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A STUDY ON RBI IN PROMOTING FINANCIAL INCLUSION

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ABSTRACT

Financial Inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions." Only 45% of the Indian population has access to bank. The number of branches per lakh of population was 6.33 as of March 2010 in India as compared to 25-45 for developed countries. Only 13% of our population has debit cards and only 2% has credit cards. Further, only about 30% of bank branches in the country operate in rural areas that house about 72.2% of the country's population. Rural India accounts for just 9% of total deposits, 7% of total credit, 10% of life insurance and 0.6% of non-life business. Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy. Financial inclusion has been embedded as an objective of economic policy in India since independence. However, since 2005, it has been an explicit policy endeavour of the Reserve Bank. Various policy initiatives have been undertaken by both the Reserve Bank as well as the Government of India to ensure universal financial access especially post-2005. . RBI's Contribution has led to developments in banking services like Overdraft facility in Saving Bank Accounts, Liberalised branch expansion, Liberalised policy for ATM, Introducing technology products and services, Pre-Paid cards, Mobile Banking, as well as allowing Regional Rural Banks / Co-operative banks to sell Insurance and Financial Products, Financial Literacy Program, Creation of Special Funds, etc.

This paper, therefore, discusses as to why financial inclusion has now become a key imperative for India, benefits of financial inclusion, recent steps/initiatives taken by RBI, GOI and commercial banks in promoting financial inclusion along with the steps taken to boost financial literacy which is a key imperative for financial inclusion.

INTRODUCTION

The World Bank has defined Inclusive development as that equals economic growth while sharing the benefits of growth to reduce poverty. For a country like India which had achieved a high growth rate of 8% for the three consecutive years, inclusive growth becomes an important development agenda as the need for distribution of economic benefits to wider spectrum of people has become compulsory. Financial Inclusion means providing access through appropriate financial products and Services to individuals. It means delivery of financial products –deposits & loans and other services to needy & poor sections of the society at an affordable cost. Financial Inclusion rests on three pillars which are 1. Access, 2. Affordability, 3. Actual utilization of financial services. Financial Inclusion can be achieved by first providing access to financial institutions. Though the banking system has been developing and the banks which provide the energy and the power in driving the economic growth are expanding rapidly, they are catering to only 50% of the total credit needs. According to a recent survey still 48% of all households in India do not have access to banking services & 58 % of farm households and 78%of non farm households in rural India do not have access to banking services, so Commercial Banks, Regional Rural Banks , Co-operatives under the able control and regulations of

RBI should strive to deliver tailor made products which are easy to access to the rural poor.

OBJECTIVES OF THE STUDY

- The main objective of the present paper is to discuss the recent steps/initiatives taken by RBI, GOI and commercial banks in promoting financial inclusion.
- To assess the progress in implementation of the Financial Inclusion Plans (FIPs) of commercial banks which was initiated three years back
- To study the impact of financial inclusion plan at the ground level on the performance of banks and their profitability.

METHODOLOGY

The study is conducted purely with the help of secondary data taken from the published reports of RBI, through internet The study is limited to a period of four years ie. From 2011 to 2014

Review of Literature

Smt Shyamala Gopinath Deputy Governor RBI in her special address on financial inclusion and the role of financial education in the empowerment of Rural poor states that financial education is of great significance because free face to face money advice and access to banking and access to affordable credit helps the rural poor in taking the right decisions related to efficient money management, debt management and savings management

P.Chidambaram, DK.Ramakrishnan- who have emphasized on financial inclusion and stressed on the role of banks and financial education for achieving inclusive growth by effectively involving the rural areas specially it is the need of the hour in the present scenario of globalization and privatisation and in a country like India where even today 65% of people live in rural areas and therefore the resurgence of shining India means the shining of the rural areas and making the rural areas shine.

Neelasri Barman titled "Banks see financial inclusion hurting profits, lag on Target", on 25th March 2011 states that obligation of banks to go for financial inclusion is resulting in increased cost of maintenance of "no frills accounts " and also increase in outstanding loan amount as the small and marginal farmers and other small entrepreneurs are not paying back their loan amounts but in the long run they are surely going to earn profits.

ROLE OF RBI

Financial Inclusion is defined by the RBI "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from Mainstream financial institutions."

Financial inclusion has been embedded as an objective of economic policy in India since independence. However, since 2005, it has been an explicit policy endeavour of the Reserve Bank. Various policy initiatives have been undertaken by both the Reserve Bank as well as the Government of India to ensure universal financial access especially post-2005. . RBI's Contribution has led to developments in banking services like Overdraft facility in Saving Bank Accounts, Liberalised branch expansion, Liberalised policy for ATM, Introducing technology products and services, Pre-Paid cards, Mobile Banking, as well as allowing Regional Rural Banks / Co-operative banks to sell Insurance and Financial Products, Financial Literacy Program, Creation of Special Funds, etc. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, 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. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Agent Banking - Business Correspondent/ Business Facilitator Model or Engaging business correspondents (BCs): In January 2006, 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.

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT(Electronic Banking Technology) by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

General Purpose Credit Card (GCC): With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

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, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

Roadmap for Banking Services in unbanked Villages

- In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target and have covered 74398 unbanked villages.
- In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4,90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.
- In January 2010, the Reserve Bank advised all public and private sector banks to submit a Board-approved three-year Financial Inclusion Plan (FIP) starting in April 2010. They were advised to devise FIPs congruent with their business strategy and comparative advantage and to make FIPs an integral part of their corporate plans.

FINANCIAL INCLUSION PLAN 2013-16

In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh 3 year Financial Inclusion Plan for the period 2013-16 by RBI. Banks have also been advised that the FIPs prepared by them are disaggregated and percolated down up to the branch level to ensure involvement of bank staff across the hierarchy, in the financial inclusion efforts and also to ensure uniformity in the reporting structure under the Financial Inclusion Plan. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

Progress of Microfinance Programs								
Item	Self-Help Groups							
	Number (in million)				Amount (` billion)			
	2009	2010-	2011	2012	2013	2014	2015	2016
Loans disbursed by banks	1.6	1.2	1.2	1.2	145	145	165	206
Loans outstanding with banks	4.9	4.8	4.4	4.5	280	312	363	394
Savings with banks	7.0	7.5	8.0	7.3	62	70	66	82
Microfinance Institutions								
	Number (in million)				Amount (` billion)			
Loans disbursed by banks	691	469	465	426	81	76	53	78
Loans outstanding with banks	1,513	2,176	1,960	2,042	101	107	115	144

	Joint Liability Groups							
	Number (in million)				Amount (` billion)			
	-	0.09	0.19	0.20	-	7	17	18

A decline in the number of MFIs financed by banks

By contrast, in recent years, there has been a decline in the number of Micro Finance Institutions (MFIs) financed by banks. In part, this could be attributed to concerns about the operations of certain MFIs in Andhra Pradesh and the regulatory initiatives in response to these concerns in the recent past.

Challenges and Way Forward

The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Experts have opined through their experience that the banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in the journey towards universal financial inclusion.

Financial Inclusion of the unbanked masses is expected to unleash the hugely untapped potential of the sections of the society that constitute the bottom of the pyramid. However, in pursuing the FI mission, the normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that the banks give adequate attention to financial inclusion, they must view this as a viable business proposition rather than as a corporate social responsibility or a regulatory obligation. For the business to remain viable it would be important to focus on increasing usage of existing banking infrastructure which would happen only if the banks can offer an entire bouquet of products and services to the holders of the large number of basic bank accounts opened during the last three years as also to the new customers that the banks acquire. The past experience of RBI and FIP review meetings with the banks have highlighted that if the dream of universal and a meaningful financial inclusion has to be turned into reality, then there is a need to focus on the following issues:

(a) Increasing Reach

- Ensuring coverage of all unbanked villages in next 3 years
- Emphasis on increasing rural branches
- Opening of bank accounts for all eligible individuals

(b) Increasing transactions

- Leveraging on DBT
- Delivery of credit products through BCs
- Hassle free Emergency credit (In built OD)

(c) HR Structure

- Banks to review HR policy in view of FI requirements
- Examining appointing of a separate cadre of staff for cost optimization

(d) Fine-tuning the BC Model

- Stabilizing the BC delivery model
- Encouraging innovations in remittances model
- Review of Cash Management for BC operations

(e) Spreading Financial Literacy

- Implementing National Strategy for Financial Education
- Creating Dedicated Website- Inclusion in School Curriculum
- Organizing Financial Literacy Camps

CONCLUSION

While the task before RBI is daunting but a collaborative approach can definitely help in successfully overcoming this challenge. Though it is expected that the commercial banks can play a significant role in ensuring financial inclusion and promoting financial literacy, it is emphasized that the banks alone would not be able to achieve this ambitious goal and that other stakeholder groups also need to contribute their mite towards this cause. For banks, the focus has to be on building a sustainable, scalable and cost-efficient business delivery model by leveraging upon technology.

RBI has adopted a Bank led model but one which is essentially Model Neutral and has tried to create an enabling environment that facilitates competition and fosters innovation and now it is up to the banks to work for achieving financial inclusion and fostering the overall growth of the economy.

Banks should introduce new products and services crafted to the needs and income streams of poor borrowers which will enable self sustaining financial inclusion and would also lead to profitability of banks by lowering the transactions cost and ultimately lead to development of nation.

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