



## **ROLE OF BANKING SECTOR IN FINANCIAL INCLUSION**

**M. Mala\* & Dr. G. Vasanthi\*\***

\* Ph.D Research Scholar Cum Special Officer, Department of Commerce, Annamalai University, Chidambaram, Tamilnadu

\*\* Professor & Head, Department of Commerce, Annamalai University, Chidambaram, Tamilnadu

**Cite This Article:** M. Mala & Dr. G. Vasanthi, "Role of Banking Sector in Financial Inclusion", International Journal of Computational Research and Development, Volume 1, Issue 1, Page Number 172-176, 2016.

### **Abstract:**

Banking sector play a vital role in the economic development of India. The economic progress of the country achieved through maximum number of participation from all the sections of the society. The research paper main aim is to find the role of Indian banking sector in financial inclusion. The data for the study has been gathered through secondary sources including report of RBI, finance ministry, books on financial inclusion and other articles written by eminent authors. The researcher concluded that financial inclusion is playing a catalytic role for the economic and social development of Indian society.

**Key Words:** Financial Inclusion, Banking Sector, ATM, Technology & Distribution Etc

### **Introduction:**

Banking sector play a vital role in the economic development of India. The economic progress of the country achieved through maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of our Indian economy. In order to overcome this, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit cards, debit cards, internet banking, etc.

Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable.

### **Review of Literature:**

H. N Archana (2013) analyzed the importance of Financial Inclusion for Inclusive Growth and the role of various institutions like MFIs, SHGs, and RRBs in achieving Financial Inclusion. According to this research an initial effort has been made for the widespread network of banking system through the establishment of Regional Rural Banks, Microfinance Institutions, self Help Groups etc with the objective of providing easy and timely finance. The researcher argued that despite of various initiatives undertaken, there are still many obstacles cropping up in attaining Financial Inclusion. Hence the research concluded that both public and private sector institutions should work together to overcome these challenges and contribute towards Inclusive Growth.

Badajena, S, N and Prof. Gundimeda, H (2010), conducted this research to study the impact of self help group linkage programme in achieving financial inclusion across sixteen states for the period 2008. The study found out that in spite of the increased spread of formal banking network in the recent past, access to basic financial services are still beyond the reach of large sections of society. Self help group bank linkage model exhibits the potential to provide an alternative mechanism to extend financial services to large unbanked sections of the society.

Ms. Paramjeet Kaur (2014), analysed to accelerate the growth and development and condense the income inequality and poverty, the access to safe, easy and affordable credit and other financial services to the poor and vulnerable groups, are recognized as a pre-condition. The main aim of financial inclusion is delivery of banking and financial services in a fair, translucent and impartial manner at reasonable cost to the vast sections of disadvantaged and low income group. To promote financial inclusion the Government of India and the Reserve Bank of India have been making continuous efforts like the recent "Jan Dhan Yojana" announced in August, 2014.

### **Objectives of the Study:**

The main objective of study the role of banking sector in financial inclusion.

### **Research Methodology:**

The paper is basically a descriptive one. This paper tries to review the role banking sector in financial inclusion. This paper relies exclusively on secondary data. The secondary data was collected from websites of the banking sector, RBI bulletin, annual reports of RBI and Ministry of Finance and from various reputed journals.

### **Definition of Financial Inclusion:**

- ✓ Dr. C. Rangarajan (2008) defined as, "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost".
- ✓ Prof. Raghuram Rajan's defined financial inclusion as, "Expanding access to financial services, such as payment services, savings products, insurance products, and inflation protected pensions".

- ✓ Crisil defines financial inclusion as “The extent of access by all sections of society to formal financial services, such as credit, deposit, insurance, and pension services”.
- ✓ According to the Planning Commission (2009), financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.
- ✓ Goi (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.
- ✓ Chakraborty (2011), Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

**Measure for Financial Inclusion:**

RBI has initiated several measures to achieve greater financial inclusion. They are:

**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 no-frills accounts.

**Know-Your-Customer (KYC) Norms:** KYC requirements for opening bank accounts were relaxed for small accounts in August 2005; thereby procedures were simplified by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts.

**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.

**EBT:** Banks have been advised to implement EBT 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 EBT reduce dependence on cash and lowering transaction cost

**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 main 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. The nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

**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.

**Opening of Rural Branches:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion in the country.

**Pradhan Mantri Jan Dhan Yojana:** The government of India (GOI), Reserve Bank of India (RBI) and financial institutions has actions for providing formal banking services to vast section of people in India. Recently the government of India (GOI) has launched the ‘Pradhan Mantri Jan Dhan Yojana’ (PMJDY), with a purpose of providing universal access to banking services with at least one necessary banking account for every family and pension providing banking services to the poor. Table 1 shows the number of bank accounts opened through PMJDY initiative had crossed the 20.0 crore by 20<sup>th</sup> January, 2016.

Table 1: Pradhan Mantri Jan Dhan Yojana( igits in Crore)

Financial Institution	Rural	Urban	Total	% of Zero-balance Accounts
Public Sector Bank	8.91	7.10	16.01	31.78
Regional Rural Bank	3.12	0.51	3.63	26.24
Private Banks	0.45	0.30	0.74	39.80
Total	12.47	7.91	20.38	31.09

Source: (<http://www.pmjdy.gov.in/account>; accessed on 24<sup>th</sup> January, 2016)

Table 2: Financial Inclusion at Regional Level

Region	Inclusix 2011	Inclusix 2010	Inclusix 2009
India	40.1	37.6	35.4
Southern Region	62.2	58.8	54.9
Western Region	38.2	35.8	33.9
Northern Region	37.1	34.8	33.3
Eastern Region	28.6	26.3	24.3
North-Eastern Region	28.5	26.5	23.8

Source: CRISIL (2013).

The above table 2 shows the financial inclusion at regional level. The financial inclusion has increased

from year to year.

Table 3: Financial Inclusion at Banks and RRBS

	Year Ended March 2010	Year Ended March 2014
Banking Outlets in Villages- Branches	33,378	46,126
Banking Outlets in Villages- Branchless Mode	34,316	3,37,678
Banking Outlets in Villages- Total	67,694	3,83,804
Urban Locations covered through BCs	447	60,730
Basic Savings Bank Deposit A/c through branches (No. in Millions)	60.2	126.0
Basic Savings Bank Deposit A/c through branches (Amt. in Billions)	44.3	273.3
Basic Savings Bank Deposit A/c through BCs (No. in Millions)	13.3	116.9
Basic Savings Bank Deposit A/c through BCs (Amt. in Billions)	10.7	39.0
Basic Savings Bank Deposit Accounts Total (No. in Millions)	73.5	243.0
Basic Savings Bank Deposit Accounts Total ( Amt. in Billions)	55.0	312.3
Overdraft facility availed in Basic Savings Bank Deposit Accounts (No. in Millions)	0.2	5.9
Overdraft facility availed in Basic Savings Bank Deposit Accounts (Amt. in Billions)	0.1	16.0
KCCs – (No. in Millions)	24.3	39.9
KCCs – (Amt. in Billions)	1,240.1	3,684.5
GCC - (No. in Millions)	1.4	7.4
GCC - (Amt. in Billions)	35.1	1,096.9
Information and Communication Technology A/Cs-BC- Transaction - (No. in Millions) (During the year)	26.5	328.6
Information and Communication Technology A/Cs-BC- Transactions - (Amt. in Billions) (During the year)	6.9	524.4

Source: RBI Annual Report (2013-14).

Table 3 shows the financial inclusion progress in Banks and Regional Rural Banks

#### Banking Technology

Banking technology has started playing a very important role in financial inclusion. ATM is one of the recent technologies that made the banking system much easier. The following are the some of the technologies used in banking. They are:

- a. **Automatic Teller Machines (ATMs):** Automatic Cash dispensing machines are in all place in cities and towns. The machine identifies the bank user through his card and password. The user can withdraw cash through these machines, check his account balances and use it for some other small transactions.
- b. **Deposit Taking Machines:** Deposit taking machines are machines which take cash deposits from customers and update the status of their deposit in real time. These machines are currently present only in the few banks in cities.
- c. **Hand Held Devices:** Hand held devices are used to identify user accounts usually through a card and biometric identifier. The main purpose of the device is to update the transactions happening at BC location in the bank servers. It can be operated through uses of mobile data networks or through the Local Area Network (LAN) connection.
- d. **Computerised Transactions in Kiosk:** Computers at kiosk can directly connect to banks website and use the website for banking transactions like deposits, withdrawals, etc.
- e. **White Label ATMs:** They are of normal ATMs and it is operated by a private entity. The different banks can provide the service through this ATM.
- f. **Internet Banking/ Mobile Banking:** The bank account holders can use their accounts using internet banking and mobile banking to transfer money to different accounts and pay their bills.

The distribution of ATMs in metropolitan areas, urban areas, semi-urban areas and rural urban areas are shown in Table 4

Table 4: Area Wise Distribution of ATMs (Rural-Urban)

Banks	2014			
	Metro Centres	Urban Centers	Semi - Urban Centres	Rural Centres
Public Sector Banks	26,767	35,093	32,994	21,810
Private Sector Banks	19,163	14,535	11,394	3,982
Foreign Banks	903	201	20	32
<b>Total</b>	<b>46833</b>	<b>49,829</b>	<b>44,408</b>	<b>25,792</b>
	<b>2013</b>			

Public Sector Banks	21,366	24,469	20,412	9,645
Private Sector Banks	18,115	13,742	9,664	3,190
Foreign Banks	968	228	20	28
<b>Total</b>	<b>42,226</b>	<b>40,884</b>	<b>33,015</b>	<b>13,700</b>

Source: RBI (2014).

The distribution of ATMs in public sector banks, private sector banks and foreign bank sare shown in Table 5

Table 5: State wise Distribution of ATMs in 2014

State	Public Sector Banks	Private Sector Banks	Foreign Banks
Andhra Pradesh	10,516	4,157	66
Arunachal Pradesh	164	12	0
Assam	2,635	429	2
Bihar	4,476	776	3
Chhatisgarh	2,239	349	1
Goa	563	323	2
Gujarat	6,945	2,868	32
Haryana	3,627	1,979	79
Himachal Pradesh	1,286	179	0
Jammu & Kashmir	916	1,044	0
Jharkhand	2,481	481	0
Karnataka	8,075	4,682	227
Kerala	4,772	2,530	11
Madhya Pradesh	6,688	1,057	8
Maharashtra	11,284	7,502	313
Manipur	1,013	36	0
Meghalaya	256	56	0
Mizoram	81	20	0
Nagaland	233	35	0
Orissa	4,071	897	2
Punjab	4,614	1,788	9
Rajasthan	5,205	1,541	14
Sikkim	117	46	0
Tamil Nadu	9,516	6,791	112
Tripura	1,684	45	0
Uttar Pradesh	8,795	3,105	53
Uttaranchal	1,849	346	1
West Bengal	6,714	2,471	63
<b>Total</b>	<b>1,16,664</b>	<b>49,074</b>	<b>1,156</b>

Source: RBI (2014).

#### Mobile Banking Models in India:

Mobile banking in India is carried out in the following three models:

- ✓ **Bank Led Model:** Bank led Model services are provided by banks to its account holders, using mobile phone plainly as a medium for implementation.
- ✓ **Joint Venture Model:** Telecom operators create bank accounts called as “open wallet” accounts, collaborating with banks, providing basic financial services such as deposits and money transfers, through the mobile wallets.
- ✓ **Third Party Model:** Telecom operators collaborate with third party entities to create “semi closed wallets”, accounts independent of banks. These wallets restrict withdrawal of cash and usage is restricted to specific services, often at authorized outlets.

#### Conclusions:

The Economic Development of a nation is highly depends upon a sound banking system which can facilitate mobilization of financial resources and channel them towards productive purpose which will results to high degree of capital formation. Bank nationalization was the first step towards financial inclusion in India. Regional rural banks are created to take the banking and financial services to the rural people. The initiatives taken by government of India have mixed impact on Indian economy as the performance is unsatisfactory on some financial parameters. For achieving the financial inclusion people need to have some basic financial literacy, financial skills, product knowledge and understanding.

**References:**

1. Archana H. N, "Financial Inclusion - Role of Institutions" Innovative Journal of Business and Management, Vol 2, Issue 4, pp. 44 – 48, July – August 2013.
2. Anilkumar, M., Beegam, S. Resia, (2009a) Financial Inclusion : Challenges & Opportunities in the Liberalised Era, Chapter 5 of the Bookon 'Special Economic Zones in India - Financial Inclusion : Challenges & Opportunities', edited by P. K. Manoj, Serials Publication, New Delhi, pp 89-97;
3. Badajena, S, N and Prof. Gundimeda, H (2010), "Self help group bank linkage model and financial inclusion in India" , availableat:<http://skoch.in/fir/role%20%financial%20%inclusion%20>in(visited on 06/08/11)
4. Donovan, K. (2012). Mobile money for financial inclusion. Information and communication for development, 61-73.
5. Michael Chibba, "Financial Inclusion, Poverty Reduction and the millennium Development Goals", European Journal of Development Research Vol. 21, 2009.
6. Nitin Kumar, Financial Inclusion and its Determinants: Evidence from State Level Empirical Analysis in India.
7. C. Paramasivam and V. Ganesh Kumar, "Overview of financial inclusion in india", International Journal of Management and Development Studies, Vol No.2, Issue No.3, March.2013.
8. Ms. Paramjeet Kaur (2014) A Study On Financial Inclusion - Role Of Indian Banks In Implementing A Scalable And Sustainable Financial Inclusion Strategy, International Journal of Management (IJM), ISSN 0976-6502 (Print), ISSN 0976-6510 (Online)Volume 5, Issue 11, November (2014), Pp. 103-110
9. Sakshi Sachdeva, Sourav Latawa and Pardeep Singh, "Role Of Public Sector Banks In Financial Inclusion" Global Journal of Multidisciplinary Studies, Volume-4, Issue-6, pp164-173, May 2015.
10. Somasroy Chakraborty & Nupur Anand, "Financial inclusion may remain an unsolved puzzle for now", The Business Standards Newspaper Article, Aug 20, 2014.
11. A.Venkedasubramaniam & K.Veerakumar (2015) article titled "A Study on Mutual Fund Investors' Behaviour with Special Reference to Pollachi Taluk" International Journal of Research, Vol-II, Issue-II, March-2015. P.No.60-65.
12. R. P. Manjula & Dr. R. Shanmugan (2016) "A Study on Customer Preference towards Cyber Crime with Banking Industry" International Journal of Multidisciplinary Research and Modern Education, Vol-II, Issue-I, 2016. P.No.597-603.
13. G. K. Sukanya & Dr. K. Rajakartheeyan, (2016) —A Conceptual Framework on Gender Lens Investmentl, International Journal of Computational Research and Development, Volume 1, Issue 1, Page Number 125-131.