BANKING INSTRUMENTS IN INDIA: AN ALL INCLUSIVE FINANCIAL FORCE

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ABSTRACT

For the growth and development of Financial inclusion proper mechanism is required which can provide resources to the customers. Financial inclusion is aimed to provide growth in urban and rural areas both...Financial inclusion makes use of alternative techniques for promoting the growth of the banking habits in the people. For the inclusive growth resources are required which can be achieved through financial inclusion. The current paper deals with the study of the role of Banking sector on financial inclusion development in India and determine the role of financial inclusion on the overall development of the country

I INTRODUCTION

Inclusion is likely to top the agenda of Indian finance in 2014. Reserve Bank of India (RBI) governor Raghuram Rajan has indicated that financial inclusion will be a key priority. The move by RBI to devise a new framework for issuing bank licences has also been greeted by calls to consider alternative banking models that can target the needy more effectively. While financial inclusion appears as a noble goal in itself, recent history shows that efforts to drive financial inclusion can be counterproductive unless handled well Given India's income levels, it is not doing either much worse or much better than its peers as far as key parameters of financial inclusion are concerned. A World Bank working paper published in 2012, indicated that 65% of adults in India had no access to a Bank account. For a country with a population of over 1.23 billion, in absolute numbers, that figure is mammoth. In the absence of access to credit when needed, a large segment of Indian population lives in a state of depravity, often falling prey to local money lenders who, through fraudulent means, trap them into a vicious cycle of debt. In India, Financial Inclusion is not a new special consideration. With the intent of increasing the reach of credit, Banks were organized in 1969. However, despite efforts, a large section of population has remained isolated from the advantages offered by the organized financial sector. Cognizant of the need for financial inclusion in India, the Reserve Bank of India (RBI) has been proactive in trying to inject the spirit of financial inclusion into the veins of Indian financial institutions. Based upon the recommendations of The Khan Committee in 2005, RBI prepared guidelines to ensure greater outreach of banking services, through Business Facilitator and Business Correspondent with Information and Communication Technology support.

According to Dr Raghuram Rajan, Governor of the Reserve Bank of India, at the NASSCOM (The National Association of Software and Services Companies) India Leadership Forum, Mumbai, 12 February 2014

"Financial inclusion is about (a) the broadening of financial services to those people who do not have access to financial services sector; (b) the deepening of financial services for people who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered the products can make appropriate choices. The imperative for financial inclusion is both a moral one as well as one based on economic efficiency. Should we not give everyone that is capable the tools and resources to better themselves, and in doing so, better the country?"

CRISIL Inclusix measures financial inclusion on the three critical parameters of basic banking services - branch penetration, deposit penetration, and credit penetration

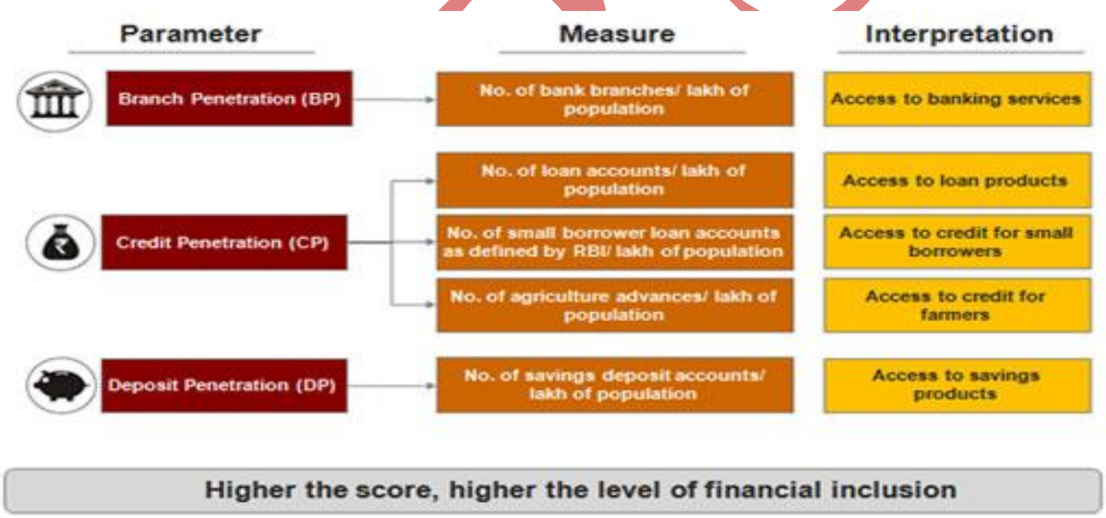


Fig: 1 Measures of Financial Inclusion.

II COMPONENTS OF FINANCIAL INCLUSION

The following are the components of financial inclusion which needs to be focused upon properly for the upliftment of the people along with the economy of the country.

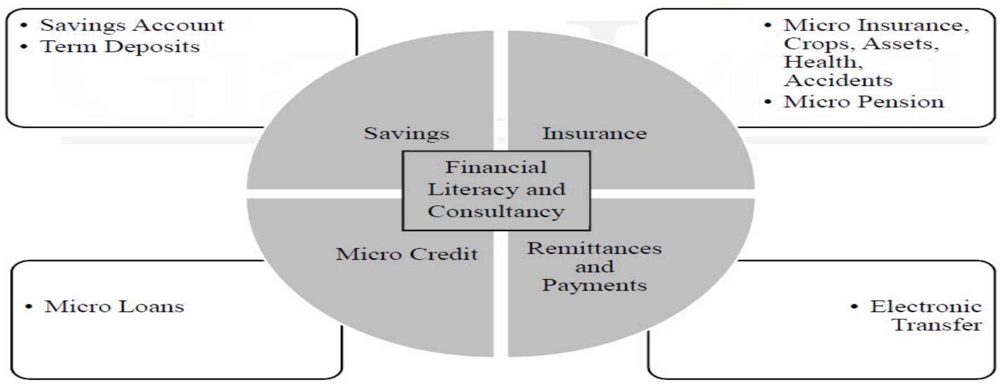


Figure 2. Components of financial inclusion

The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, set up by the RBI in September 2013, was mandated with the task of framing a clear and detailed vision for financial inclusion and financial deepening in India.In its final report, the Committee has outlined **six vision statements** for full financial inclusion and financial deepening in India:

1. **Universal Electronic Bank Account (UEBA)*:*** Each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
2. **Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges:** The Committee envisions that every resident in India would be within a fifteen minute walking distance of a payment access point.
3. **Sufficient Access to Affordable Formal Credit:** Each low-income household and small-business would have access to a formally regulated lender that is capable of assessing and meeting their credit needs. Such a lender must also be able to offer them a full-range of suitable credit products at an affordable price.
4. **Universal Access to a Range of Deposit and Investment Products at Reasonable Charges:** Each low-income household and small-business would have access to providers that can offer them suitable investment and deposit products. Such services must be available to them at reasonable charges.
5. **Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges**: Each low-income household and small business would have access to providers that have the ability to offer them suitable insurance and risk management products. These products must at minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property.
6. **Right to Suitability:** Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. She will have the right to seek legal redress if she feels that due process to establish Suitability was not followed or that there was gross negligence.

The Committee focuses on **four design principles**, namely Stability, Transparency, Neutrality, and Responsibility, for guiding the development of institutional frameworks and regulation for achieving the visions outlined.

1. Stability: It was emphasized that any approach that seeks to achieve the goals of financial inclusion and deepening must be evaluated on the basis of is impact on overall systemic risk and stability, and the stability of the system be compromised at no cost .

2. Transparency: A well-functioning financial system must also make mandatory for the participants to build completely transparent balance sheets made visible in a high-frequency manner, reflecting accurately both the current status and the impact of stress situations on this status.

3. Neutrality: The treatment of each participant in the financial system must be strictly neutral and entirely determined by the role it is expected to perform in the system and not its specific institutional character.

4. Responsibility: The financial system must maintain the principle that the provider is responsible for selling suitable financial services to customers, ensuring that providers are incentivised to make every effort to offer customers only welfare-enhancing products and not offer those that are not.

III Review of Literature

OFT 1999 cited in Wallace and Quilgars,2005 stated that the fear of getting overdrawn and incurring high bank charges was a major discouraging factor for many people on low or modest incomes to open an account

Kempson(2006) explained that different banks across the world have different terms and conditions to opening accounts with them.Such terms as amount of money to open with the amount of minimum/maximum balance etc.This goes a long way to having an effect on the extent of financial inclusion. These types of terms and conditions can deter or prevent people with low incomes to open an account.

Tagoe et.a l(2006) gave several success factors as essential for a good and well conclusive inclusion of individuals in the utilization of financial facilities and services. Having access to financial services requires one to be well knowledgeable about the services at stake. There is a high requirement for the availability of basic banking services.

Dr Joji chandran, 2008 the growth of the nation and its prosperity depends on universal financial services covering all people .The inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity

Leeladhar,2006 financial inclusion means the provision of affordable financial services viz access to payment ad remittance facilities ,savings loans and insurance services by the formal financial system to those who tend to be excluded(Throat,2006).Financial inclusion is delivery of banking services at an affordable costo the vast sections of disadvantaged and low income groups..As banking services are in the nature of public goods ,it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy

IV OBJECTIVES OF STUDY

1. To study the role of banking sector on financial inclusion development in India

2. To determine the role of financial inclusion on the overall development of the country

4.1 Various Products/Facilities available under Indian Bank Financial Inclusion Plan Deposit

SB Products

- Basic Savings Bank Deposit Account

Recurring Deposit Products

- Recurring Deposit (RD) - FI
- Variable Recurring Deposit (VRD) - FI

Credit Products

- SB cum Overdraft Facility (OD) for Non Farmers and Landless Labourers
- General Credit Card to Micro and Small Enterprises
- Kisan Credit Card to Farmers

Remittance Facilities

- Remittance/ Fund Transfer Facility through Mobile Phone for Migrant Workers

Micro Insurance Products

- Janatha personal Accident Insurance
- Hut Insurance
- Kisan Credit Card Insurance
- Gramin Accident policy
- Swasthya Bima Policy
- Rural Women Package Policy

4.2 Role of Banking Sectors on Financial Inclusion Development in India

The no. of commercial Banks in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system. Larger the no. of commercial banks, larger the scope for bringing people into formal financial system provided if banks provide suitable financial products and services.

4.3 Performance under Financial Inclusion Plan as of 31st March 2014

- Under Financial Inclusion Plan, Bank has provided banking services to 5013 villages with
- Population above 2000 as well as below 2000 through various delivery channels as below.
- 4852 villages through Smart card based Field Business Correspondent (FBC) Model
- 58 villages through Brick and mortar branches
- 33 villages through Banking Service Centers (BSCs)
- 70 villages through 8 Mobile Branches/Vans
- Bank has opened 1407 Ultra Small Branches (USBs) in the villages with population above
- 2000 covered through FBC model under Financial Inclusion.

4.4 Villages Covered

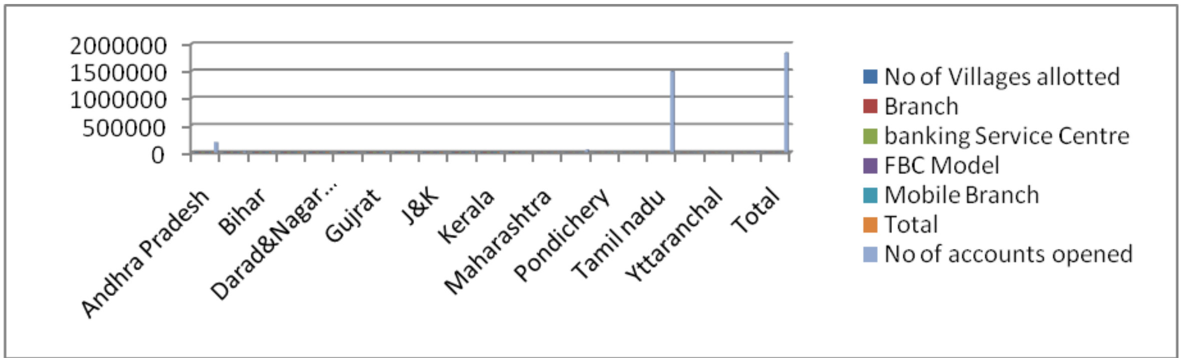
Statewise allocation and coverage of village with population above 2000 and no of accounts opened statewise gives a clear picture about the financial inclusion in the year 2014

Statewise allocation and coverage of villages with population above 2000

(As on 31.03.2014)

S.No.	State	No. of villages allotted	No. of villages covered				Total	No. of accounts opened
			Branch	Banking Service Centre	FBC Model	Mobile Branch		
1.	Andhra Pradesh	263	5	9	243	6	263	181095
2.	Assam	36	-	-	36	-	36	21726
3.	Bihar	36	-	-	36	-	36	13562
4.	Chhattisgarh	6	-	-	6	-	6	1257
5.	Dadar&Nagar Haveli	1	-	-	1	-	1	118
6.	Goa	1	-	-	1	-	1	202
7.	Gujarat	14	1	1	12	-	14	9384
8.	Haryana	10	2	-	8	-	10	6884
9.	J&K	2	-	-	2	-	2	56
10.	Karnataka	21	1	-	15	5	21	14388
11.	Kerala	2	2	-	-	-	2	9182
12.	Madhya Pradesh	6	-	-	6	-	6	4750
13.	Maharashtra	11	-	-	11	-	11	6607
14.	Orissa	48	6	-	42	-	48	42897
15.	Puducherry	8	2	-	6	-	8	16166
16.	Punjab	8	-	1	7	-	8	4533
17.	Tamil Nadu	986	19	20	926	21	986	1468591
18.	Uttar Pradesh	28	-	2	20	6	28	11456
19.	Uttaranchal	1	-	-	1	-	1	338
20.	West Bengal	35	-	-	28	7	35	18548
	Total	**1523**	**38**	**33**	**1407**	**45**	**1523**	**1831740**

Chart 2: Villages Covered with population >2000 in March 2014



The above chart shows that maximum no of the account opened is in Tamilnadu and the second state having maximum no. of accounts opend is Andhrapradesh ,3rd Orrisa,4th is Assam,5th position is holded by W.Bengal The table also shows that the no of villages are more in Bihar as compared to Pondichery but the accounts opened are more in Pondichery as compared to Bihar.Similarly the no of villages in MP and Chattisgarh are same but the accounts opened in MP are almost four times than Chattisgarh..Similary Pondichery and Punjab are also having same no of villages but the accounts opened in pondichery are four times than Punjab hence more efforts should be done to enhance the opening of accounts

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010

Chart 3: Villages Covered with population >2000&<2002 in March 2010-March 2012

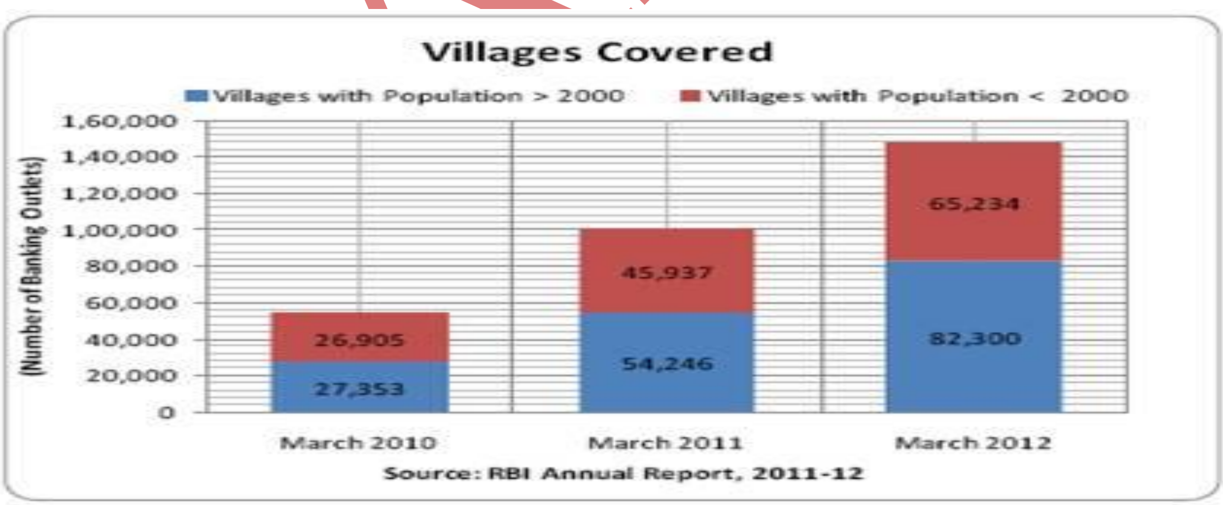


Table 1.1: Number of Commercial banks In India

Banks / years	2008	2009	2010	2011	2012	2013
Number of commercial banks	173	170	167	167	173	155
Scheduled commercial bank	169	166	163	163	169	151
Of which RRBs	90	86	82	82	82	64
Non scheduled commercial bank	4	4	4	4	4	4

Source: Statistics relating to commercial banks at a glance RBI

No of commercial banks showed a decreasing trend from 2009 to 2010 which became steady in 2011 however it then increased in 2012 but then again it decreased in 2013.Sheduled banks alsoshowed decreasing trend from 2009 till 2010 which became steady in 2011 but then it increased in 2012 and then it decreased in 2013.Of which RRBs also depicted a decrement from 2009 to2010which became steady in 2011 and 2012 which further decreased in 2013.Non scheduled banks shows a constant trend over the years from 2008till2013.

Table 1.2: Number of Banks offices in India

Areas / years	2008	2009	2010	2011	2012	2013
(a) Rural	30927	31598	32529	33868	36503	39439
(b) Semi-Urban	18027	19337	21022	23299	26144	28691
(c) Urban	15566	16726	18288	19046	20650	21720
(d) Metropolitan	14267	15236	16364	17806	19080	19961
All India level of bank offices	78787	82897	88203	94019	102377	109811
Trend percentage	100.00%	105.20%	111.95%	119.33%	129.94%	139.37%
Actual increasing percentage	Base	5.20%	11.95%	19.33%	29.94%	39.37%

Source: Statistics relating to commercial banks at a glance RBI

The table shows an increasing trend with respect to the growth of bank offices in india. from over the years from 2008 to 2013 .In rural areas it increased from 30927 to 39439.In Semi-urban areas it increased from 18027 to28691.the growth trend also continued in urban as well as in metropolitan,The all India level of bank offices also increased from 78787 to 109811..Thus trend percentage showed an increase in percentage form 100 to 139.3%.

Table 1.3: Population per Offices

Year	2008	2009	2010	2011	2012	2013
Population per Offices	15000	15000	14000	13000	13000	12000

Source: Statistics relating to commercial banks at a glance RBI

The table indicates decrease in the number per office over the years.It was 15000 in 2008-09 which decreased till 2013

Table 1.4 Aggregate deposits and credit level of scheduled commercial bank(Rs billion)

Deposits and credits /Years	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
(a) Demand deposits	26726.30	33110.25	38472.16	45662.64	52837.52	60881.55
(b) Time deposits	5243.10	5230.85	6456.10	6417.05	6253.30	6622.99
Aggregate deposits	31969.40	38341.10	44928.26	52079.69	59090.82	67504.54
Bank credit	23619.13	27755.49	32447.88	39420.83	46118.52	52604.59
Per cent of credit allowed	73.88%	72.39%	72.22%	75.69%	78.04%	77.93%

Source: Statistics relating to commercial banks at a glance RBI

The table shows that the deposit and credit level are increasing over the years. Aggregate deposit level was 31969.40 in the year 2008 which went up to 67504.54 9n the year 2013.The bank credit shows also shows an increasing trend over the years from 2008 to 2013 from32619.13 to 52604.59.However in case of credit allowed it shows a deceasing trend though in small percentage in 2009and 2010 but then it showed an increasing growth from 2011 to 2013.

Progress in Financial Inclusion: Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

Number of Branches Opened (including RRBs): Due to RBI's efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, across the country .In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. However as compared to rural areas, number of branches in semi-urban areas increased more rapidly.

Chart 4: Branches of Scheduled Commercial Banks

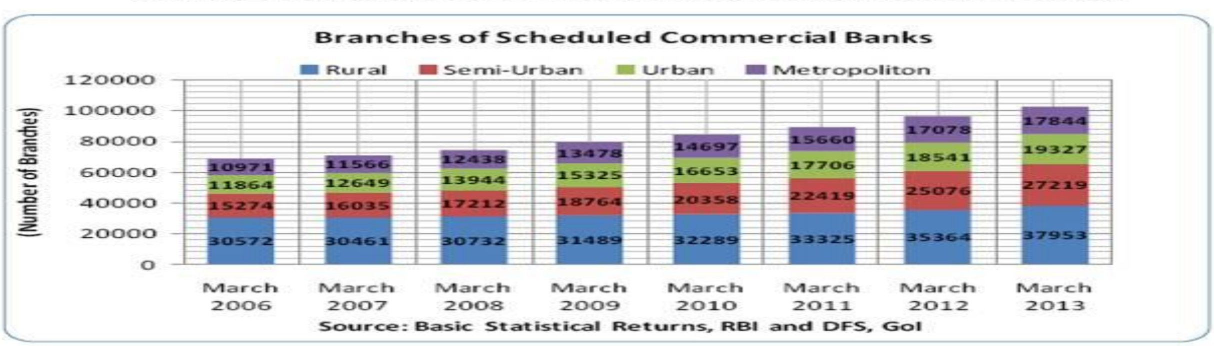
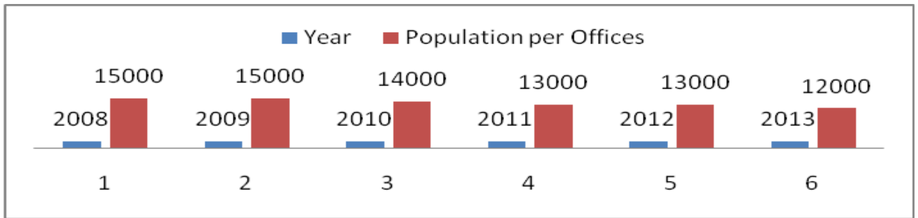


Chart: 5 Population Per Office



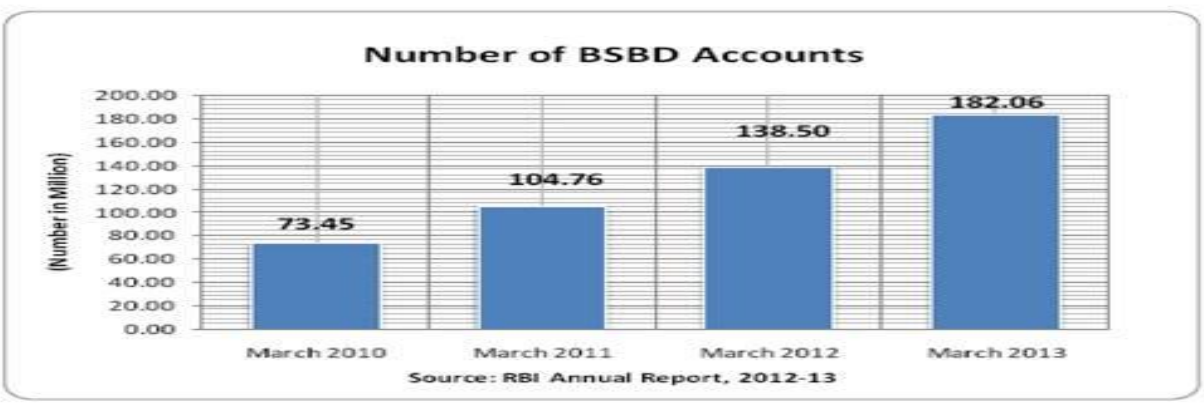
Source: Statistics relating to commercial banks at a glance RBI

The chart shows a decrease pattern in the number per office over the years.The population per office decreases from 15000 in 2008-09 which continued to decrease till 2013

Total Bank Outlets (including RRBs): Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

BSBD Accounts Opened: The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013

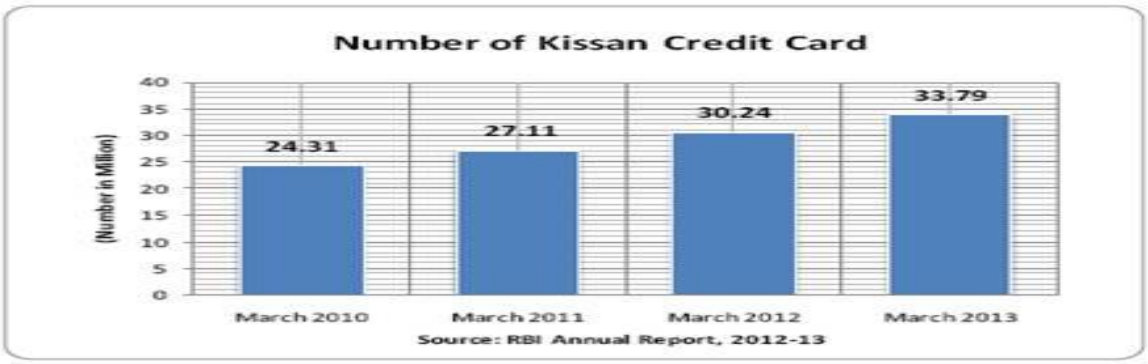
Chart 6: Number of BSBD Accounts



RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010

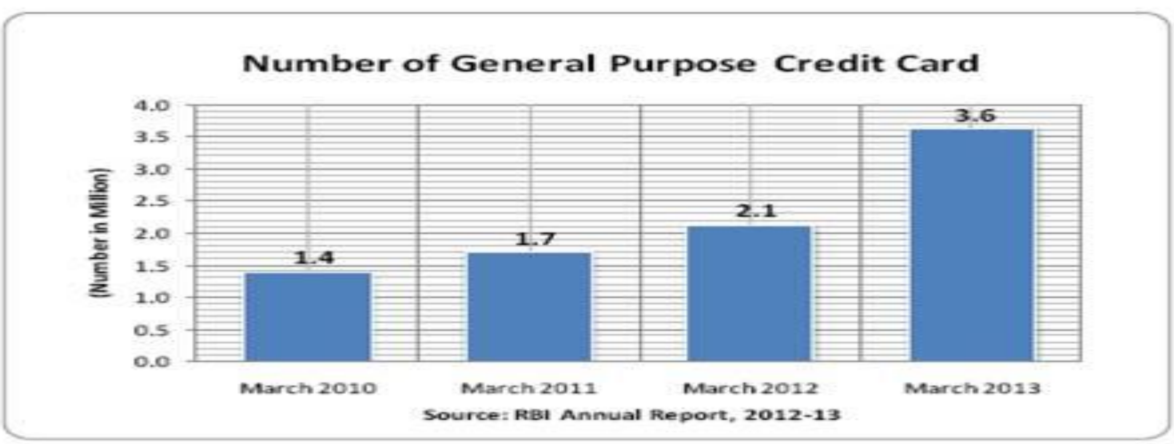
Kisan Credit Cards (KCC) Issued:Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion

Chart 7: Number of KCCs



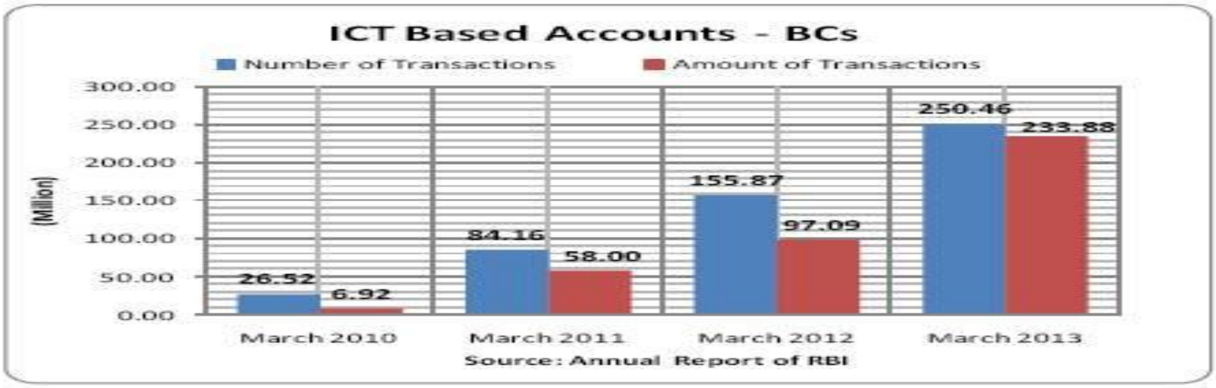
General Credit Cards (GCC) Issued: Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts

Chart 8: Number of KCCs



ICT Based Accounts - through BCs: In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period

Chart 9: ICT Based Accounts - BCs



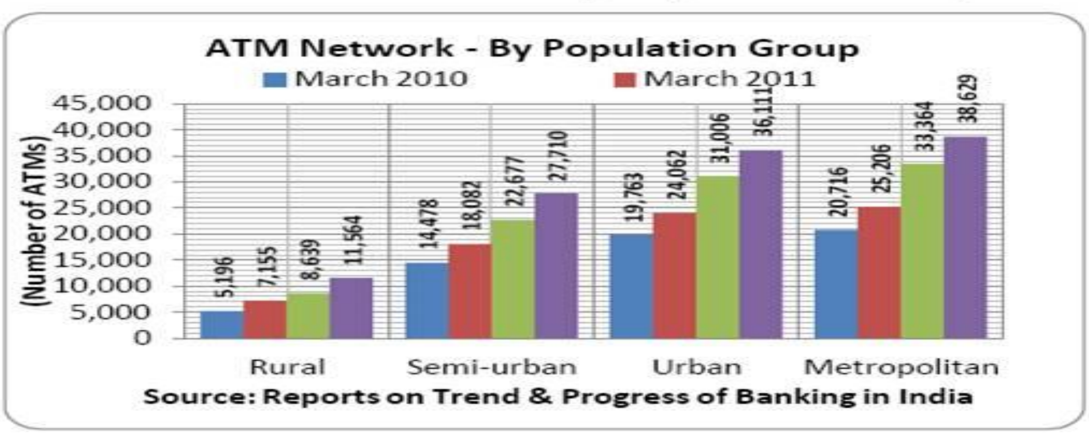
Expansion of ATM Network: The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013

Table 1.5: Total no of ATM

No o ATM/Year	2008	2009	2010	2011	2012	2013
No Of ATM's	34789	43651	60153	74505	95686	114014
Trend %	100%	124.47	172.91%	214.16%	275.04%	327.73%
Increasig Level of ATM's	Base%	24.47%	72.91%	114.16%	175.04%	227.73%

Source: Statistics relating to commercial banks at a glance RBI

Chart 10: ATM Network – By Population Group



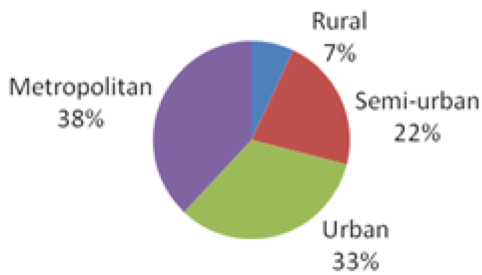


Fig: 3

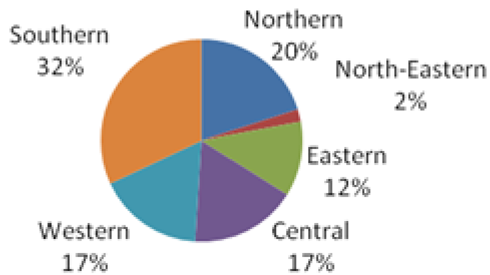


Fig: 4

Fig: 3 Share of population in Increment of ATM's:2011-2012, Source: Report on Trend and Progress of Banking in India for the year ended June30, 2012, RBI

Fig: 4: Share of Regions in Total Number of new ATMs opened 2011-2012, Source: Report on Trend and Progress of Banking in India for the year ended June30, 2012, RBI

Table 1.6: Number of ATMs of SCBs at Various Locations
(At end March 2012)

Bank Group	Rural	Semi-Urban	Urban	Metropolitan	Total
1	2	3	4	5	6
Public sector banks	**6,673 (11.5)**	**15,135 (26.0)**	**19,213 (33.0)**	**17,172 (29.5)**	**58,193 (100.0)**
Nationalised Banks	3,383 (10.9)	6,800 (21.9)	10,186 (32.8)	10,681 (34.4)	31,050 (100.0)
State Bank Group	3,290 (12.1)	8,335 (30.7)	9,027 (33.3)	6,491 (23.9)	27,143 (100.0)
Private sector banks	**1,937 (5.4)**	**7,520 (20.8)**	**11,525 (31.9)**	**15,097 (41.8)**	**36,097 (100.0)**
Old Private Sector Banks	523 (9.1)	2,025 (35.1)	1,876 (32.5)	1,347 (23.3)	5,771 (100.0)
New Private Sector Banks	1,414 (4.7)	5,495 (18.1)	9,649 (31.8)	13,750 (45.4)	30,308 (100.0)
Foreign Banks	**29 (2.1)**	**22 (1.6)**	**268 (19.0)**	**1,095 (77.4)**	**1,414 (100.0)**
Total	**8,639 (9.0)**	**22,677 (23.7)**	**31,006 (32.4)**	**33,364 (34.9)**	**95,686 (100.0)**
Growth over Previous year	**(20.7)**	**(25.4)**	**(28.9)**	**(32.4)**	**(28.4)**

Note: Figures in parentheses indicate population group-wise percentage share of total ATMs under each bank group.
(Source: Report on Trend and Progress of Banking in India for the year ended June 30, 2012, RBI)

Table 1.7:Financial Inclusion plan – summarized information of all the banks including RRBs

Sl No	Particulars	Year ended March 2010	Year ended March 2011	Year ended March 2012	Year ended March 2013
1	Banking Outlets in Villages - Branches	33378	34811	37471	40837
2	Banking Outlets in Villages - BCs	34174	80802	141136	221341
3	Banking Outlets in Villages - Other Modes	142	595	3146	6276
4	Banking Outlets in Villages - Total	67694	116208	181753	268454
5	Urban Locations covered through BCs	447	3771	5891	27143
6	Basic Savings Bank Deposit A/c - branches (No. In millions)	60.19	73.13	81.20	100.80
7	Basic Savings Bank Deposit A/c - branches (Amount □. In billions)	44.33	57.89	109.87	164.69
8	Basic Savings Bank Deposit A/c - BCs (No. in millions)	13.27	31.63	57.30	81.27
9	Basic Savings Bank Deposit A/c - BCs (Amount □. in billions)	10.69	18.23	10.54	18.22
10	OD facility availed in BSBDA's (No. In millions)	0.18	0.61	2.71	3.95
11	OD facility availed in BSBDA's (Amount □. in billions)	0.10	0.26	1.08	1.55
12	KCCs - (No. in millions)	24.31	27.11	30.24	33.79

Source: Annual Report of RBI.

V ROLE OF FINANCIAL INCLUSION ON THE OVERALL DEVELOPMENT OF THE COUNTRY:

5.1 Economic Growth

The services regarding the financial system exert a greater impact on long-run economic growth.The economic growth can be increased by financial services and financial development by increasing the rate of capital addition and improving the efficiency regarding the use of economies with respect to capital in the current period as well as in the future . The relative importance of improved investments is higher in low- and middle-income countries than in high-income countries .Local financial development enhances the probability of an individual to start a business, increase industrial competition, and promote growth of firms. The relaxation of bank branch restrictions increases the bank-lending quality and also increases real per capita growth rates. Financial development helps in better and cheaper services for saving money and making payments, by allowing firms and households to avoid the cost of trade or cash transactions, cutting remittance costs, and providing the opportunity for asset accumulation and consumption smoothing.

5.2 Poverty and Inequality

Financial development also helps in dividing economist more evenly. Better access to credit by the poor enables them to bring themselves out of poverty by investing in their human capital and microenterprises, thus reducing aggregate poverty. Financial depth has a significant impact on poverty reduction through channels such as entrepreneurship and the inter-state migration of workers towards financially more developed states .Bank deregulation also leads to removal of branching restrictions, tightening of the distribution of income by disproportionately raising incomes in the lower half of the income distribution. Branch expansion into rural unbanked locations can reduce poverty, mediated by increased deposit mobilisation and credit disbursement by banks in rural areas. Bank branch expansion can also lessen poverty by decreasing unemployment and enabling existing business owners to continue their operations.

5.3 Systemic Risk and Financial Stability

Greater financial inclusion, by providing with greater access to financial risk-managing tools to individuals, households, and small firms can enhance resilience and stability of the real economy and thus also the financial system serving it.. Greater access to bank deposits can make the deposit funding base of banks more flexible during financial stress.

VI CONCLUSION

Hence for the achievement of complete financial inclusion and for the proper growth NABARD ,the RBI, and the implementing bodies will have to put full hearted efforts to carry forward the growth of financial growth .For proper financial inclusion in the country ,regulation and accessibility should be provided. Various means of mass communication like T,V and financial literary programmers should also be carried out to reach the uncovered population in order to achieve sustainable growth of India .

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