The Role of Financial Inclusion in Transforming Indian Commercial Banks

***Dr. Vandana Ahuja**

Abstract

In order for a nation like India to prosper economically, commercial banks are essential. In recent years, the Indian economy broadly, and banking services, in particular, have advanced quickly. Though a sizable portion of the population is still barred from even the most fundamental opportunities and services offered by the financial industry, this is especially true for the weaker and lower-income groups. A variety of financial services must be made available to every person if the problem of such financial exclusion is to be addressed holistically. Financial inclusion policies are a major factor in the transformation of the 2.5 billion people who are financially excluded worldwide, with India making up one-third of this population. The idea of financial inclusion came from UN initiatives, which comprehensively described one of the main objectives of the policy as providing everyone with access to a wide range of financial services at a reasonable price. This policy began operating successfully in India in the fiscal year 2015–16.

Keywords: commercial banks, financial services, financial industry, Indian economy

Introduction

As one of the key national goals of the nation, the Indian Government and Reserve Bank of India have been working together to promote financial inclusion. The nationalisation of banks, establishment of a strong branch network of scheduled commercial banks, cooperatives, and regional rural banks, lead bank scheme, the introduction of mandated priority sector lending targets, formation of self-help groups, allowing BCs/BFs to be appointed by banks to provide doorstep delivery of banking services, zero balance BSBD accounts, etc. are just a few of the significant initiatives made over the past fifty years. All of these projects share the common goal of making financial services available to a sizable portion of the Indian population who had previously been financially excluded.

The most fundamental step in integrating these individuals into society's financial system, according to a number of financial professionals, is opening a bank account. Therefore, opening bank accounts for the unbanked should be the main goal of financial inclusion. They lack bank accounts, are ignorant of financial and saving tools, and are unable to make the most of whatever great or small sum of money they have available because they have chosen to remain outside the mainstream of banking and finance. Financial inclusion, to put it simply, is the process of integrating those who are at the bottom of our social pyramid into the financial system.

Providing poor and disadvantaged people with specialised financial goods and services is essential for their uplift. This results in inclusive growth that includes the underprivileged and marginalised groups. Through careful consideration of the appropriate factors to assess, this study seeks to examine the changes that have taken place in India's conditions. Only 15 paise of every rupee spent on development, according to former prime minister Late Shri Rajiv Gandhi, go to the poor.

The Khan Commission was established by the Reserve Bank of India in 2004 to study financial inclusion. The Commission's recommendations were included in the mid-term assessment of the policy (2005–2006), which urged banks to reexamine their current procedures in order to bring them in line with the goal of financial inclusion. The Planning Commission discovered in 2005 that just 27 paisa of every rupee spent on the Targeted Public Distribution System actually reaches the poor. However, as shown by the World Bank Findex Survey (2012), the progress is far from sufficient. Only 35% of Indian adults had possession of a formal bank account, and only 8% had taken out a formal loan, per the survey's findings. Only 2% of adults utilised an account to receive funds from a relative who lived elsewhere, and 4% used an account to receive government payments. The most recent actions taken by the government to achieve inclusive growth goals include the implementation of a universal and targeted public distribution system (PDS), the provision of employment in rural areas through the National Rural Employment Guarantee Scheme (NREGS), the project to give everyone a unique identification number (AADHAR), and the Direct Benefit Transfer (DBT) Scheme in 2015. The NDA government passes money totaling Rs. 48,000 crore with a focus on the NREGA programme. The current study examines patterns and trends in economic inequality across Indian states while also attempting to evaluate financial inclusion in India. Understanding the country's growth dynamics, which are leading to regional imbalances, and proposing solutions to the issue are the main goals of this study.

Review of literature

In order to offer a viable structure to achieve financial inclusion, Rao, N. N. D. S. V. (2010, p. 3) wrote a research paper titled "Financial inclusion- Banker's perspective" in which he argued that banks and the RBI should hold financial inclusion awareness events for their staff. He also learned that providing banking services to the needy is not poor banking. The self-help group movement of the past 10 years or more is a perfect example of how much opportunity there is to gain business from those at the bottom. It ought to become ingrained in the brains of working bureaucrats.

Dr. Rao S.K. asserted in his article from 20104 titled "Nationalisation of Banks - An Anchor for Financial Inclusion" that the act of nationalising banks in 1969 had helped the nation achieve inclusive growth. He emphasises the fact that banking development following nationalisation has opened the door for penetration of banking into rural and unbanked areas using data primarily from RBI publications. He also makes the point that, despite nationalisation and a significant branch expansion, the banking industry could not fully address the difficulties of financial inclusion and that new pathways must be found in order to achieve fully inclusive growth in the nation.

The importance of financial inclusion, according to Drs. Swamy, V. and Vijayalakshmi (2010)5, was cited in their article "Role of Financial Inclusion for Inclusive Growth in India- Issues and Challenges" as a result of the issue of the world's nearly three billion people being financially excluded from formal financial services. After China, India has the second-highest number of financially excluded households at 135 million. The goal of graduated credit must be to move the underprivileged from one level to another in order to help them escape poverty. They came up with twenty-one steps for financial inclusion in the twenty-first century. To make it easier for those who are financially excluded to get bank accounts, coordinated action by the government and others is required.

The purpose of this research, according to Badajena, S. N. and Prof. Gundimeda, H. (2010)6 "Self Help Group Bank Linkage Model and Financial Inclusion in India," is to determine the effect of the self help group linkage programme on achieving financial inclusion across sixteen states for the year 2008. The researchers discovered that despite the recent expansion of the official banking network, many people still lack access to even the most basic financial services. The self-help group bank linkage model has the potential to offer a different mechanism for reaching out to sizable unbanked segments of society with financial services.

OBJECTIVE OF THE STUDY

1. Financial inclusion with Indian business banks.
2. A trend and pattern analysis of digital financial inclusion.
3. To comprehend the national growth dynamics.
4. To research the use of Direct Benefit Transfers in financial inclusion.

The phases of financial inclusion (the development and steady expansion of commercial banks)

A. The financial industry was consolidated and trade and industry were made easier between 1950 and 1970.

B. From 1970 to 1990, the emphasis was on allocating credit to disadvantaged groups and neglected industries.

From 1990 to 2005, the financial sector reforms prioritised building financial institutions.

D. Financial inclusion was made a clear governmental priority from 2005 to 2015.

Increasing Reach from 1951 to 1991

Commercial banks have advanced significantly from the situation that prevailed in 1951–1952, with a sizable distribution of 32,224 branches in rural and semi-urban areas accounting for 68% of their total outlets as of March 31, 1991. As of the same day, these branches' outstanding deposits totaled Rs. 67,855 crore, or around 35% of their total deposits, while their outstanding loans totaled Rs. 43,797 crore, or 36% of their outstanding credit. In March 1991, the total agricultural advances made by the commercial banking system totaled Rs. 16,687 crore, or 14% of all advances. Commercial banks' rural and semi-urban branches managed 17.6 crore deposit accounts, while 3.7 crore loan accounts were totaled.

Growth from 1991–1992 to 2003–2004

Credit to agriculture has increased pretty quickly in the years from 1991–1992. Data readily available suggests that in 2003–04, commercial banks and RRBs collectively extended Rs. 60,022 crore in loans to the agricultural sector.This suggests an annual compound growth rate of 22.2%. In actuality, throughout this time, the cooperative sector's credit flow was far slower than that of commercial banks (including RRBs). Only 13.7% of agricultural loans from cooperative institutions had compounded annual increase. Additionally, as a result of the quick expansion of non-agricultural credit, the share of overall credit devoted to agriculture decreased. The Government made several significant moves at this time to increase credit flow, construct agricultural infrastructure, particularly irrigation and connectivity in rural areas, and increase agricultural productivity.

NABARD launched the SHG-Bank Linkage Programme as a pilot project in 1992. It resulted in the development of a set of RBI-approved standards for banks that allow SHGs to conduct business with banks. Only 32,995 organisations were credit linked between 1992 and 1999, therefore the scheme initially advanced slowly up until that point. Since then, the scheme has expanded quickly, and the total number of SHGs supported has gone up from 4.61 lakhs on March 31, 2002, to 10.73 lakhs on March 31, 2004, and then to 29.25 lakh groups as of March 31, 2007.

Commercial banks and financial inclusion in India:

It is evident that there is much that policy can do given the evidence that financial access varies greatly around the world and that increasing access remains a significant problem even in mature economies. The policy's promise to supply is insufficient. Banks play a significant role in supporting, regulating, and occasionally directly interfering in the provision of financial services across India due to policy failures caused by information gaps, the necessity for coordination of collective action, and concentrations of the poor. The government of India places a high priority on financial inclusion in its policy agenda. The social inclusion strategy, of which financial inclusion is a key component, has been one of the most noticeable parts of the governance ever since the NDA government took office in the centre in 2014. With the "Pradhan Mantri Jan Dhan Yojana," the NDA government focuses on opening bank accounts. In the plan for financial inclusion in all of India, this scheme has been quite effective. Almost Rs. 665 billion had been placed into nearly 27 crore (270 million) new bank accounts as of 1 February 2017 through this programme. The Reserve Bank of India (RBI) has taken the initiative to usher in the enabling environment for accelerating financial inclusion across the length and width of the country through bank driven model, taking inspiration from the state proclivity towards inclusive growth agenda. The single greatest issue that all stakeholders, especially banks and delivery channels, must overcome is how to reach the 400 million or more unbanked people while maintaining profitability.

Electronic financial inclusion

Rich households' financial life are firmly rooted in the digital financial system, which makes it easy and affordable for them to send or receive money and supports their economic activities. By clicking a button, their money is exchanged digitally. However, poor people do not use this method since they save their valuables in physical assets like cash, precious metals, and/or animals.

Three parts of the financial inclusion process—referred to as "clouds" by Reference—are present. As a typical cash management system, the first part is the physical cash cloud, which is run by the existing poor people. Second, a virtual account that uses e-money, and third, a psychological planning method where people make financial decisions using their brains rather than physical or virtual means. When traditional and virtual clouds are combined, access is revealed, and when virtual and psychological clouds are combined, financial system utilisation results.

It is obvious that the expansion of payments through digital platforms provides the chance to link the underprivileged with service providers. This system will not, however, compel people to save money on their own; rather, it will open the door for the incorporation of automated financial systems that handle deposits, reminders, and other financial tasks.

Because it reaches out to the welfare of the poor directly through the proper channels and gives them access to basic accounts, payment links to other individuals and organisations as well as governments, as well as improved financial services, digital financial inclusion places a strong emphasis on the poor.

Transfer of Direct Benefits (DBT)

The DBT Scheme's main goal is to make sure that funds for various development initiatives reach their intended recipients immediately and directly. The programme was introduced across the nation in January 2013 and has been implemented gradually, beginning with 26 welfare initiatives in 43 districts. The programme will be gradually expanded across the entire nation, starting with an extra 78 districts and 3 schemes as of July 1, 2013. With effect from June 1, 2013, the government has begun transferring cash subsidies for home LPG cylinders to customers' bank accounts that are connected to their Aadhaar. This programme is being tested in 20 trial districts. In these districts, there would be almost 75 lakh beneficiaries.

The opening of all beneficiaries' accounts is the first of four crucial steps that banks must take in order to execute the DBT.

(ii) seeding Aadhaar numbers into bank accounts and submitting them to the NPCI mapper.

Utilising the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS) to transfer money.

(iv) Improving the banking system to make it possible for beneficiaries to withdraw funds.

All recipients are guaranteed a bank account by banks. The seeding of Aadhaar in the CBS has been provided for by all Public Sector Banks (PSBs) and RRBs. Additionally, all PSBs have joined the National Payments Corporation of India's (NPCI) Aadhaar Payment Bridge. Beneficiaries are receiving debit cards from banks as well. Additionally, banks have begun taking steps to improve their infrastructure and offer business correspondents in previously underserved areas.

Additionally, banks have been instructed to give each branch in the designated districts an onsite ATM as well as a debit card to each beneficiary, allowing them to withdraw money at their discretion. The withdrawal infrastructure would be strengthened by providing debit cards to all recipients, allowing them to withdraw funds at their convenience.

CONCLUSION

Offering banking services to the underprivileged and low-income group at a reasonable price is crucial for the success of the financial inclusion project. Commercial banks must play a crucial role in this situation. However, there is still work to be done on the path to total financial inclusion. Commercial banks play a crucial role in promoting financial inclusion in the following areas: 2. Credit advice, 3. KYC standards, 4. BC/BF model, 5. No-frill accounts, 6. KCC/GCC, 7. Branching out, Phone banking, 8. E-banking 10. Direct Benefit Transfer (DBT) and additional initiatives like microinsurance and microcredit. This financial programme aids the populace in raising its literacy level and increasing awareness of financial inclusion in India.

***Lecturer**
Department of ABST
Janki Devi Bajaj Govt. Girls P.G. College
Kota (Raj.)

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