

# Banking the Unbanked

## The Role of Banking Sector in Financial Inclusion

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**Abstract—** Financial Inclusion is the delivery of financial services to all the people in a fair, transparent and equitable manner at an affordable cost. Financial Inclusion has the potential to improve the standards of life of the poor and the disadvantaged. Financial services permit individuals and households to manage the risk and uncertainties to save risk free, borrow on better terms, and to cope with unforeseen expenses. Financial inclusion has been a buzzword for the policymakers and government for a long time. The financial inclusion emphasizes on conversion of unbanked area into banked ones. Significant steps have been taken by Reserve Bank of India to penetrate unbanked areas. The future lies with those companies who see Bottom of pyramid as their customer. We need to have comprehensive methods to measure the reach of financial system to foster the financial inclusion across the country.. Despite the spread of banking sector in India a large segments of the populations continues to be remain unbanked even after attaining 67 years of Independence. To address the issue of Financial Exclusion and long drawn financial sufferings, Prime Minister Narenrda Modi announced a new scheme in his Independence Day speech on 15th August 2014, and called it as the National Mission on Financial Inclusion(NMFI) for weaker and the underprivileged sections of the society. The present paper explains about the recent trends in Financial Inclusion in India and the initiatives taken by the banking sector to bring the financially excluded people to the fold of the formal banking system and the suggestion for improving financial inclusion.

**Keywords** Financial Inclusion, Pradhan Mantri Jan DhanYojana, On-site and Off-site ATM

### I. INTRODUCTION (HEADING 1)

Financial inclusion can be defined as the “provision of affordable financial services to those who have been left unattended or under attended by the formal agencies of the financial system.” 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. Despite making significant improvements in the areas relating to financial viability, profitability and competitiveness, there

are concerns that banks have not been able to include large segments of the population, especially the underprivileged sections of the society, into the fold of basic banking services. The government of India 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. In order to reduce the degree of “financial untouchability”. the Government has come up with a big bang action plan known as PradhanMantri Jan DhanYojana.

### *Review of literature*

Reddy (2010) suggested a new approach to banks to reach wider population in rural areas by establishing mobile banks/ representatives/agents who operate on commercial basis rather than just by self help groups. These agents work on commission basis and hence self motivated and cost effective in assisting banks in service provision / deposit mobilization.

Finance Minister Pranab Mukherjee (2010) said financial inclusion was a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential of savings consumption and investment propensities of the poorer sections of society.

Asian Development Bank (2011) emphasized the report that the concept of inclusive growth is economic growth that aims at high and sustained growth while ensuring that all members of the society benefit from growth in a high, efficient, and sustained growth to productive jobs and economic opportunity with equality of life. There are three policy pillars supported by good governance and institutions are identified as requirements for a strategy anchored on inclusive growth. The importance of three policy pillars expansion of economic opportunity, social inclusion to promote equal access to opportunities, and social safety nets supported by good governance and strong institutions, can promote inclusive growth where all members of the society can benefit from and contribute to the growth process.

The Economist (2012) report indicated that the financial exclusion is a global issue. In that report the World Bank estimates that, in some countries, fewer than 10 per cent of people have access to financial services of any kind. But even in developed countries, the

harsh realities of exclusion are just as real. The global emergingSource: www.financialservices.gov.in challenges in access to finance, access to resources and use of financial services remains a big constraint. Two thirds of the adultCHART population in developing countries or 2.7 billion people lack access to basic formal financial services, such as savings or checking accounts.

Laxmimihar (2014) under took a study on financial inclusion in India. The study aimed at analyzing the progress in banking sector reforms especially focusing on financial inclusion over the past three decades and analyse the new challenges that

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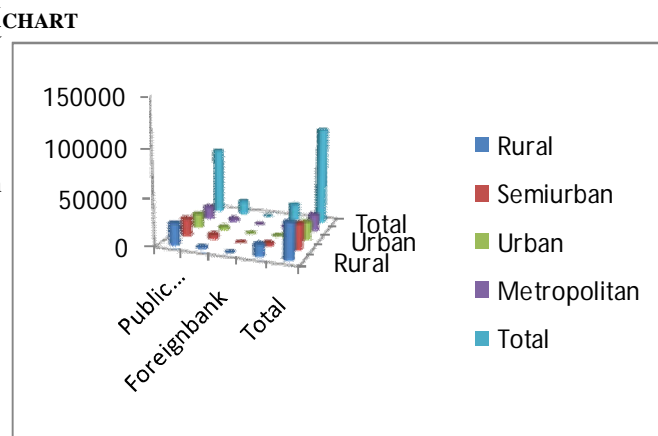
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## II. CONTRIBUTION OF BANKS IN FINANCIAL INCLUSION

The banking environment in India had grown more competitive with the relaxation of restrictions and adoption of International standards; banks are forced to adopt measures to survive. The recent financial reforms and greater competition in the banking industry have made it necessary for banks in India to concentrate towards the excluded mass.

**Table- I: Bank group wise number of branches as on 31-03-2013**

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



The above table and Chart show the number of bank branches in India as on 2013. From the table it is clear that Foreign bank operates more in metropolitan cities with 249 branches whereas public sector and regional rural banks operate more in rural areas. The private sector bank dominates in semi-urban areas with 5128 branches. The total number of operating all across India accounts to 1,02,343.

**Table-II: Number of functioning branches of scheduled commercial banks during five years**

	Rural	Semi-Urban	Urban	Metropolitan	Total
March31,2009	31476	19126	15273	14325	80200
March31,2010	32493	20855	16686	15446	85480
March31,2011	33905	23114	17599	16419	91037
March31,2012	36356	25797	18781	17396	98330
March31,2013	37953	27219	19327	17844	102343

Source: www. financial services. gov.in

The scheduled commercial banks during the five years showed an increasing trend in the number of functioning branches. The highest growth rate of 42.31% was marked by SCB in semi urban area. The number of branches increased from 19126 to 27219 in five years. The growth rate in rural area is 20.58%. The number of bank branches operating in metropolitan cities increased from 14325 to 17844 in 2013 which makes 24.57% growth.

**Table-III: Number of bank offices in India as on 31-03-2013**

Areas/Years	2009	2010	2011	2012	2013
(a) Rural	31598	32529	33868	36503	39439
(b) Semi - Urban	19337	21022	23299	26144	28691
(c ) Urban	16726	18288	19046	20650	21720

(d) Metropolitan	15236	16364	17806	19080	19961		State	271	274	275	276	276	276	1.85
All India level of bank offices	82897	88203	94019	102377	109811									

Source: www. financial services. gov.in

The above table shows the number of bank offices in India from 2009 – 2013, From the table it is clear that the number of bank offices have been increased since 2009 to 2013,

**TABLE-V: Number of accounts opened in PradhanMantri Jan DhanYojana(As on31.12.2014)**

S.No	Type of banks	No:of accounts (InLakhs) Rural Urban Total			No: of rupay debit cards (In Lakhs)	Balance in accounts (In Lakhs)	No: of accounts with zero balance (In Lakhs)
1	Public sector bank	357.87	300.07	657.94	474.66	514970.65	489.96
2	Regional rural banks	118.39	21.03	139.42	19.97	90226.52	107.13
3	Private banks	10.71	11.03	21.73	12.12	36176.88	14.64
Total		486.97	332.13	819.09	506.75	641374.05	611.73

# **CARD STATISTICS OF FIVE STATE BANK GROUPS AND FIVE PRIVATE SECTOR BANKS**

**TABLE-VI: Offsite ATM STATISTICS -2013**

Bank Name	June	July	Aug ust	Septem ber	Octo ber	Novem ber	Growth rate %
State bank group							
State bank of India	13228	13404	13945	14422	14881	15475	16.99
State bank of Hyderabad	533	533	530	528	530	536	0.56
State bank of Mysore	252	257	260	263	268	271	7.54

State bank of Travancore	314	304	314	332	335	340	8.28
Bank Name	June	July	Aug ust	Septem ber	Octo ber	Novem ber	Growth rate %
Private sector bank							
HDFC Bank Ltd	6564	6614	6573	6570	6616	6694	1.98
ICICIBank Ltd	7481	7468	7483	7480	7469	7483	0.03
AxisBank Ltd	9102	9202	9199	9389	9478	9596	5.43
South Indian Bank Ltd	211	218	219	222	224	228	8.06
Catholic Syrian Bank Ltd	62	56	56	56	58	58	-6.45

## **RBI and Government Of India initiatives and policy measures in Financial Inclusion.**

Reserve bank of India and Government of India is navigating the path to financial inclusion by means of policies and supervision. To remove all obstacles and hurdles in the way of financial inclusion RBIand GOI has taken a lot of initiativesand policy measures. These initiatives and policy measures are:-

**Concept Of No-frillsaccount:**People in the financially excluded zone find it difficult to meet the requirements of normal savings accounts. Recognizing this problem,RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement.

**Overdraft facilities in savings account:-**Banks are providing overdraft facilities in savings account and also Small Overdrafts in No frills accounts.

**Overcoming language barriers:-** Large sections of the Indian populations are not familiar with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening disclosure in the regional language.

**Simplification of know your customer (KYC) norms and guidelines:-** To open a regular account, a customer has to provide documents on (a) proof of identity, and (b) proof of address, as per RBI guidelines. But customers face difficulties in providing the requisite documentation for opening regular bank accounts. Most rural inhabitants do not have any of the identity documents that are required for account opening and compliance with Know Your Customer (KYC) norms. For this reason, the account opening process has been simplified for people who intend to keep balances for not exceeding Rs.50000 and whose total credit in all the accounts taken together is not expected to exceed Rs.10000 in a year.

**Simplification of savings banks account opening form:** To ease the opening of banks account by the migratory labour, street hawkers and other poorer sections of the society, "Simplified Account Opening Form" has been designed. Banks have been requested to put in place a system to enable the customers to fill the account opening form on an 'online' mode. This form contains sections for small accounts, Accounts with Introduction and Basic Savings Bank Deposit Account.

**Financial literacy program:** Financial literacy programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by the banks and financial institutions. RBI provides support to Financial Literacy and Credit Counselling Centres (FLCCC). The broad objective of the FLCCC will be to provide free financial literacy/ education and credit counselling.

**Kisan Credit Cards (KCC):** Kisan Credit Cards to small farmers have been issued by banks. As on March 2012 the total number of KCCs issued have been reported as 30 million with a total amount outstanding to the tune of Rs2,068 billion.

**General credit cards (GCCs):** Banks have been advised to consider the introduction of a General Purpose Credit Card (GCC) facility up to Rs.25,000 at their rural and semi urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

**Business correspondents and business facilitators model:** The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services.

**Use and promotion of ICT in banking:** Financial inclusion approach basically focuses on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The government and

the RBI supporting and promoting commercial and cooperatives banks to offer banking facilities to the society by using modern technology i.e. ATM, micro-ATMs, Mobile banking and Business correspondents, E-banking, Smart cards, Aadhaar Enabled Payment Systems etc.

### **Suggestions for improving Financial Inclusion in India:**

**Private banks participation:** The government should tie up with the private banks to deliver financial solutions to the unbanked, using its extensive postal network.

**Need for composite financial services:** While small rural borrowers seek savings and lending services, they also seek insurance.

**Setting of biometric ATMs in rural areas for catering to illiterate customers:** Biometric authentication systems are effective in rural areas with low literacy rates.

**Technology enhancement:** Internet has become a trusted source of information for vast number of users. It can play an important role in simplifying procedures and reducing transactions costs for banks and their clients.

**Simplification of documentation:** A lack of legal documentation is another major obstacle that poor households employed in the informal sector face when trying to open any kind of bank account.

**Better staffing policies and doorstep banking:** It is worth noting in this context that the high recovery rates of microfinance are associated with staffing policies that allow recruiting staff from the local area who understands clients needs, and a focus on door step banking.

### **III. REMOVING USAGE FEE ON ATMs FOR USE OF OTHER BANK ATMs:** CHARGES FOR USING AN ATM OF ANOTHER BANK GENERALLY DISCOURAGED THE CUSTOMER FROM USING THE ATMs OF OTHER BANK. USING THE TEMPLATE

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