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The Objective of Financial Inclusion: A Case Study of RRBS

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Abstract—*This term paper explains the meaning of Financial Inclusion, benefits of financial inclusion, challenges faced in India in the way of financial inclusion and various steps for the success of the financial inclusion. Financial inclusion means delivery of financial services in a convenient manner and at reduced cost to vast section of disadvantaged and low income group population. Financial inclusion is the road that leads towards the global performance of a country or here I can say India. RBI had taken various measures for this purpose such as simplifying the KYC norms, use of regional language etc. Financial inclusion provides a lot of benefits to the poor section of society such as improving living standard, knowledge of financial services, identity to the poor, economic equality etc. But India faced various types of challenges in the way of financial inclusion such as lack of financial education, long distance between branches to access financial services, seasonal income of poor people etc. The process of financial inclusion will not be possible without the contribution of Banks, so the paper includes the step taken by banks to strengthen the financial inclusion with the case study of RRBs (Regional Rural Banks).*

JEL Classifications*:* *G 2*
Keywords*: Financial inclusion, innovation, credit, technology, banks.*

1. INTRODUCTION

Financial inclusion refers to the delivery of financial services in a convenient manner and at a reasonable cost to vast sections of disadvantaged and low income group population. It refers to a consumer having access to a range of formal financial services. A committee on financial inclusion was formed under the chairmanship of C. Rangarajan and the committee defined the term financial inclusion as, "The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." India is a country where a high proportion of population lives in rural areas who is engaged into agriculture and allied activities. Most of these people are poor and mostly live in villages and small towns and they do not have access to any formal financial services. The prime objective of financial inclusion is to extend the financial services to such areas.

The Regional Rural Banks (RRBs) were established in 1975 under Regional Rural Banks Act, 1976. As a result, on 2 October 1976 five regional rural banks were set up with a total authorized capital of Rs.100 crores which later augmented to 500 crores. RRBs are an integral part of rural credit system which is initiated by our then Prime Minister Smt. Indira Gandhi and are expected to play an increasingly important role in the development of backward and rural areas of country. It is important that the RRBs function in a highly professional manner, embracing the technological advancements. The Government of India had taken a number of steps, including recapitalization support from time to time, to improve the functioning of the RRBs and their financial health. Considering the tremendous potential, due to their presence throughout the country, Government of India has initiated the process of restructuring of RRBs to improve their functioning, achieve the economics of scale and to ensure better managerial control. As a result, the total number of RRBs, as on 31 March 2013, stood at 64.

2. LITERATURE REVIEW

Michael Chibba, 2009 noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Massey, 2010 said that, role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion.

Oya Pinar Ardic, 2011 explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services

Roy, 2012 studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

V. Ganeshkumar, 2013 noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

3. OBJECTIVES

- To know the strategies adopted by RBI for strengthening financial Inclusion.
- To identify India's position regarding financial inclusion compared with some other selected countries
- To evaluate the role of banks towards "financial inclusion"
- To know the steps taken by a bank for strengthening financial inclusion: A case study RRBs.
- To identify the challenges to be faced by the country for strengthening financial inclusion.

Strategies Adopted by RBI to Strengthen Financial Inclusion

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(UIDAI).

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. India map of Financial Inclusion by MIX provides more insights on this.

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.

Table 1: Number of ATMs in India as on March 2013

Bank Group	Urban	Rural	Semi-Urban	Metropolitan	Total
Public Sector Banks	8552	18445	22518	20137	69652
Old Private Sector Banks	768	2760	2354	1684	7566
New Private Sector Banks	2214	6484	10995	15842	35535
Foreign Banks	30	21	244	966	1261
Total	11564	27710	36111	38629	114014

Source: http://www.gktoday.in/blog/number-of-branches-and-atms/

Adoption of EBT. Banks have been advised to initiate EBT by leveraging ICT-based banking in many ways like BCs to transfer social benefits electronically to the bank account of the beneficiary, deliver government benefits to the doorstep of the beneficiary etc which will presumably reduce dependence on cash and will lower transaction costs. Further EBT have been extended in rural areas through the distribution of smart cards. This is a step ahead towards financial inclusion.

Setting up village kiosks is also advisable to enhance the learning of ICT enabled services for the villagers and regional rural banks knowing the best of these areas can be of maximum utility.it will help RBI to fulfill its objective of financial inclusion and less documentations.

Table 2: Number of mobile use predictions

Year	No. of mobile users (in millions)
2014	798.4m
2020	990.2m

Source: http://articles.economictimes.indiatimes.com/2016-02-03/news/70314118_1_mobile-data-traffic-total-mobile-connections-3g-connections

According to the above table, the compound annual growth rate of mobile users is 4.4% in India. Use of mobiles will make the banking practices smooth and hassle free for the urban as well as for the rural population.

Usage of Regional language. RBI asked banks to provide all the material related to opening accounts, disclosures etc in the regional language.

General 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. The most chronic problem of rural areas is the grip of money lenders through informal markets and even spread of bank branches, especially the regional rural banks can really help the problem of increasing branch density. 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.

Opening of branches in unbanked rural centres. To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

Pradhan MantriJan-Dhan Yojna. Government in power envisions of every Indian having a bank account by 2020. It is scheme for comprehensive financial inclusion. The scheme has been started with a target to provide "Universal access to banking facilities" with overdraft facility of Rs.5000.

4. FINDINGS

India's position compared with other countries

Table 3: Select Indicators of Financial Inclusion – Cross Country Analysis

Country	Number of Branches	Number of ATMs	Bank Credit	Bank Deposits
	(per 0.1 million adults)		(as per cent of GDP)	
India	10.91	5.44	43.62	60.11*
Austria*	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK*	25.51	64.58	467.97	427.49
United States	35.74	173.75*	46.04	53.14
Korea	18.63	250.29*	84.17	74.51
Afghanistan	2.25	0.50	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Source: World Bank, Financial Access Survey

Note: Data pertains to 2010. For rows/cells indicated as '*' data pertains to 2009. As at the end of 2010-11, the number of ATMs per 0.1 million stood at 6.3, bank credit and bank deposit as a percentage of GDP stood at 50.10% and 66.10% respectively.

Table 3 shows that the coverage of banks and number of ATMs per 0.1 million adults as well as percentage of banks credit and bank deposits as a percent of GDP of the country. It can be seen from the table that on the basis of number of branches, France is on rank 1 whereas India scored 7th rank. Korea scored 1st rank on the basis of number of ATMs whereas India is on 9th rank.UK is on 1st rank for providing bank credit as percent of GDP and India scored 5th rank. According to bank deposit, UK is on 1st rank whereas India is on 3rd rank for the same. It can be concluded that the growth of financial inclusion in India is at moderate level as compared to other countries.

SHG-Bank Linkage Programme

In the last two decades, the institutional innovation in expanding financial system of India access and usage the poor and backward section of society has been the SHG-Bank Linkage programme(SBLP). This was the outcome of pilot projects started during the 1980s for improving access of financial services to poor people. For banks it became easy to reduce their transaction costs by dealing with the groups of people instead of individual, reducing the credit risk through peer pressure and making people save. Besides this the in the year 1992 National Bank for Agriculture and Rural Development(NABARD) started a pilot project of linking the SHGs with Banks with the help of different branches spread in the country. The project provided a cost-effective SBLP model for providing financial services to the underserved poor. Being a 'savings-first, credit later' model, credit discipline became a norm for SHGs and 'social collateral' made them bankable.

Despite the noteworthy accomplishments of SHGs, certain issues, such as, inadequate outreach in many regions, delays in opening of SHG accounts and disbursement of loans, non-approval of repeat loans by banks even when the first loan was repaid promptly, adverse consequences of unhealthy competition between NGO promoted SHGs continued to affect the programme in many areas. The revised **NABARD** guidelines, popularly known as SHG2 (version 2), have sought to address some of the shortcomings of the earlier version. The major features of **SHG2** are: (a) more focus on voluntary savings; (b) cash credit system of lending over three to five years cycle to minimize the problem of inadequate finance and non-availability of repeat loans; (c) enabling creation of Joint Liability Groups (JLGs) within SHGs to scale up economic activities by more entrepreneurial members of the group; (d) improving risk mitigation systems by bringing in third party audit.

Table 4: SHG-Bank Linkage Programme

Particulars	2009-10	2010-11
Total number of SHGs savings linked with banks	6.95	7.46
Total savings amount of SHGs with banks	□61.98 billion	□70.16 billion
Total number of SHG credit linked during the year	1.58	1.19
Total amount of loans disbursed to SHGs during the year	□144.53 billion	□145.47 billion
Total number of SHGs having loans outstanding	4.85	4.78
Total amount of loans outstanding against SHGs	□280.38 billion	□312.21 billion
Estimated number of families covered	97.00	97.00

Source: Status of Micro Finance in India, NABARD

5. FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report Reserve Bank of India exhorted the banks with a view to achieve a greater financial inclusion to make available a basic «No-frills» banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank.

Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor people with a view to help them access easy credit. In January 2006, Reserve Bank of India permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis.

As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customer's accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a hurdle to financial inclusion in many states of India and there is lack of legal and financial structure.

Goals of Financial Inclusion

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial inclusion exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to full range of financial services, including saving or deposit services, payments and transfer services, credit and insurance.
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

Role of Banks Towards Financial Inclusion in India

Banks in India are an integral part of financial system in India. The well-developed Indian banking system plays an important role in economic development of our country. The nationalization of banks, establishing of new banks with better reforms and policies and introduction of the numerous facilities and policy of the Indian banks are significant features of the banking services of India. Financial inclusion is a major agenda for the RBI. Without financial inclusion, banks cannot reach the unbanked area. It is also a major step towards achieving balanced growth and increasing savings. In rural areas, where accessibility is a problem, banks are using the micro finance network and business correspondents and facilitators to bring more people under the circuit of banking services. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India's financial system.

Financial inclusion is now a common objective for numerous central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country. During the period of 1969 to 1991 India saw a huge increase in the branch outreach as the average population covered by a bank branch fell from 64,000 to 13,711. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68282 branches as at the end of March 2005. At the end of March, 2009, it has raised to 79442.

Case Study of RRBs

RRBs, together with commercial and co-operative banks, have a crucial role in the multi-agency approach for delivery of agriculture and rural credit. Being local level institutions, RRBs are ideally suited for achieving financial inclusion as well. A number of policy initiatives were taken to facilitate diversification of their business operations into new areas. Turn around exercise started more than a decade ago with infusion of fresh capital, major policy changes and various types of capacity building and institutional development resulted in significant improvement in the functioning of the RRBs.

Performance of RRBs on March, 2013. The performance of RRBs (Regional Rural Banks) as on 31 March 2013 under selected key parameters is summarized below:

- RRBs have reached the business level of Rs.3, 51,295 crores.
- Total deposits aggregated to Rs. 2,11,458 crores.
- The loans outstanding stood at 1,39,837 crores.
- Number of profit making RRBs stood at 63
- Number of loss making RRBs stood at 1.
- The number of Branches of RRBs increased to 17856 as on 31 March 2013 as against 16909 as on 31 March 2012.
- Staff productivity of all RRBs was Rs. 4.62 crore during 2012-13 as against Rs.4.07 crore in march 2012.

Financial Inclusion. RRBs as a group have become strong intermediary for financial inclusion in rural areas by opening a large number of <<NO FRILLS>> accounts and by financing under general credit card (GCC), as per RBI guidelines. Total number of accounts stood at 1885.71 lakhs in March 2013 as against 1107.10 lakhs in March 2009. The RRBs were given the target of adopting at least one village per branch, for financing the indebted farmers to swap the debt taken from moneylenders.

RRBs had adopted 30333 villages as at the end of March 2013 and issued loans to the tune of Rs. 2,369 crores to 2.39 lakh indebted farmer.

Overall view on RRBs. Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry. But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

Challenges faced while Spreading Financial Inclusion

It is quite clear that the task of covering a population more than of 1.27 billion with banking services is extremely difficult. Both demand side factors (customers) and supply side factors (banks and other financial institutions) are responsible for financial inclusion. Banks and other financial institutions are expected to reduce the supply side constraint to a great extent.

Demand side challenges are:

- Lack of awareness about financial product
- Low literacy level
- Seasonal income of poor people
- Lack of trust in formal banking system
- Excess paper work to open an account
- Long distance between branches.
- To use technology, Consumer faces network and electricity issues

Supply side challenges are:

- Some Banks have no desire to achieve the complete financial inclusion. Some banks have formed opinion that the complete financial inclusion is not possible and it is empty and useless exercise.
- If the banks are ready or eager, then their branch employees are reluctant or give lame excuses to implement the scheme of financial inclusion.
- Affordable credits are made available only as compulsion.
- Only in rare cases some of the banks make attempts to provide financial advice to poor or disadvantage people.
- The cost of serving the poor can be significant in the short-term, thereby, impacting profitability.

6. CONCLUSION

To conclude, the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable.

Moreover, India is at a moderate level regarding financial inclusion as compared to other countries regarding number of branches, ATMs, bank credit and bank deposits. RBI have adopted various strategies such as No-frill account, use of regional languages, simple KYC norms etc to strengthen financial inclusion. By looking at the various milestones achieved by RRBs regarding financial inclusion, it can be said that the banking sector plays a crucial role in promoting financial inclusion. To cope up with the challenges to spread financial inclusion, there is a need of viable and sustainable business models with focus on accessible and affordable products and processes, synergistic partnerships with technology service providers for efficient handling of low value, large volume transactions and appropriate regulatory and risk management policies that ensure financial inclusion. It's not only a social aspect but in the long-run it will help the financial institutions to channelize more funds and effectively lend them to the investors. This will solve the problem of shortage of funds and will the economy to grow in a sustainable way.

Further all regional rural banks are still lagging behind in ICT services and the government needs to support such initiatives so that the poor section of the society also avails technically developed banking services, for ***eg Vananchal Garmin Bank (head office at Dumka, Jharkhand), does not have internet banking facility for its customers. Another important lacunae faced by some regional banks is that many banks do not have their ATMS***. The ATM cards are been used in other ATMs.These problems influence the liquidity of the customers.

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