

## **“FINANCIAL INCLUSION & OPPORTUNITIES TO O-OPERATIVE BANKS”**

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### **Abstract:**

*The Cooperative movement has a long history in India. Cooperative societies were set up in India towards the close of the nineteenth century drawing inspiration from the success of experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany. The last year 2012 is declared by the UN as the “International Year of Cooperatives”.*

### **INTRODUCTION**

Since inception, the Cooperative Banks have been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost, particularly, in the urban, semi-urban areas.

The extension of the Banking Regulation Act, 1949 to cooperative societies, with effect from 1st March, 1966, brought the cooperative banks within the ambit of the Reserve Bank's regulation and supervision.

### **INITIATIVES TAKEN FOR FINANACIAL INCLUSION IN GLOBAL IN SCENARIO:**

1. United States: Community Reinvestment Act (1977) requires banks to offer credit throughout their area of operation and prohibits them from targeting only the rich neighbourhood.
2. Germany: German Bankers' Association introduced a voluntary code in 1996 providing for an 'everyman' current banking account that facilitates basic banking transactions.
3. South Africa: A low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association.
4. United Kingdom: A 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion.

### **GUIDELINES OF RBI TOWARDS FINANCIAL INCLUSION:**

The RBI has also issued directives financial inclusion to all State and District Central Co-operative Banks in the letter No. RPCD.RF.BC.54/07.38.01/2005-06 dated December 13, 2005, that “these banks are advised to give wide publicity to the facility of such 'no-frills' account including in the local media indicating the facilities and charges in a transparent manner.” by C. S. Murthy, Chief General Manager In-Charge, Reserve Bank of India

### **FINANCIAL INCLUSION:**

Financial Inclusion is the process of 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 and in a fair and transparent manner by regulated conventional institutional players.

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### **WHY FINANCIAL INCLUSION:-**

Traditionally, we have observed that the poor are not welcomed to the banking fold with a misconception that they are not bankable and that there is no business opportunity in offering services to them. Banks and financial institutions had been, till recent times, financially excluding these people on the opinion with following reason that;

They have no or few assets,  
They have nothing to offer as collateral security,  
They have no business experience,  
They cannot be trained for availing financial services,  
They have no credit history, and  
They cannot understand the tone of banking due to illiteracy or lower education.

### **EXTENT OF FINANCIAL EXCLUSION- INDIA:**

In India, almost half the country is unbanked. Only 55 per cent of the population has deposit accounts and 9 per cent have credit accounts with banks. India has the highest number of households (145 million) excluded from Banking. There was only one bank branch per 14,000 people. There are 6 lakh villages in India, & Rural branches of SCBs including RRBs number 33,495. Only a less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage. Just 18 per cent had debit cards and less than 2 per cent had credit cards.

UCBs constitute a very small market share at 3.5 per cent (as of March 31, 2010) of the total banking sector.

### **STEPS TAKEN IN INDIA FOR FINANCIAL INCLUSION:**

Co-operative Movement & establishment of Co-operative Banks is the first step taken towards the financial Inclusion in India. Secondly the State Bank of India was established. Later Nationalization of major commercial banks was done, then Lead Bank Schemes was constituted like IDBI, ICICI etc. later RRBs (Regional Rural Banks) have been established, the promotion was given to self help groups. Still We Failed! and Why? Following are the reasons for failure.

Even though many steps were taken towards the financial inclusion, our country is lagging behind in financial inclusion for the following reasons.

Absence of Computer & Automation  
Absence of Banking Technology  
Absence of Reach and Coverage in villages & in remote area.  
Absence of feasible Delivery Mechanism  
Not having a Business Model  
Rich have no sympathy for poor  
Why Are We Talking of Financial Inclusion Now?  
Focus on Economic Growth  
Banking Technology has arrived  
Now it is realized that Poor is bankable

### **AREAS OF OPPORTUNITY FOR FINANCIAL INCLUSION:**

Generally farmers, small vendors, agricultural and industrial labourers, people engaged in unorganized sectors, the unemployed, women, older and physically challenged people, migrant labours, small businessmen, retailers, are the most commonly excluded segments. These segments are best addressed by the UCBs. The key advantage that UCBs enjoy over commercial banks is derived from their cost structure. The labour costs of UCBs are considerably less than that of commercial banks and generally the operating costs are also minimal.

UCBs are of Local Nature, it has advantage local information Being an integral part of the community, UCBs have an advantage over their commercial rivals in terms of having information both about upcoming business opportunities as well as borrower quality, which national-level banks have a hard time gathering.

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### **PRESENT SCENARIO URBAN CO-OPERATIVE BANKS:**

There are 1592 UCBs in India. Out of these 553 - UCB's are working in Maharashtra. There are total 53 - Scheduled Co-op. Banks working in India. Near about 6060 – total Branches of all Urban Co-operative Banks.

There are total 43,722 Villages in Maharashtra having population of 11 crore 24 Lac (Approx). It earns that 37662 villages are need to be banked. Today, there is only one branch behind population of 18,700. At the same time RBI has directed there must be one branch behind a population less than or equal to 2000 population.

### **SUGGESTIONS TO INCREASE COVERAGE OF FINANCIAL INCLUSION TO CO-OPERATIVE BANK:**

The researcher has suggested following things to capture maximum area under Financial Inclusion.

The UCBs can collaboration with different individuals, companies & institutions;

E.g. Technology partners such as mobile companies have been allowed as partner with banks.

Institutional Partners may be allowed as partner like Micro Finance Institutions, Non Banking Financial Institutions, Non-government organization, Self-help Groups etc.

Co-op banks should finance to SHG

The UCBs should migrate to the Core Banking Platform.

These Banks should setup financial literacy campaign for society.

All UCBs must have Computers & Automation

ICT based Business Correspondent (BC) Model for low cost door step banking services in remote villages.

Branches should be opened in Villages where there is less than 2000 population

Making available banking products through ICT model has been ensured.

25 % of new branches must be opened in unbanked rural centers.

KYC documentation requirements significantly simplified for small accounts. (Deposits having less than Rs. 50000/-

Pricing for banks totally freed. (No charges for minimum balance, cheque collection, statement printing etc.)

Interest rates on advances totally deregulated.

All Bank branches must have Core Banking Solution (CBS)

Multi-channel approach (Handheld devices, mobiles, cards, Micro-ATMs, Branches, kiosk (Stall)

A certificate from SHG being a member of SHG should be treated as KYC compliance.

Registered mortgage should be replaced by Equitable Mortgage so that charges additional burden will be minimized.

Limit on Amount of loan for mortgage should be increased to Rs.5,00,000.

Farmers should be given Kisan Credit Cards

Small businessman should be provided with Overdraft Credit Cards up to certain amount say Rs.50,000/-

Literacy Campaign is required in the rural areas.

Period lectures should be given in colleges for students participation

Earn & Learn Scheme can be implemented by tying up with rural colleges by appointing collection agents.

Emergency credit should be provided to the households with collateral security or guarantee

Entrepreneurial credit should be provided to the Literate Unemployed Persons

Internet Banking & Any Branch Banking should be made available at free of cost.

Education Loan should be provided with lower interest rate to the needy students

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