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FINANCIAL INCLUSION WITH EXPANSION OF BANKING SECTOR

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Abstract: **Majority of the people in India lives in rural parts of the country. Hence, development of rural India is a key to the economic growth of the country. Financial inclusion has become one of the most significant aspects in the context of inclusive growth and development. Financial inclusion is the process of ensuring access to appropriate financial products and services at an affordable cost in a fair and transparent manner by mainstream institutional players needed by weaker sections and low-income groups. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector. This will help to serve dual purpose i.e. financial inclusion as well as growth of the banking business of the country. Financial inclusion trend was kicked off in the year 1969 when 14 commercial banks were nationalized since then it is being focused by GOI but Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Many Measures have been implemented by RBI and GoI such as SHG-bank linkage program (1992), easing of Know Your Customer (KYC) norms, electronic benefit transfer, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts', opening customer service centres, credit counselling centres, Kisan Credit Card (1998), Swabhimaan (2011) and Pradhan Mantri Jan-Dhan Yojana (PMJDY). This article is an effort to study financial inclusion along with the growth of the banking sector in India. Information has been gathered from the Department of Financial services, Ministry of Finance, Govt. of India. The main objectives of this paper is to know the current status of financial inclusion in India and to know the growth of banking sector in India**

Keywords: **RBI, RRB, SCBs, GoI, Banking Network, Financial Inclusion and PMJDY.**

1. INTRODUCTION

Financial Inclusion in India: The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture. Along with Microfinance we need to focus on Micro insurance too.

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Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years.

2. REVIEW OF LITERATURE

Dr. Vivek Singla (2013) author described that Importance of financial inclusion is increased, because the benefits of the financial services are not provided to all the people of the society. Inclusive growth is very essential for the development of the country. Inclusive growth is prohibited such as lack of financial literacy, poverty, lack of advanced technology. Charan Singh (2014) The paper aims to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby making it more efficient and user friendly for the interest of the rural population as well as the formal sector. Ms. Richa Aggarwal (2014) depicted that For achieving the financial inclusion people need to have a minimum and, some basic financial literacy, financial skills, product knowledge and understanding. Jean Drèze (2015) Researcher has opined that financial inclusion doesn't only mean that you open accounts for people. That's relatively easy and it has already been done on a large scale in India in the past. Financial inclusion should mean that you provide adequate financial services to everyone. That includes not only providing a bank account, but also the fact of being paid one's pension or wage on time, of being able to withdraw your money conveniently, of being informed when your money is deposited in your bank account. It also means providing services like ATMs and Internet banking and so on.

Objectives of the Study

- To study the process of Financial inclusion in India
- To depict the present scenario of Indian financial inclusion
- To present the major initiatives and policy measures taken by RBI and GoI for achieving financial inclusion

3. RESEARCH METHODOLOGY

The present study is based on only secondary data. This secondary data has been collected from RBI bulletin, commercial banks and government of India's Report and also data has been collected from reputed journals, newspapers and websites of NABARD

Financial Inclusion Scenario in India

The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period. However, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states, where the average population per branch office continues to be quite high compared to the national average. As you would be aware, the new branch authorization policy of Reserve Bank encourages banks to open branches in these under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the Bank to achieve, inter alia, financial inclusion and other policy objectives.

One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio to the adult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of deposit accounts (data available as on March 31, 2004) to the total adult population was only 59% (details furnished in the table). Within the country, there is a wide variation across states. For instance, the ratio for the state of Kerala is as high as 89% while Bihar is marked by a low coverage of 33%. In the North Eastern States like Nagaland and Manipur, the coverage was a meagre 21% and 27%, respectively. The Northern Region, comprising the states of Haryana, Chandigarh and Delhi, has a high

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coverage ratio of 84%. Compared to the developed world, the coverage of our financial services is quite low.

It is absolutely beyond any doubt that the financial access to masses has significantly improved in the last three and a half decades. But the basic question is, has that been good enough. As I mentioned earlier, the quantum of deposit accounts (current and savings) held as a ratio to the adult population has not been uniformly encouraging. There is a tremendous scope for financial coverage if we have to improve the standards of life of those deprived people.

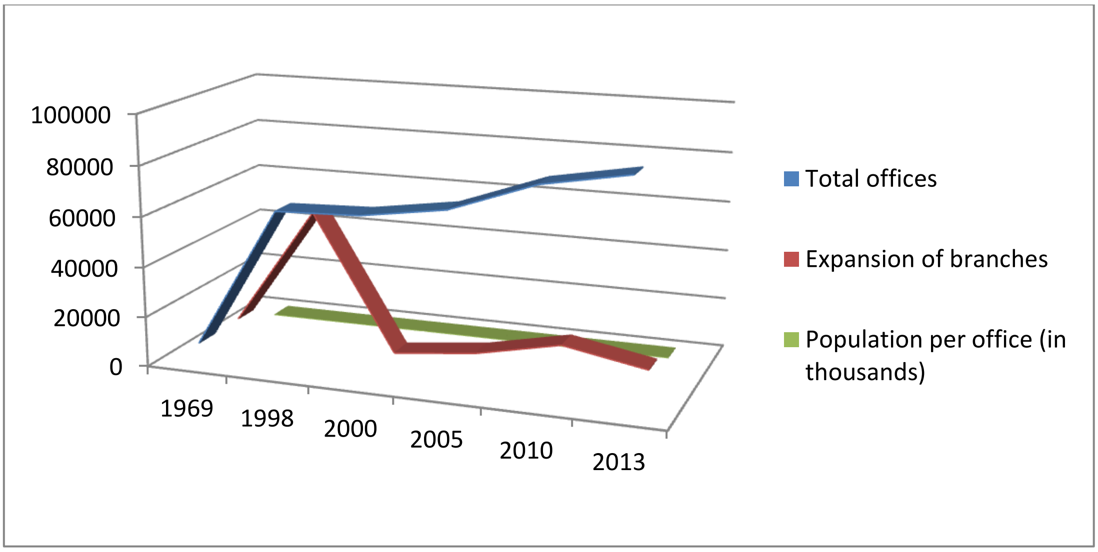
With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking „no frills" account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such no frills account so as to ensure greater financial inclusion.

Table1. Banking network in India with Population

Year	**Total offices**	**Expansion of branches**	**Population per office (in thousands)**
1969	**8262**	**8262**	**64**
1998	**64218**	**55956**	**15**
2000	**65412**	**1194**	**15**
2005	**70373**	**4961**	**16**
2010	**82485**	**12112**	**14**
2013	**88562**	**6077**	**14**

Sources: RBI Report

Banking network in India with Population in area Chart



The above table 1 and area chart depict the image of Banking network in India, in 1969, there were 8262 total bank offices, each bank office had to carry the 64000 people banking transaction, between 1969 to 1998, within 29 years 55959 (8262+55956=64218) bank branches had been expanded due to nationalisation of 14 commercial banks in 1969 and 6 commercial banks in 1980,then each bank had to cover 15000 population and in 2003, the dependence of population on each banks has come down to 14000, this overall data shows, still India is far away of achieving financial inclusion in terms of banking expansion, till today there many villages, which have no any kind of bank branches, hence still moneylenders are sources of finance, in such situation poor remains as poor due to high interest rates are being charged by moneylenders

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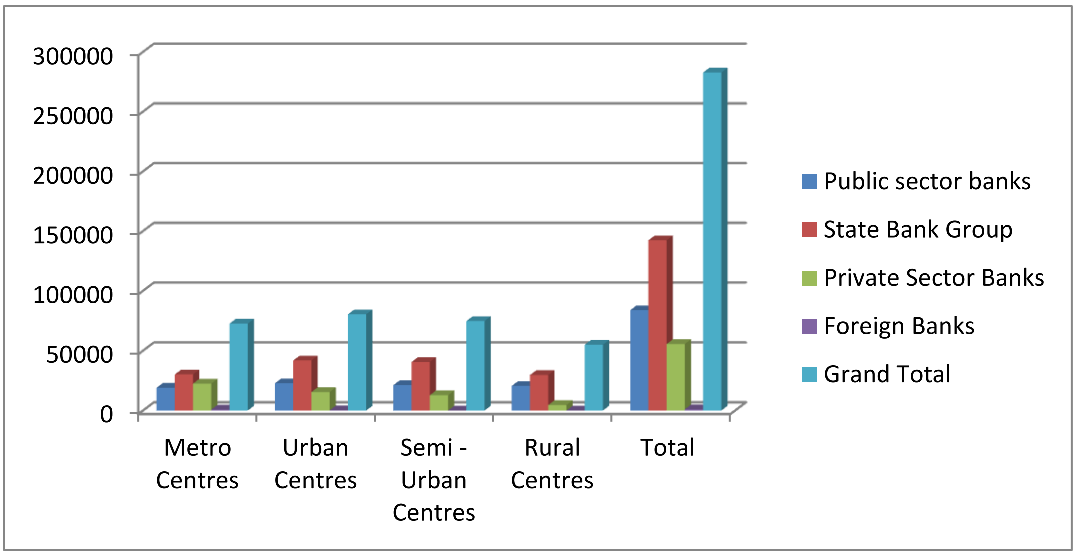
Table 2. Region wise operation of ATMs for the quarter ended March 2016

Bank Name	Metro Centres	Urban Centres	Semi - Urban Centres	Rural Centres	Total
Public sector banks	19073	22810	21280	20608	83771
State Bank Group	30190	41827	40581	29714	142312
Private Sector Banks	22542	15526	12874	4639	55581
Foreign Banks	791	216	21	31	1059
Grand Total	72596	80379	74756	54992	282723



The above table and chart show the information of Region wise operations of ATMs for the quarter ended March 2016. State bank group which has highest ATMs branches in India, established around 142312 ATMs machines, at the end of march 2016 respectively in metro centres, Urban Centre, Semi-Urban Centres and Rural centres, more importance was given Urban Centres, second highest ATMs machines have been installed by Public sector banks, totally at the end of march 2016, 282723 ATMs were installed by Public Sector Banks, State Bank Group, Private Sector Bank and Foreign Banks. As per 2011 census around 68 % population lives in rural area, 68% population is covered by only 54992 ATMs.

Initiatives By GoI and RBI Towards Achieving Financial Inclusion

1. Initiatives by RBI

In India, RBI has initiated several measures to achieve greater financial inclusion. Some of these steps are as follows:

A. No-Frill accounts: RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. No-frills account requires no or negligible balance leading to lower costs both for the bank and individual .Usage of Regional language: RBI asked banks to provide all the material related to opening accounts, disclosures etc in the regional language.

B. Simple KYC norms: In order to ensure that persons belonging to low income group do not face difficulty in opening the bank account due to procedural hassles, the KYC procedure have been simplified.

C. Easy credit facilities: RBI asked banks to consider introducing General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches. GCC is in the nature of rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest rate on the facility is entirely deregulated.

D. Other rural intermediaries: Banks were permitted in January 2006, to use other rural organizations like Nongovernmental organizations, self-help groups, microfinance institutions etc for furthering the cause of financial inclusion.

E. Simplified branch authorization: To address the issue of un-even 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, subject to reporting.

2. Initiatives by Government

Many schemes and steps are being taken and introduced by Government of India to achieve financial inclusion namely, nationalisation of RBI, Nationalisation of commercial banks, establishment of NABARD, introducing of KCC, Swabhiman Scheme and PMJDY.

1954 all-India Rural Credit Survey Committee report -suggested Multi-agency approach for financing the rural and agricultural sector,1963 : Formation of Agricultural Refinance Corporation, 1969: Nationalization of 14 major Private Banks – The flow of agricultural and rural credit witnessed a rapid increase, 1972–Mandatory system of Priority Sector Lending (PSL), 1975 : Establishment of RRBs, 1980 : Nationalization of 6 more private banks, 1982 : Establishment of NABARD through the transfer of RBI’s agricultural credit department Provision of bank credit under Govt. Sponsored Subsidy Schemes Linking Agricultural Credit Targets at 18% with individual bank’s net bank credit, 1990–Implementation of the concept of Village level credit planning for 15 to 20 villages allotted to each of rural, semi-urban and urban branches of PSBs and RRBs under Service Area Approach, Formulation of potential linked credit plan for each district annually by NABARD, Agricultural Debt Relief Scheme and Financial Sector Reforms, SHG-Bank Linkage as the most suitable model in Indian context a/c to NABARD, 2000-Reforms sharply focused on Agricultural credit

the real movement had taken place in India when the term ‘financial inclusion’ was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion. The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

A. SWABHIMAAN

Swabhimaan is a financial security programme was launched by the Central Government to ensure banking facilities in habitation with a population in excess of 2000 by March 2012. This nationwide programme on financial inclusion was launched in February, 2011 with its focus on bringing the deprived sections of the society in the banking network to ensure that the benefits of economic growth reach everyone at all levels. This campaign is a big step towards socio-economic equality by bringing the underprivileged segments of Indian population into the formal banking fold for the first time. The vision for this programme is social application of modern technology.

B. Pradhan Mantri Jan Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana (PMJDY) the biggest financial inclusion initiative in the world was announced by the Hon’ble Prime Minister on 15th August 2014 and Mega launch was done by him on 28th August 2014 across the country Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology.

PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about ample financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household. financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of ? 1 lakh. The plan also envisages channelling all Government benefits (from Centre / State / Local Body) to the beneficiaries' accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Programme.

4. CONCLUSION

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. Banking branches are being expanded by the central government scheme like, Swabhimaan and Pradhan Mantri Jan Dhan Yojana (PMJDY), financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Many programs are being implemented by RBI and GoI for bringing financial excluded people into inclusion. The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's the economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs, however strong steps have to be taken to bring the financial excluded rural area into inclusion

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