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Financial Inclusion: The Role of RBI and Government

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Abstract: *India is one of the developing countries in the world. This development should be distributed evenly among all the sections of the society. The development in the real sense is possible only when all the sections of the society are provided with all the basic services. The basic services in the country will be available to the people when they are provided with Financial services which is possible through Financial inclusion. Financial Inclusion is delivery of financial services, at an affordable cost to the vast sections of the society. The Eleventh and Twelfth Five Year plans are also stressing on the need for Financial Inclusion. The RBI and Government has been making various efforts to provide Financial inclusion in the length and breadth of the country.This paper highlights the basic feature of Financial Inclusion, the various measures taken up and the role of RBI and Government in providing Financial Inclusion. RBI has selected a unique bank led model to achieve inclusive financial services. Banks being the major source for providing Financial inclusion their achievement in providing Financial inclusion so far has been highlighted.*
Key Words: *Business Correspondents, Financial Inclusion, Financial Literacy, Pradhan Mantri JanDhan Yojana, Reserve Bank of India.*

I. Introduction

"Poverty is not just a lack of money; it is not having the capability to realize one's full potential as a human being."

AmartyaSen

India is one of fastest growing country in the world, with a growth rate of 7% as on 2017 Jan.The growth is not the only objective of India, but this growth should be equally distributed among all the sectors of the economy. Inclusive Financial System is the key that helps in achieving the goal of equitable growth. Financial Inclusion policies and initiatives also pave way for economic development, which is a prerequisite for employment, economic growth, poverty reduction and social cohesion that helps in savings, taking credit, invest and insure to break the chain of poverty. India has undergone a transformation of its economic and regulatory structure. The policy reforms that have taken place in the economy of the country led to the improvement in the market regulations and have led our country from a restrictive, limited access society to a more empowered open access economy, where people are able to access resources and services more easily and effectively. But despite these efforts, access to finance has remained scarce in rural India and for the poorest residents in the country.[1] Economic opportunity is after all, entangled with financial access. Such financial access is especially valuable for the poor.

II. Objectives

To study the role of RBI and Government towards Financial Inclusion
To study the various barriers towards a speedy Financial Inclusion

III. Review Of Literature

- **Anant Jayant Natu, Aashish Bansal, Amrita Kurian, Gurinder Pal Singh Khurana and TanushreeBhushan(2008)[2]** explored an innovative way of achieving financial inclusion not just in terms of access but in usage as well. It presents the prospect of coupling financial inclusion with social security schemes. The proposed model, currently being pilot-tested in Karimnagar district in Andhra Pradesh by Financial Information Network & Operations Ltd. (FINO), a technology provider, tries to facilitate financial inclusion over the channel and reach created by NREGP. This model can be put into practice in a number of ways. The study also illustrates how technology can facilitate efficient and effective financial inclusion.
- **Sameer Kochhar, Chandrashekhar .R, Chakrabarty .K.C, Deepak Phatak .B (2009)[3]** focused on various facets of financial inclusion ranging from opening up of no-frills accounts to micro-credit to financial literacy, while emphasizing the role of process changes, technology enablement, capacity building and outreach mechanism. It looks at examples of local bodies, post offices and tele-centres having been

used effectively. It also proposes a model of inclusive development, emphasizing that inclusive economics leads to inclusive governance and vice-versa. The book provides a holistic view based on practitioners' perspective and grassroots learning.

- **HemaDivya.K(2013)**[4]argued that 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 public policy. The objective of financial inclusion is to deliver banking services at an affordable cost to vast sections of the low-income groups. Indian Finance Minister has set the ball rolling by articulating the Government's decision to provide essential financial services like savings, credit, micro insurance and remittance, for all villages with population over 2,000 by March 2012. Therefore, the present study attempts to find out the impact of financial inclusion on daily wage earners.

IV. Role Of Banks

Banks play an important role as financial intermediaries in emerging market economies, both at a macro and micro level. At the macro level, banks contribute to growth through mobilization of savings and allocation of credit towards the most optimal deployment avenues available in the economy; while at the micro level, banks provide households and business men with an opportunity to realize their economic goals and improve their financial position by providing a wide range of financial services, thereby contributing to overall growth of the economy.

In India, the Government and the Reserve bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Reserve Bank of India has adopted a bank-led model for achieving Financial Inclusion and removed all regulatory bottle necks, it has also created conducive regulatory environment and provided institutional support for banks in accelerating financial inclusion in the country.

The well-developed Indian banking system plays an important role in economic development of our country. The various steps taken up by the RBI and Government over the past six decades to provide Inclusive Financial Growth are:

- Nationalization of Banks
- Lead Bank scheme
- Regional Rural Banks
- Financial Inclusion Fund and financial Inclusion Technological Fund

IV.1 Nationalization Of Banks

Financial inclusion is a major agenda for the RBI. Banks are the key players of India's financial system. Nationalization of State Bank of India which took place in 1955 followed by nationalization of seven formed subsidiary State Banks of India banks in 1959. The government has also nationalized 14 banks in 1969 and seven more banks in 1980 with deposits over 200 crores. Financial inclusion is now a common objective for many central banks as banking sector has taken a lead role in promoting financial inclusion. The period 1969 to 1991 saw a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 1,02,343in the year March 2013.

Table 1: No Of Branches Of Scheduled Commercial Banks As On 31st March 2013: Bank Group -Wise Number Of Branches As On 31.03.2013

Banks Group	Rural	Semi-urban	Urban	Metro	Total
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector Banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural banks	12722	3228	891	166	17007
Total	**37953**	**27219**	**19327**	**17844**	**102343**

Source www.rbi.org[5]

IV.2 Lead Bank Scheme

The main objective of Nationalisation of banks was to ensure that credit needs of the rural people are taken care of. The credit needs in rural areas such as agriculture, small scale industries and allied activities remain neglected, hence the Gadgil Committee recommended an area approach for bridging the spatial and structural credit gaps. Lead Bank Scheme was first adopted in 1969, in which each district has been assigned to different banks to coordinate the efforts of all banks and credit institution in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy.

IV.3 Regional Rural Banks

Nationalisation of banks was not able to bridge the entire credit gap in the rural areas. A vast majority of the small and marginal farmers and rural artisans remained untouched by the banking system. Therefore, the range of institutional alternatives was widened in 1975 by adding Regional Rural Banks (RRBs) to the banking scene which would exclusively cater to the credit demands of the rural and semi urban economy. The RRB were owned by the Central Government, the State Government and the Sponsor Bank, who held shares in the ratios as 50%; 15% and 35% respectively. The main objective of RRB's was to drive the moneylender out of business and bridge the capital gap unfilled by the rural cooperative and commercial banks in rural areas.

Table 2: Performance Of Regional Rural Banks

	Mar '13	**Mar '14**
No. of RRBs	64	57
Share Capital(Rs Cr)	197	197
Share Capital Deposit (Rs Cr)	6001	6170
Reserves (Rs Cr)	13247	15262
Profit earning RRBs (Rs Cr)	63	57
Net Profit of RRBs (Rs Cr)	2273	2744
Accumulated losses (Rs Cr)	1091	949
Deposits (Rs Cr)	211488	2,39,511
Loans and Advances (Rs Cr)	137078	2,18,110
Non performing loans (Rs Cr)	6.08	4.35

Source: Published in www.business-standard.com on June 10 2014 by Abhijitlele in Mumbai edition[6]

The data above for two years on the performance of RRBs shows that there has been an increase in the deposit accounts, loans and advances that were provided, Net Profit and so on apart from these there has been a reduction accumulated losses and Non-performing Loans which is a good sign for RRBs. The number of RRBs has also reduced this could be because the RBI has been taking steps to merge the RRBs those which are non viable.

IV.4 Financial Inclusion Fund And Financial Inclusion Technological Fund

Based on the recommendations of the report of the committee on Financial Inclusion, Government of India has constituted two funds which was Financial Inclusion Fund(FIF) for meeting the cost of developmental and promotional interventions of financial inclusion and Financial Inclusion Technology Fund (FITF) to meet the cost of technology adoption for financial inclusion. Each fund consists of an overall corpus of Rs 500 crores, with initial funding to be contributed by GOI, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) in a ratio of 40:40:20. GOI has merged the FIF and FITF to form a single Financial Inclusion Fund (FIF). The Reserve Bank of India has finalised the new scope of activities and guidelines for utilisation of the new FIF in consultation with GOI. The overall corpus of the new FIF will be Rs. 2000 crores. The fund shall be in operation for another three years or till such period as may be decided by RBI and government of India in consultation with other stake holders.[7]

Table 3: Financial Inclusion Fund And Financial Inclusion Technological Fund

Progress Under FIF and FITF(RS in Crores)				
	Financial Inclusion Fund		**Financial Inclusion Technological Fund**	
	Sanctioned	**Disbursed**	**Sanctioned**	**Disbursed**
2008-09	1.3	0.36	4.22	0.09
2009-10	18.36	7.99	17.08	1.67
2010-11	19	9.21	101.11	54.01
2011-12	75.96	18.9	221.07	128.39
2012-13	67.02	33.31	22.01	17.14
2013-14	321.05	65.58	42.23	20.25

Source: NABARD Annual Reports[8]

The progress in the Financial Inclusion Fund and Financial Inclusion Technological Fund has not been very impressive but at the same time it was not very bad. The amount sanctioned under the scheme was not fully disbursed.

IV.5 Policy Measures By Rbi

In India, Financial Inclusion was first featured in 2005, when it was introduced,from a pilot project in Union Territory of Pondicherry, by K. C. Chakraborty, the chairman of Indian Bank. Mangalam village became the first village in India where all households were provided banking facilities. The RBI, in its annual policy statement of 2005-06, recognized the need with regard to the banking practices that tend to exclude rather than attract vast sections of the population, and urged banks to review their existing practices to align them with the objective of financial inclusion. As a result, efforts are being made by the Reserve Bank of India and the Government of India to increase the banking penetration in the country.[9]

Table 4: Bank Branch And Atm Net Work (2009-2013)

No. of branches of Scheduled Commercial Banks (as on)	Rural	Semi-urban	Urban	Metropolitan	Total
31-Mar-09	31476	19126	15273	14325	80200
31-Mar-10	32493	20855	16686	15446	85480
31-Mar-11	33905	23114	17599	16419	91037
31-Mar-12	36356	25797	18781	17396	98330
31-Mar-13	37953	27219	19327	17844	102343

Source International Journal of Applied Research and Studies (ijars) ISSN 2278-9480 Vol 2, Issue 9 (Sept 2013) www.ijars.in[10]

The above data shows there has been increase in number of branches and ATM for the past five years from 2009 to 2013. More number of branches have been opened in rural areas than in urban, semi-urban or metro regions. This shows that banks have been making real efforts in order to cover the excluded lot.

The Reserve Bank has selected a bank led model for financial inclusion in India. RBI has undertaken a series of policy measures to make our unique model a success. Some of the important ones are:

No Frills Account
Business Correspondent Model
Simplified Branch authorisation
Use of Technology
Micro Finance
Self Help Groups Bank Linkage
Pradhan Mantri Jan DhanYojana
Financial Literacy Initiatives

IV.5.1NO FRILLS ACCOUNT

RBI has advised banks in November 2005 to make available a basic banking 'no frills' account either with nil or very low minimum balance as well as charges that would make such accounts accessible to vast sections of population. The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/ collection of cheques.

IV.5.2 BUSINESS CORRESPONDENTS AND BUSINESS FACILITATORS

The Reserve Bank permitted banks to engage business facilitator and business correspondent (BC) as intermediaries for providing financial and banking services. The BC model allows banks to provide door-step delivery of services especially 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last-mile problem.

IV.5.3 SIMPLIFIED BRANCH EXPANSION

The Commercial Banks in India in the year 1969 were 89, of which non scheduled commercial banks were only 16; Regional Rural Banks were not started by then. In the year 2001 the scheduled commercial banks were 296 of which RRBs were 196 and the non scheduled commercial banks were 5 and in the year 2013 the Scheduled Commercial banks were 151 of which RRBs were 64 and the non scheduled banks were 4. The reason for decrease in commercial banks can be because of the decrease in RRBs.

IV.5.4 USE OF TECHNOLOGY

Technology has been playing an important role in financial inclusion. The different technological devices such as ATMs, hand held devices to identify user accounts through a card and biometric identifier, Deposit taking machines and Internet banking and Mobile banking facility to provide the banking services to all sections of society with more ease.

Table 5: Financial Inclusion Progress Banks And Rrbs

	Year ended March 2010	Year ended March 2014	Progress 2010-2014
Banking Outlets in Villages – Branches	33378	46126	12748
Banking Outlets in Villages - Branchless Mode	34316	337678	303362
Banking Outlets in Villages – Total	67694	383804	316110
Urban Locations covered through BCs	447	60730	60283
Basic Savings Bank Deposit A/C through branches (No in millions)	60.2	126	65.8
Basic Savings Bank Deposit A/C through branches (Amt in billions)	44.3	273.3	229
Basic Savings Bank Deposit A/C through BCs (No in millions)	13.3	116.9	103.6

Basic Savings Bank Deposit A/C through BCs (Amt in billions)	10.7	39	28.3
Basic Savings Bank Deposit A/C Total (No in millions)	73.5	243	169.5
Basic Savings Bank Deposit A/C Total (Amt in billions)	55	312.3	257.3
Overdraft facility availed in Basic Savings Bank Deposit A/C (No in millions)	0.2	5.9	5.7
Overdraft facility availed in Basic Savings Bank Deposit A/C (Amt in billions)	0.1	16	15.9
KCCs - (No in Million)	24.3	39.9	15.6
KCCs - (Amt in billion)	1240.1	3684.5	2444.4
GCC - (No in Million)	1.4	7.4	6
GCC - (Amt in billion)	35.1	1096.9	1061.8
Information and Communication Technology A/Cs - BC- Transaction - (No in million) (During the year)	26.5	328.6	302.1
Information and Communication Technology A/Cs - BC- Transaction - (Amt in billion) (During the year)	6.9	524.4	517.5
Source RBI Annual Report 2013-14[11]			

RBI has been selected a bank led model in order to provide Financial inclusion in the country. The banks are doing a great work in providing financial inclusion to the excluded lot which can be witnessed from the data above that shows the progress achieved by the banks and RRBs in providing various measures introduced by RBI to the people. The progress shows that banks have been doing a good job and will be able to fulfil the target of reaching full financial inclusion by 2020.

Apart from these Micro Finance and Self help Groups have been successful measures by the RBI to reach the hither to unreached.

IV.5.6 PRADHAN MANTRI JAN DHAN YOJANA

The Prime Minister of India Mr. Narendra Modi, had announced National Mission for Financial Inclusion to ensure access to financial services, in an affordable manner called Pradhan Mantri Jan DhanYojana(PMJDY).

This Scheme is run by Department of Financial Services, the Guinness World Records Recognises the achievements made under PMJDY, as "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014". By 05 August 2015, 17.45 crore accounts were opened, with around ₹22032.68 crore (US$3.3 billion) were deposited under the scheme.

The scheme has been started with a target to provide 'universal access to banking facilities' starting with "Basic Banking Accounts" with overdraft facility of Rs.5000 after six months and Rupay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPayKisan Card.

Table 6: Pradhan Mantri Jan Dhanyojana As On 30th March 2016 (IN CRORES)

S.No		**No of Accounts**			**No of RuPay debit Cards**	**Aadhaar Seeded**	**Balance in Accounts**	**% of Zero Balance Accounts**
		Rural	**Urban**	**Total**				
1	Public Sector Banks	9.43	7.42	16.85	14.32	8.04	28139.2	27.74
2	Regional Rural Banks	3.26	0.54	3.79	2.69	1.16	6178.12	23.15
3	Private Banks	0.48	0.3	0.79	0.74	0.3	1354.72	40.34
	Total	13.17	8.26	21.43	17.75	9.5	3567.01	27.39

Source https://en.wikipedia.org/wiki/Pradhan_Mantri_Jan_Dhan_Yojana

The PM Jan DhanYojana has been a major step taken by new PM Narendra Modi in order to provide bank accounts to all households in the country. The maximum numbers of accounts have been opened by Public sector banks followed by Regional Rural banks.By 10th February 2016, over 20 crore bank accounts were opened and Rs 323.78 billion were deposited under the scheme.[12]

IV.6 FINANCIAL LITERACY INITIATIVES

Financial Education, Financial Inclusion and Financial Stability are three elements of an integral strategy called as Financial Tripod. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies promote greater financial stability.

V. Conclusion

In India a unique bank led model has been adopted in order to provide Financial inclusion. RBI has taken various steps to ensure that Financial inclusion is successful in our country. The RBI has been providing a bouquet of products to meet the needs of different customers for depositing, withdrawals, payment services and so on. The banks have been providing services in combination of brick and mortar branches along with Technology driven services to the door steps of the customers.

There has been increase in the banking services to a large extent. Most of the people have been brought into the ambit of banking services. Even though banks have been doing a lot to bring the large segment of the population in the umbrella of Financial inclusion yet there are a few people who are not within the ambit of banking services.

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