FINANCIAL INCLUSION AND BANKING INITIATIVES IN INDIA: AN OVERVIEW

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Abstract : Poverty reduction has long been identified as a major challenge to both governments and international organizations such as the United Nations and World Bank. Exclusion of the underprivileged and the disadvantaged – economic, political and social have long been identified as major contributing factors to poverty. While traditionally low income was considered as sufficient criteria for defining poverty, there has been a growing unanimity amongst sociologist and economists alike on the correlation of 'exclusion' and 'poverty'. In fact in the 20th century, the concept of 'inclusion' or more simply the lack of it became a focus point. Eradication of poverty and ensuring a just and an inclusive society has been a prime cause for policymakers and planners post World War II. Decades of national and international experiences in planning and execution has brought about a growing realization of the importance of 'Financial Inclusion' in the fight for poverty eradication. Existence of an inclusive financial system significantly raises growth, alleviates poverty and aids in expanding economic opportunities to the excluded. Financial Inclusion emphasizes on key priority areas in promoting financial inclusion namely i) access to banking products/ services ii) access to affordable credit in the organized financial sector iii) access to free quality financial consultancy services.). The 11th Five year Plan vision statement aimed at "Towards Faster And More Inclusive Growth". The 12th Five year plan document aimed at "Faster, More inclusive and Sustainable Growth" emphasizing the need for inclusive and sustainable nature of growth in India. As Usha Thorat, Deputy Governor RBI (2007) states "The case for financial inclusion is not based on the principle of equity alone – access to affordable banking services is required for inclusive growth with stability". The current paper seeks to study in brief the various Banking Initiatives in Post- Independent India aimed at Financial Inclusion.

Keywords: Banking, Inclusion, Poverty.

INTRODUCTION

The Millennium Development Goals, 2000 has brought into renewed focus the state of world's most disadvantaged groups -the 'poor'. The Millennium Development Goals(MDG) seek to offer time bound and quantified targets aimed at addressing extreme poverty in its many dimensions namely income poverty, hunger, disease, lack of adequate shelter and exclusion. The MDG's also aims to promote gender equality, education, and environmental sustainability. Poverty reduction has long been identified as a major challenge to both governments and international organizations such as the United Nations and World Bank. Exclusion of the underprivileged and the disadvantaged – economic, political and social have long been identified as major contributing factors to poverty (G.A. Akerlof et al). While traditionally low income was considered as sufficient criteria for defining poverty, there has been a growing unanimity amongst sociologist and economists alike on the correlation of 'exclusion' and 'poverty'. In fact in the 20th century, the concept of 'inclusion' or more simply the lack of it became a focus point for many social reformers and activist. As the Architect of Indian Constitution B.R. Ambedkar puts it "What are we having this liberty for? We are having this liberty in order to reform our social system, which is full of inequality, discrimination and other things, which conflict with our fundamental rights".

Eradication of poverty and ensuring a just and an inclusive society has been a prime cause for policymakers and planners post World War II. Decades of national and international experiences in planning and execution has brought about a growing realization of the importance of ‘Financial Inclusion’ in the fight for poverty eradication. Empirical evidence shows that existence of an inclusive financial system significantly raises growth, alleviates poverty and aids in expansion economic opportunities to the excluded (Dr. J. Chandran, 2008). The 11th Five year Plan vision statement aimed at “Towards Faster And More Inclusive Growth”. The 12th Five year plan document aimed at “Faster, More inclusive and Sustainable Growth” emphasizing the need for inclusive and sustainable nature of growth in India. As Usha Thorat, Deputy Governor RBI(2007) states “The case for financial inclusion is not based on the principle of equity alone – access to affordable banking services is required for inclusive growth with stability”. The current paper seeks to study in brief the various Banking Initiatives in Post- Independent India aimed at Financial Inclusion.

CONCEPT OF FINANCIAL INCLUSION:

Dr. K.C. Chakrabarty, Deputy Governor RBI (2011) states “Financial Inclusion is the process o f ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players”.

According to Breckland Council, UK “Financial inclusion is defined as the ability of an individual, household, or group to access appropriate financial services or products. Without this ability people are often referred to as financially excluded”.

UNDCF observes “Financial Inclusion is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment. There is a strong consensus that increased levels of financial inclusion – through the extension of savings, credit, insurance, and payment services – contributes significantly to sustainable economic growth”.

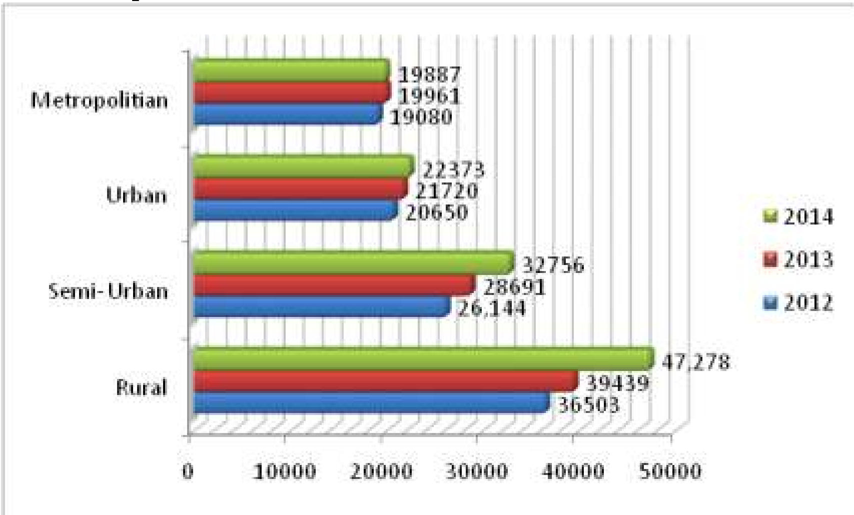
According to Indian institute of banking and finance,” Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."

The definitions of Financial Inclusion emphasizes on key priority areas in promoting financial inclusion namely i) access to banking product services ii) access to affordable credit in the organized financial sector iii) access to free financial consultancy services.

BANKING INITIATIVES IN INDIA:

The Partition of India and the resulting chaos almost paralyzed banking operation post independence. The initial decades went in consolidation of the political, social and financial infrastructure in the country. The first big push aimed at financial inclusion came in the form of nationalization of 14 major commercial banks in 1969 by the Indira Gandhi government. The banks were estimated to control 85% of the bank deposits in India. The second round of nationalization came in the 1980 with nationalization of 6 more commercial banks. The lead bank scheme launched in 1970 was another major step aimed at boosting financial inclusion in the country. Establishment of Regional Rural banks (RRB’s) in 1975 and the National Bank for Agriculture and Rural Development (NABARD) in 1982 aimed at providing refinance to banks extending agricultural credit in rural areas were major banking policy initiatives which helped significantly in expanding banking facilities in the unbanked rural areas of the country. The RRB’s was also set up to ensure expansion of the banking services to include the poorest of the poor in India. As of 31st December, 2015, Commercial Banks and RRB’s had a network of 122,294 against 109,811 branches as of 31st March, 2013 as compared to 68,282 branches as of March, 2005 and 8321 branches in 1969.The average population per branch office decreased from 64000 in 1969 to 16000 in 2005 to 12000 at the end of March, 2013.However, a closer look reveals a vicious rural and the urban divide and the extent of exclusion in rural areas as shown in Graph 1below.The ratio of Bank branches to population has seen a steady increase in rural areas.

Graph 1
Population Group Wise number of Branch office of Scheduled Commercial Banks



Source: Statistical Table.RBI 2012-13 pg 2 and 2013-14 pg 2

In 2004, the RBI set up an Internal Group on Rural Credit and Microfinance, which is popularly known as the Khan Committee under the Chairmanship of H.R. Khan. Based on the recommendations of the committee, RBI prepared guidelines for expansion of the banking outreach through the Business Facilitator and Business Correspondent models with ICT support, which revolutionized the spread of financial inclusion in India. A number of initiatives were incorporated in its midterm review of policy (2005-06) by the RBI aimed at achieving greater financial inclusion.

No Frill's Account: Born out the recommendations of the Khan Committee, RBI advised commercial banks to facilitate opening of Basic banking no-frills accounts with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population that have hitherto remained outside the banking reach. In addition banks were also advised to offer overdraft facilities on such accounts.

Relaxation on know-your-customer (KYC) norms: In August, 2005, the KYC requirements for opening bank accounts were relaxed for small accounts, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. Further the requirements have been relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, the RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission.

Pradhan Mantri Jan Dhan Yojana: Launched as an ambitious programme on financial inclusion by the incumbent Prime Minister Narendra Modi on 28th August, 2015 the scheme is seen as an extension of the 'no frills' account programme. Backed by massive media blitzkrieg as of 31st January, 2015- 12.54 crore accounts have been opened of which 7.50 crore accounts have been opened in rural areas. Deposits to the tune of Rs. 10499.62 crore have been mobilized. In addition 11.07 crore Rupay enabled Debit Cards have been issued as of 31st January, 2015. 180, 96,130 numbers of accounts were opened in one week which has been acknowledged as a world record by Guinness book of World Records.

CONCLUSION:

A great deal of work has been initiated and to some extent achieved by RBI and the Government machineries to ensure financial inclusion in the country. Nonetheless, given the big number of people (especially the poor) still out of the ambit of banking facilities- a renewed and concerted effort at mass level is required to achieve the yet elusive goal. As PM Narendra Modi puts it "This(financial inclusion) whole exercise is aimed at lifting the poor out of the poverty line.

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