduction of social control of banks in 1967, followed by nationalization of 14 major commercial banks in 1969, to the establishment of Regional Rural Banks (RRBs) in 1975, second phase of nationalization of 6 more banks in 1980, and establishment of National Bank for Agricultural and Rural Development (NABARD) in 1982, was driven by the underlying philosophy of social responsibility of the banking sector and part of the efforts to improve financial access for

India's poor. Initiatives like prescription of priority sector lending targets for banks, lending to weaker sections at concessional rates of interest and introduction of lead bank scheme were meant to expand the outreach of banking facilities and increase the flow of credit to the rural areas.

The broad approach towards financial inclusion followed in India in the 1970s and the 1980s was more oriented towards credit requirements of neglected sectors of economy and there was relatively low emphasis on individual/household level inclusion. The second phase from 1990 till 2005 marked a liberalization phase in which major focus was on strengthening the financial institutions as part of financial sector reforms in the wake of Narasimham committee recommendations. Financial inclusion efforts in this phase got a fillip mainly with the introduction of Self Help Groups(SHG) bank linkage programmes in 1992 and Kissan Credit Cards (KCC) for providing credit to farmers (RBI, 2008). However, with the deregulation of banking sector in India the ratio of rural plus semi-urban branches to urban plus metropolitan branches distinctly declined (Pal and Spare, 2010). The poor and disadvantaged segments of society were affected as banks revised their marketing and pricing strategies to serve affluent sections of society due to information asymmetries (Leyshon and Thrift, 1996; Sharma and Reddy, 2003).

The third phase, beginning from April 2005 marks 'financial inclusion' being explicitly accorded its due priority as a major policy initiative. Government of India and Reserve Bank of India have introduced several schemes to further financial inclusion in the form of Basic Savings Bank Deposit Account (earlier known as "no-frill" accounts), simplifying "Know Your Customer" (KYC) norms, providing pro-poor banking products like General Purpose Credit Card (GCC) and direct benefit transfer (DBT) (i.e., direct credit of wages of government benefit schemes like Mahatma Gandhi National Rural Employment Guarantee Act to bank account). Various initiatives are being undertaken to develop an efficient credit delivery system by using information and communication technology solutions (such as smart cards, mobile or hand held devices etc.) and the model of branchless banking (by engaging agents or intermediaries such as business correspondents) is also gradually taking roots. Such efforts are effective ways to help banks increase their outreach at minimal operational costs (Handoo, 2010).

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Reserve Bank of India(RBI) had appointed a 'Committee on Comprehensive Financial Services for small businesses and low-income households' under the Chairmanship of Dr. Nachiket Mor, member of the Central Board of Directors of RBI in September 2013. The Committee was entrusted with the task of : (i) To frame a clear and detailed vision for financial inclusion and financial deepening in India; (ii) Designing principles for achievement of financial inclusion and financial deepening across the country; (iii) Development of comprehensive framework to monitor the progress of financial inclusion. The Report made public in January 2014 has outlined six vision statements for full financial inclusion and financial deepening in India, which can be summarized as: (1) Universal Electronic Bank Account; (2) Ubiquitous access to payment services and deposit products at reasonable charges; (3) Sufficient access to affordable formal credit; (4) Universal access to a range of deposit and investment products at reasonable charges; (5) Universal access to a range of insurance and risk management products at reasonable charges; and (6) Right to Suitability. RBI has initiated implementation of a few of the recommendations of the committee in a phased manner.

Prime Minister of India, Mr. Narendra Modi, announced a major socio-economic initiative of the Central Government,named 'The Pradhan Mantri Jan-Dhan Yojana', in his Independence Day speech on August 15, 2014. It is an ambitious attempt at extending formal financial services in a country where only 58.7 per cent of an estimated 24.67 crore households avail themselves of banking services. This new scheme envisages a bank account, a debit card and an insurance cover of Rs. 1 lakh for each family, which has been formally launched on August 28, 2014. Despite several steps taken by many previous governments over the years, financial inclusion has remained elusive. In rural areas 44 per cent of the households and in urban areas 33 per cent of them still do not have a bank account. The problem is still serious if we consider the fact that a good number of accounts opened remain dormant after a few months of opening due to no transaction. Further, opening a savings bank account with a Bank is not a true indicator of financial inclusion. Because a family needs savings bank account for liquidity management and as safe avenue for storing available surplus, insurance for safeguarding health, protecting life and other productive assets, credit for meeting their production or consumption needs, pension product for meeting retirement needs besides a remittance product, to say the least.

Thus, implementation of the 'Pradhan Mantri Jan-Dhan Yojana' is a reaffirmation of the commitment of the Central Government to make available formal financial services at grass-root level.

Objectives of the study

- ✓ To understand the various dynamics of financial inclusion.
- ✓ To undertake the empirical research on the basis of variables identified through the review of literature.

Research methodology

The present paper is based on the secondary data. For this purpose various journals referred and also information also collected from various websites. In this regard various libraries were visited.

Review of Literature

Midgley, J. (2005) has analyzed the policy discourses around financial exclusion and considers the (social and economic) geographical issues surrounding one particular policy response – universal banking services. The study has highlighted how the introduction of universal banking services and the role of the Post Office in assisting financial inclusion. The central aim of universal banking has modernized the welfare system, and only through delays and increased costs did proposals emerge for the direct transfer of welfare payments into accounts. [1]

Mahendradev, S. (2006) has explained the formal banking institutions, looked at inclusion both as a business opportunity and social responsibility, the role of the self help group movement and microfinance institutions is important to improve financial inclusion. In Andhra Pradesh, 73 per cent to 83 percent of outstanding loan for small and marginal farmers is from informal sources such as moneylenders and traders. Supply and demand problems have to be solved with appropriate policies. However, some regulatory procedures for MFIs may have to be evolved by having consultations with MFIs, consumers and the government. The risk elements of small and marginal farmers and other vulnerable groups have to be taken into account in framing policies for financial inclusion.[2]

Helen S. Toxopeus et al. (2007) has focused on the relationship between remittance inflows and financial inclusion in developing countries. In addition, research could improve by including other characteristics of the sending migrants into the analysis, such as income level since this is likely to play a role in the effect of remittances on financial usage. This would give better insight into the categories of migrants who are banking, who become banking individuals because of remittances, and who still do not use any formal financial services. Policy can then be focused on the groups who are yet to become banking individuals. The paper presented single equation estimates on remittances and financial inclusion, and system estimates in which economic growth is explained by e.g., financial inclusion, and financial inclusion by, e.g., remittances inflows. These regressions clearly confirmed main hypothesis that remittances have a development impact through their effect on financial inclusion. Overall, this paper indicates the importance of studying the effects of remittances in developing countries.[3]

Chandan Kumar Goyal (2008) has looked into the circumstances that led to the growing consensus about financial inclusion/exclusion in recent years. It attempted and made a comparative analysis of the status of financial inclusion in Assam, Northeastern Region (NER), and India as a whole. The study also revealed that branch distribution per sq km in the states is quite unfavourable for the region compared to the Indian average, which negates the advantage of lower APPBO (Average Population per Branch Office) in some of the states. In Assam, each bank branch covered an area of 62 sq km, whereas in Arunachal Pradesh a single branch covered1,232 sq km. The average for the NER (131 sq km) is around thrice that of the national figure of 47 sq km. The study concluded the banks by adopting a flexible approach and imparting financial education should help in creating awareness about the financial products. Moreover, IT can also play an important role in reaching the financially unreached. Better technological facilities such as ATMs, e-banking, etc., can also help in overcoming distances and bringing down the dependency on informal sources. The banks should start taking financial inclusion of low-income groups both as business and corporate social responsibility.[4]

Deepak Barman et al. (2009) has discussed the Microfinance intervention is considered an important component of development strategy to mainstream the poor rural households with the formal financial system in India. This survey was conducted among 59 households of twelve villages covering four blocks of Varanasi district in the Eastern Uttar Pradesh (U.P). The collected data were used the chi-square statistical test. The study found 25 percent for SHG clients and 20 percent for MFI clients confirming to the notion that microfinance services are not only provided to those who fall below poverty line but also to the category of vulnerable non-poor who are at risk of slipping into poverty. The percentage of households receiving BPL rationing was found as 66 percent in case of MFI clients as compared to the 50percent of SHG clients. The Comparison of two microfinance models in the research area revealed that the level of indebtedness to moneylenders is higher in the case of clients of MFI model.[5]

Stephen Sinclair et al. (2009) has concluded financial exclusion is a social policy research to establish what is genuinely known, and what remains unknown about financial exclusion. The paper was provided reassurance that representatives from a range of sectors accept as sound the general picture currently assumed about financial exclusion, and to identify some research and policy priorities. The private sectors have a central role in providing financial services and therefore must be included in any response to continued exclusion. The efforts to acquire it and the benefits of deploying it wisely are too great to be squandered, but unlike other resources it can be multiplied when shared; this obliges us to accord knowledge exchange a vital role in tackling exclusion.[6]

Louise Dobbie et al. (2010) has reviewed a summary of evidence on the health benefits of financial inclusion. The links between poverty and ill-health are well established and people living with long term ill-health or disability are more likely to be living in poverty, a key factor in poorer health outcomes that have far-reaching effects on individuals and their families. The specific association between poor mental health and poverty is also recognized and there is a strong association between debt and poor mental health, with consequences for the relationship between mental health and financial inclusion. The study presented opportunities for future evaluation and research to explore the health impacts of these approaches which support the positive effects of benefits advice on mental health and socio-economic wellbeing.[7]

Indu Mehta (2011) has discussed the successful model of Micro Finance Institutions (MFIs) wherein the client is serviced at the doorstep without the physical infrastructure. The Sample size of 35 nos of FINO Bandhus, were interviewed personally through survey method and, non-probability & convenient sampling was used. And the study was generalized that there is now a consensus on the use of corporate networks as BCs (Business Correspondents) as it would reduce the physical burden on banks in attending to the banking needs of small ticket clients. Technologies scalable & secured no barrier as such of adoption for technology in scalability &security. But technology strategy should be holistic with multi sectoral and multidisciplinary process. Business Correspondent must protect and sustain the image of parent bank.[8]

Pokhriyal, A.K. et al. (2011) has discussed the SHG - bank linkage program's contribution towards removing the disparities prevailing in various regions of the country. The study concluded the diminishing branch network of the banks in the rural areas indicates that rural areas are not given much importance and kept outside the periphery of growth. This situation

becomes even worse in the light of the fact that India is an agrarian economy. Share of smaller credit in the total credit disbursed by the scheduled commercial banks, has been decreased to a very significant proportion. Smaller credit represents the poor, unprivileged people and its diminishing share shows that these people are not being provided with the adequate credit. Rural areas and rural people are still deprived and discriminated in the context of financial inclusion and growth. Difficult regional, political, economical conditions have led to the slow movement of the SHG-bank linkage Program in some regions. Banks should put more attentive efforts for the promotion of this program. Moreover, large sized NGOs should also be promoted in those regions and operations of Swamjayanti gramswarojgar yojna should be made more effective and inclusive.[9]

Bandgar, P. K. (2012) has explained more than 65% of the Indian population is still unbanked and does not have access to basic banking facilities. The poor and the excluded have successfully organized themselves in 25 lakh self-help groups (SHGs).The SHG linkage programme and microfinance has achieved a phenomenal growth over the years bus there is still a larger segment of society that is denied access to financial services. MFIs give tiny loans to poor borrowers at a 24-36% rate of interest and source money from banks to do business. The following suggestions are made for the implementation of Financial Inclusion in India: The MFIs need to operate under and be held accountable to clear regulations that are overseen by a single regulator RBI. In an ecosystem for profit, MFIs can play a credible, responsible and sustainable role. Therefore, there is a need to have financial inclusion regulation in our country. The government had placed a draft microfinance bill in July 2011 that sought to put MFIs outside the purview of state level legislation. It is expected that the bill will be discussed and passed in the winter session. [10]

V.Ganeshkumar (2013) observed that the branch density in a state transactions the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. Branch density and Literacy in creating investment awareness has a significant impact on financial inclusion. By just creating investment awareness is not possible to achieve financial inclusion at the same time there need to be significantly improving the investment opportunities in India.[11]

Hema Divya, K. (2013) in her study of financial inclusion of daily wage earners of Tenali in Andhra Pradesh observed that there is more need to educate and create some new instruments for daily wage earners and make them a part of financial inclusion programme.[12]

Uma, H.R. and Rupa, K.N. (2013) in the case study on the role of self-help groups (SHGs) in financial inclusion observed positive impact of SHGs on financial inclusion. The number of bank accounts, credit availed and repayment of credit did show positive increase with the membership of SHGs.[13]

Rahul Sarania and Shrabanti Maity (2014) examines the impact Self-Help Groups (SHGs) on financial inclusion of rural people in the district of Baksa, Assam. A total of 180 respondents [(90 participants) and (90 nonparticipants)] were selected for the purpose of the study and the overall results revealed that the SHG-Bank linkage programme increased the degree of financial inclusion among SHG households as compared with non-participants households.[14]

Chowhan & Pande (2014) concluded that by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. To mitigate such sufferings, the Pradhan Mantri Jan Dhan Yojna lies at the core of Govt of India development philosophy of Sab Ka Saath Sab Ka Vikas. In projecting brighter future of PMJDY they further mentioned that its huge success will enable the Bank Managers to understand and utilize the opportunity provided by Financial Inclusion to their advantage, by participating in Govt‟s poverty alleviation programmes for weaker section, improving their CASA base, raising their deposit base through direct fund transfer scheme of the Govt. etc. [15]

Kaur & Singh (2015) found that financial inclusion in India will help government and banker to reach at untapped potential of bottom of the pyramid section of Indian economy. They have also described that The widely acknowledged & successful launch of this PMJDY scheme also strengthens the resolve that when coordination, dedication, opportunism, commitment, formalization, dependence, trust, satisfaction, cooperation and continuity is provided by all the constituents and stakeholders, a framework of construct is created which acts as a dominant force for accomplishment of the mission. [16]

Raval (2015) in his research mentioned about importance of inclusion of people of low income or deprived class in economic development. PMJDY is such an initiative in this direction by the government of India. He also studied that an initiative to cover "excluded segment" can be successful if government is backed with efforts of private sectors and involvement of people beyond just policy formation of government. [17]

Balasubramanian (2015) has focused on importance of financial literacy focusing on saving habit among poor. He has build decision tree model indicated that the number of earning members, family size, average monthly income and nature of employment are the deterministic independent variables which influence the regular saving behavior of the poor.[18]

Joshi & Rajpurohit (2016) have found that government is consistently working for the betterment of rural customer by taking initiative through various schemes. They are partially successful in increasing awareness about new financial inclusion plan – Prime Minister Jan Dhan Yojana (PMJDY) compared to old Swabhimaan. But still government is not able to affect the awareness level of rural customer about financial inclusion schemes significantly. In this study the researchers have found that rural customers even do not have enough exposure to various banking services, on top they did not realize importance of various banking services. Various factors like demographic factors (age, occupation, gender and education level), source of information etc in relation to level of awareness of rural customer about new financial inclusion scheme were studied, but none of the factor found significant. However it was found that the major reason for the low level of awareness about financial inclusion schemes is lack of understanding about important role of banking services in financial betterment. Thus, for better outcome of financial inclusion schemes, government need to work on making rural customer aware about importance of various banking services in improving their financial health.[19]

Concluding observation

It is unfortunate that even after 68 years of independence we are not able to provide the basic banking facilities in the rural area. There may be number of dynamics in this regard. Through this paper we tried to identify various dynamics such as increased transaction cost, distance, role of microfinance institutions, income level, saving habits, dependency on informal source, improper branch distribution, knowledge exchange among banks, lack of financial literacy, exploitation by local money lenders, public private initiatives, saving habits, low level of banking exposure and lack of understanding of importance of banking services.

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