International Journal of Research in Social Sciences
Vol. 8 Issue 8, August 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Performance of Scheduled Commercial Banks on the road of Financial Inclusion in India

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Abstract

Financial Inclusion is the key to attain equitable and inclusive growth in an economy. A nation can grow socially and economically only if its weaker section becomes independent financially. Financial inclusion is the delivery of suitable financial products and services at an affordable cost, on timely basis to the vulnerable section of the society who are not able to access even the most basic banking services .This study attempts to highlight the need of financial inclusion, initiatives taken by banking sector to achieve financial Inclusion and analyzes the current and likely performance of scheduled commercial banks under financial inclusion plans. The study reveals that financial inclusion efforts of scheduled commercial banks are playing a remarkable role for social and economic development of the society and the next four year performance (2018-2021) is also very promising.

Key Words:- Financial Inclusion, Kisan Credit Cards, no frill accounts, Basic Saving Bank Deposit Account, General Purpose Credit cards

1. Introduction

Financial Inclusion is regarded to be the objective of many developing nations since many researches establish that there is positive correlation between the financial exclusion and poverty prevalent in developing nations. Financial Inclusion denotes 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 that is a prerequisite for poverty reduction and social cohesion (Rangarajan Committee, 2008) . In India Financial Inclusion is a public private

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partnership initiative for Below the Poverty Line (BPL) citizen of India to have an access to the main stream banking services. Access to finance will provide an opportunity to vulnerable section of the society to have a bank account, to save their hard earned money, to make investment, to insure their home, to take credit and hence getting liberty from the clutches of poverty.

Indian Banking sector has undergone remarkable changes over the last two and half decades in response to banking reforms resulting in increased competition, entry of new generation private sector banks and technology in banking sector which has supplemented traditional brick and mortar infrastructure of banks by other channels like Automated Teller Machine (ATM), credit/debit cards, electronic fund transfer, internet banking, mobile banking etc. The matter of concern is that only a certain segment of society has an access to such technology. A number of research reports and surveys put the light on the fact that in spite of remarkable improvements in banking sector relating to financial stability, competitiveness and productivity, there is a large section of the population which does not have an access to basic banking, financial products, financial services and delivery channels characterized with improved services. This is nothing but Financial Exclusion. This large section of population comprises of individuals or family living on low income and is not able to access the most basic banking services such as bank account, credit, remittances, financial advisory services, payment services, insurance etc. This excluded section comprises of the marginal farmers, self employed, landless labourers, urban slum dwellers, migrants, ethnic minorities, socially excluded group, senior citizens and women (Rangarajan Committee Report).

The cost of Financial Exclusion can be viewed from two angles: (i) the cost to individual and (ii) the cost to society or nation. The loss of opportunity to rise in absence of access to credit or finance is the cost of financial exclusion for an individual. Similarly, it may result in loss of output or income which is a cost of financial exclusion for the society as a result of which the nation will not be able to achieve its growth targets.

2. Review of Literature

A number of studies have been conducted so far on financial inclusion in India. A brief literature enabled the researcher to acquaint with selected problem.

Gundannavar (1992) stresses that banks play an important role in enforcing social banking schemes to meet varying social requirements. He suggests banks to continue concessional rate of lending to priority sector. Joshi, N.C. (1998) opines that banking sector reforms neglected the issues relating to rural credit. No effective steps have been taken by rural credit agencies for rural deposit mobilization and for meeting the actual needs of population residing in rural areas, especially the middle and poor class. It is the reason that ordinary people have to depend on money lenders to meet their requirements. Leeladhar (2005) concludes that in spite of major improvements in terms of profitability, competitiveness, banks lack behind to ensure basic banking services to a vast section of the society particularly disadvantaged population. Shroff and Prasadarao (2012) conduct a survey to study aspects related with financial inclusion and advise business correspondent/ business facilitator model to reach the last mile. Anand and Saxena (2012) emphasize on all the steps taken by Indian Commercial Banks in terms of technology, financial literacy, distribution channels etc. and conclude that banking institutions need to redesign their business strategies to promote financial inclusion of weaker section of society by taking it as business opportunity as well as social responsibility. Mukherjee & Chakraborty (2012) critically examine and highlight the role of the commercial banks in the state of Jharkhand towards financial inclusion and suggest that it should be the statutory obligation on the part of every bank, whether public or private, to report more frequently to RBI on its achievements on financial inclusion. Singh and Tandon (2013) discuss initiatives for financial inclusion in India by Commercial banks and analyse how financial inclusion leads to economic development of the country by giving reference to Grameen Banks in Bangladesh. Gandhi (2013) vitally evaluates the initiatives taken by the Banks in context of financial inclusion and the steps taken for IT enabled financial services. He further stresses the need of positive, matured attitude and approach and rational strategy to attain complete financial inclusion. Damodaran (2013) discusses the importance of financial inclusion in the economy and highlights the role played by different stakeholders in encouraging the whole efforts towards financial inclusion. Garg and Parul (2014) focus on various approaches adopted by different Indian banks for financial inclusion to achieve the target of inclusive growth and analyze the progress of scheduled commercial banks from 2010-2013. They suggest that out of box service models, innovative products, proper regulatory norms and technology are the need of the time to boost the progress of Financial Inclusion Program. World Bank Global Findex Database (2014) brings out that 53% of adults in India reported an account at a formal financial institution. But, just 14% made savings and just 6% borrowed from them. However, 32.3% borrowed from friends and family in the last year. BBVA research (2016) suggests three indicators of financial inclusion i.e. usage, barrier and access and concludes Israel as the top most country in terms of financial inclusion and India at 80th position in terms of financial inclusion.

3. Need of the Study

Financial Inclusion is the burning topic of present scenario in banking sector. Mohanty Committee (2015) has set the target to ensure that by 2021, 90% of the undeserved section of the society should become active participant in formal finance. Thus it is very much required to analyze the current status of banking institutions so that appropriate steps can be taken to achieve the requisite target.

4. Objectives of the study

The key objectives of the study are:

(i) To analyze the performance of all scheduled commercial bank over last seven years (2011-2017) to achieve financial inclusion.

(ii) To estimate the progress of all scheduled commercial banks under financial inclusion over next four years (2018-2021).

5. Research methodology

The research in this study is carried out through secondary source. The secondary data has been taken from research papers, referred journals, magazines, various websites, RBI reports and the reports of committees on financial inclusion etc. The past year (2011-2017) performance of banks has been analyzed using trend analysis taking 2011 as base year and to estimate the progress of all scheduled commercial banks under financial inclusion over next four years (2018-2021) regression equation has been formulated using MS-EXCEL.

6. Financial Inclusion: An Overview

Financial Inclusion means the delivery of financial products and services at affordable cost in a just and transparent terms and conditions to the wider section of drawbacks, low income groups and weaker section of the society including Micro, Small and Medium enterprises. Thus in broader perspective, it not only includes banking products but also the access to financial services such as loan, equity and insurance products. It has been well recognized that access to easy, safe and affordable finance by the poor and unprivileged groups, disadvantaged areas and lagging sector is utmost requirement to ensure increasing growth and poverty reduction and income disparities. By ensuring equal opportunities through providing access to well functioning financial system, the economically and socially excluded people are able to contribute positively in the development of the economy as well as able to protect themselves against economic shocks. All this ultimately leads to inclusive growth.

According to ***UK Financial Inclusion Taskforce***, there are main three concerns in Financial Inclusion; access to banking, access to affordable credit and access to free face to face financial advice.

As per the C***ommittee on Financial Inclusion*** under the chairmanship of Dr. C. Rangarajan, ***Financial Inclusion is 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.***

Financial inclusion is required to meet the following objectives:

- To ensure equitable growth of all the sections of the society by reducing disparities in income and savings.
- To mobilize the savings of poor people that can be used for capital formation and growth of the economy.
- To open the doors for the new players in financial sector and banking sector also to meet the needs of large section of the society.
- To reduce the poverty by providing easy loans to weaker sections of the society which they can utilize for starting business, getting education etc.
- To enable the weaker section of the society to sustain their livelihood.
- To provide effective direction to various government programmes.
- To plug the gaps in public subsidy and welfare programmes.

Highlights of initiatives taken by banking sector for financial inclusion in India:

1969	14 Commercial Banks nationalized
1971	Lead Bank Scheme introduced
1975	Regional Rural Banks established
1980	6 more Commercial Banks nationalized
1982	NABARD established
1992	Self Help Group Bank linkage programme launched
2000	SIDBI established to facilitate micro credit
2005	No Frill Accounts Scheme introduced on the recommendation of Khan commission
2008	Stakeholders in public sector, private sector and NGOs sustained in undertaking various promotional activities on the recommendations of Rangarajan committee to achieve National Mission on Financial Inclusion
2015	Mohanty Committee suggested more dependence on technology to reduce costs and improve service delivery, so that by 2021 over 90 per cent of the underserved sections of society become active stakeholders in economic progress empowered by formal finance.

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In nut shell, Banking Sector is constantly endeavoring to increase banking penetration in the country. The RBI has taken a number of initiatives to attract the financially excluded people into the structured financial system. Some of the milestone initiatives taken by RBI and Government include No Frill Accounts, GCC (general purpose credit cards) , KCC (Kisan Credit Cards), Simpler Know Your Customer(KYC) procedure, Implementation of Business Correspondent and Business Facilitator Model , Financial Literacy and Credit Counseling Programme, establishment of financial inclusion fund etc

7. Results and Analysis

7.1 Analysis of performance of banks on the road of Financial Inclusion from 2011-2017

An analysis of efforts made by scheduled commercial banks from 2011-2017 gives the indication that there has been increase in number of banking outlets, number of basic saving bank accounts, number of accounts availing overdraft facility, number of kisan credit accounts, general purpose credit cards and ICT accounts over years. Fig 1 (annex.) depicts that number of banking outlets have shown an increasing trend from 2011-2017. Taking 2011 as base year there has been 515% increase in number of banking outlets in the year 2017. Similarly there has been 508% increase in number of basic saving bank deposit accounts from 2011 to 2017 as clear from fig 2(Annex.) . People have realized that financial inclusion aims at meeting the financial needs of disadvantaged people at affordable cost as there has been increase in number of BSBDAs on which overdraft facility has been availed. Data labels in fig.3 (annex.) show that there has been 800%, 900% and 900% increase in number of overdraft accounts in the year 2015, 2016 and 2017 respectively when compared with the year 2011.Kisan credit cards and General purpose credit cards have been employed as instruments by banking sector to meet the needs of farmers and underprivileged section of the society respectively. Fig 4 (annex.) demonstrates that there has been continuous increase in number of KCCs from 2011 to 2016.Taking 2011 as base year, there has been 170% increase in number of KCCs in the year 2017. There was no increase in number of GCCs in the year 2012 .But after the year 2012,

GCCs have shown an increasing trend. There has been 650% increase in number of GCCs from 2011 to 2017 as clear from fig 5 (annex.). ICT based transactions have been used by banking sector with the help of business facilitators and business correspondents to enlarge its ability to reach each and every corner. ICT based transactions have shown momentum increase from 2011 to 2017. These transactions increased by 568%, 985% and 1380% in the year 2015, 2016 and 2017 respectively taking 2011 as base year as evident from fig 6 (annex.).
The above analysis presents the brighter side of financial inclusion efforts made by banking sector.

7.2 Estimated performance and achievements towards reaching out unbanked areas under financial inclusion plans in India (2018-2021)

Reserve Bank of India has the mission to open nearly 600 million new customer accounts and to service them through a variety of channels through ICT. Both RBI and Government are focused to achieve inclusive growth with the help of financial inclusion. Reserve Bank of India and Scheduled Commercial banks are making constant efforts to achieve financial inclusion through financial inclusion plans. The paper attempts to estimate number of banking outlets, number of basic saving bank deposit accounts (BSBDA), number of accounts availing overdraft facility, number of kisan credit accounts (KCC), number of general purpose credit cards (GCC),and ICT account: business correspondent transactions over next five years(2018-2021).

Table1: Estimated Performance of Scheduled Commercial Banks under financial inclusion from 2018 to 2021

	Basis of Estimation	ESTIMATED PERFORMANCE OVER YEARS			
		2018	2019	2020	2021
Number of banking outlets in villages	y = 111902.43+90715x Fig 1 (Annex.)	746908	837623	928338	1019053
Number of BSBDAs (in millions)	y = 64.15+77.14x Fig 2 (Annex.)	604	681	758	836
Overdraft facility to be availed BSBDAs (number in millions)	y = 1.42+1.43x Fig 3 (Annex.)	11	13	14	16
Number of KCC (in millions)	y = 27.43+3.57x Fig 4 (Annex.)	52	56	60	63
Number of GCC (in millions)	y = 0.86+2x Fig 5 (Annex.)	15	17	19	21
Number ICT A/C : BC transactions (in millions)	y = -44.77+171.21x Fig 6 (Annex.)	1154	1325	1496	1667

Source: Author

The estimated figures show that scheduled commercial banks is progressively moving ahead to achieve its mission of 'financial inclusion'.

8. Conclusion

Financial Inclusion and Inclusive Growth are the basic needs of a developed nation. The study puts the light on the fact that banking sector in India is progressing towards opening branches in villages, issuing KCCs, GCCs, and opening more and more BSBDAs. The estimated figures from 2018 to 2021 in lieu of all these also depict the praiseworthy performance of banking institutions According to K.C. Chakrabarty RBI Deputy Governor, "Even today the fact remains that nearly half of the Indian Population doesn't have an access to formal financial services and are largely dependent on money lenders." Thus financial inclusion does not mean just achieving the target by focusing on few segments and areas but it should ensure inclusive growth. Though there are a number of challenges on the road of financial inclusion still positive efforts are being made constantly by RBI and Government of India to uplift the weaker sections of the society.

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Annexure

Progress under Financial Inclusion plan of all scheduled commercial banks including RRBs (2011-2017)

Figure 1: Number of banking outlets in villages (From 2011-2017)

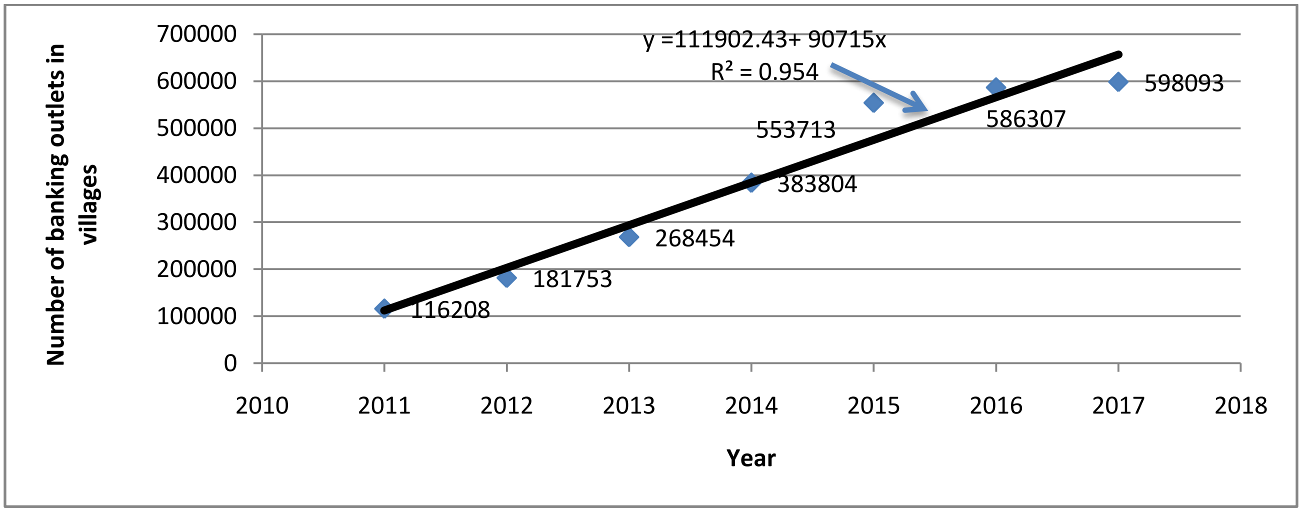


Figure 2: Number of BSBDAs (in millions) (2011-2017)

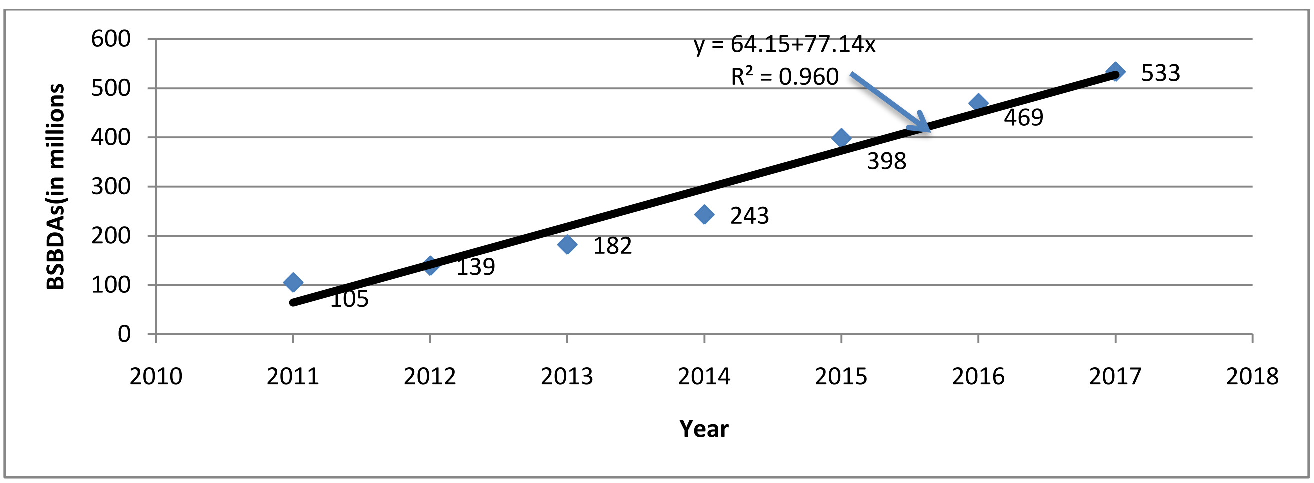


Figure 3: Overdraft facility availed in BSBDAs (number in millions) (2011-2017)

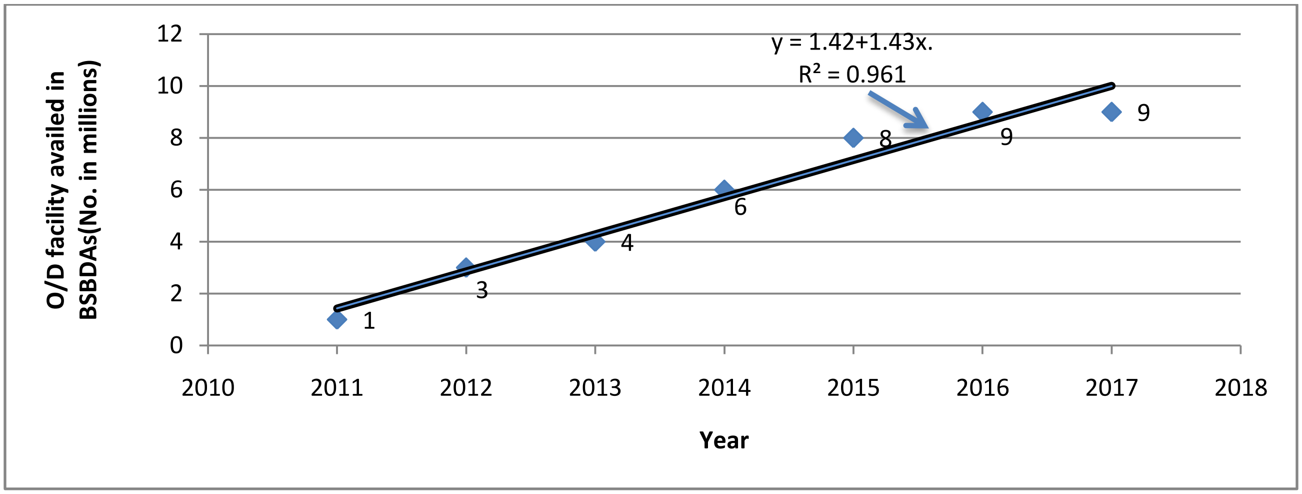


Figure 4: Number of Kisan Credit Cards issued (in millions) (2011-2017)

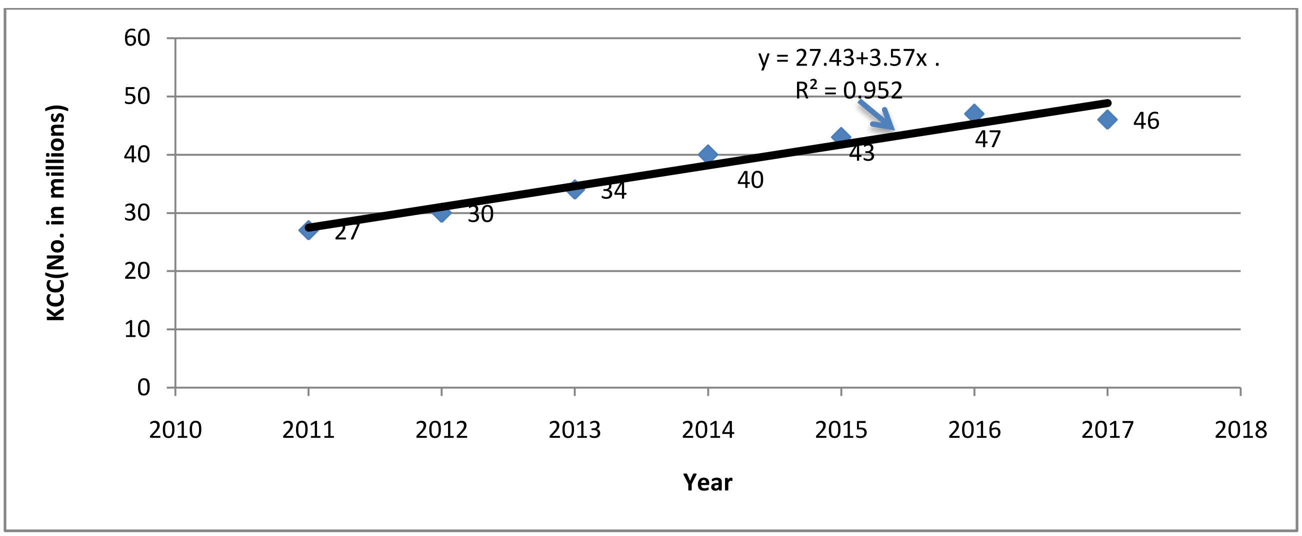


Figure 5: Number of General Purpose Credit Cards issued (in millions) (2011-2017)

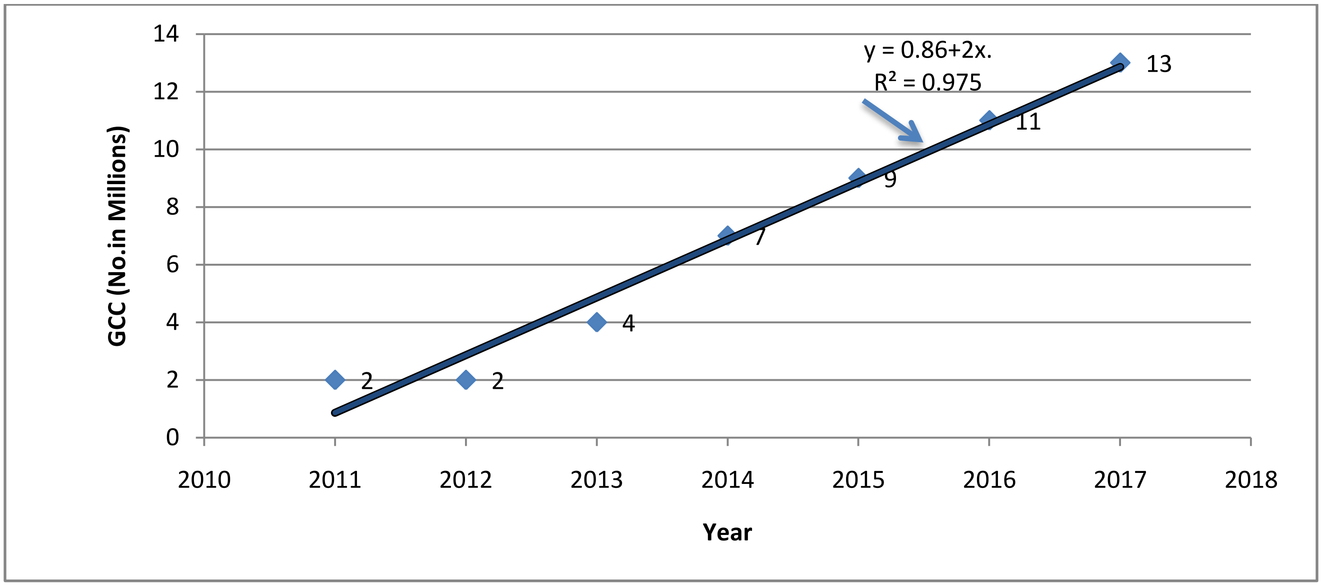
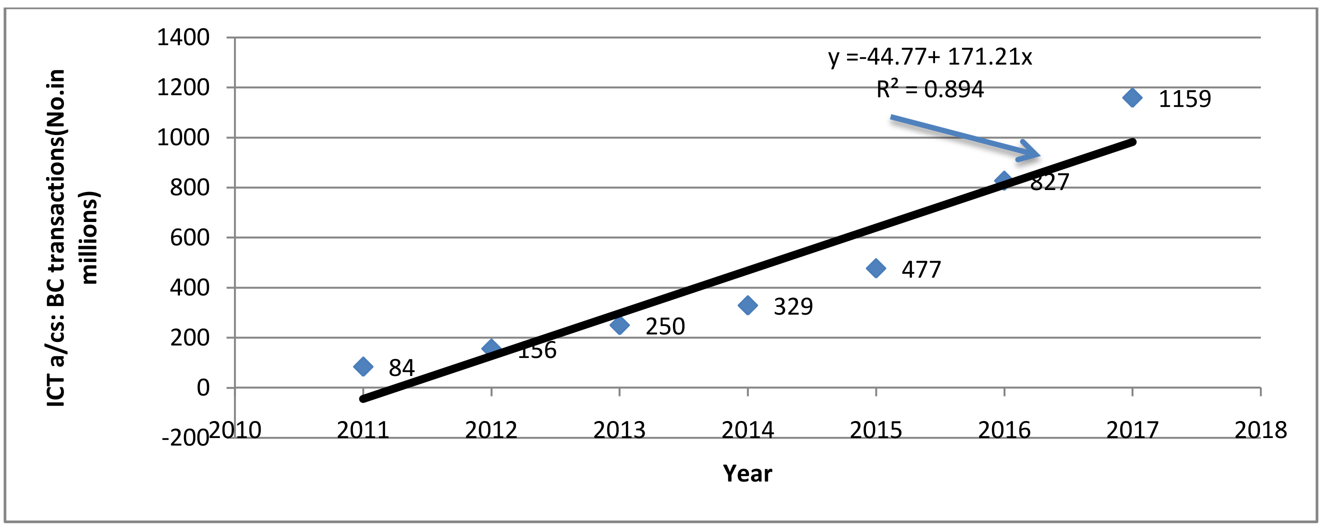


Figure 6: Number of ICT A/C : BC transactions (in millions) (2011-2017)



Source: data compiled from RBI annual reports