

Rural regional banks and financial inclusion process in India

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Abstract

Financial Inclusion is not new concept but in India it comes in limelight and got prime importance in 2005 when Rangarajan Committee was set up to review the banking practices.

In the economy like ours, which is known to be fastest growing emerging economy in the world, the finance exclusion could be a big hindrance in the way of growth because it is a well known fact that exclusion from the banking system results in loss of the country's gross domestic product (GDP). The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan defined 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. But financial inclusion is one of the biggest challenges of Indian financial system and rural regional banks can help in achieving this objective effectively because rural regional banking has been playing a crucial role in the development of rural economy. So, an attempt has been made in this paper to assess the role of rural regional banks in financial inclusion process in India. Role of banks in financial inclusion process in India is examined on the basis on the data available from the Institutional sources such as Reserve Bank of India (RBI), NABARD, RRBs, UCBs and PACS from different viewpoints namely branch penetration, ATM penetration, Population per branch, distribution of banking branches in India.

Keywords: finance inclusion, rural regional banks, growth

Introduction

Indian economy is growing very fast and that growth can be sustained only when it is strive to encompass participation from all the sections of society. Lack of access to financial services for weaker section of the society will amplify inequality and social instability and this will also lead to decline in Investment which will pose an eventual threat to economic stability and growth.

In an economy like ours where major section of population subsists on the periphery of the financial system, the key driver of growth is well developed and inclusive financial system which makes the growth sustainable by bridging the gap between the sections of society ambit of the formal financial system. According to censuses 2011, sixty five percent of adults across the country is excluded from the formal financial system. A majority of population in the country are living in rural area. Hence, in an attempt to achieve the financial inclusion of such population, cooperative banks emerged as the best way to reach those sections of society which are excluded from the benefits of financial services at affordable costs. It is therefore felt that rural regional banks can improve credit delivery into far flung rural areas. These are having a long rural experience with good network in rural areas. Reserve Bank of India has set up a Financial Inclusion Advisory Committee (FIAC) in October 2012 to increase the spread of financial inclusion in India because the concept of financial inclusion has the potential to contribute substantially towards inclusive growth. This paper attempts to present the

importance of rural regional banks in inclusive growth and to identify the various initiatives taken by NABARD and RBI for achieving the financial inclusion in India.

Concept of Financial Inclusion

Financial Inclusion provides equal opportunities to provide benefit of financial system to all section of people in the country. It is explained with the help of following definitions:- A world Bank report states "Financial Inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services".

In Indian context, term Financial Inclusion was expressed in detail by the Committee on Financial Inclusion (Chairman, Dr. C. Rangarajan), Government of India, 2008. According to the committee, "the essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receive payments, a savings products suited to the pattern of cash flows of a poor household, money transfer facilities insurance (Life of Non-Life) etc."

Financial Inclusion plays a very important role in inclusive growth of an economy; this fact has been recognized by many countries in the world. The degree of Financial Inclusion differs among countries depending on the stage of development. India is the second largest country in the world in term of financially excluded household after China.

Table 1: Financial inclusion in different countries (2011).

S. No	Country	No. of Bank Branches	No. of ATMs	Bank Deposits	Bank Credits
		Per 1000 Kilometers		As % of GDP	
1	China	1428.98	2975.05	433.96	287.89
2	India	30.43	25.43	68.43	51.75
3	Brazil	7.98	20.55	53.26	40.28
4	Indonesia	8.23	15.91	43.36	34.25
5	South Africa	3.08	17.26	45.86	74.45

Source: Financial access survey, IMF

Government of India and Reserve Bank of India have been making various efforts to promote financial Inclusion as one of the important national objective of the country but still there is a long road ahead to achieve the desired outcomes.

Review of Literature

Prime Minister Shree Narendra Modi (2014) launched Pradhan Mantri Jan Dhan Yojana for comprehensive financial inclusion on 28 August 2014 wherein every household in rural India will have access to bank account and rupay debit card with Rs. 1 Lakh insurance cover. In India, nearly 55% of the population has deposit accounts, 9% having credit accounts, just 18% of the population having debit cards. Now, after the announcement of Pradhan Mantri Jan Dhan Yojana banks say that one individual from every household will have a bank account by 2016.

Dr. Dilip Ambarkhane (2013) ^[4] in his study found that the cooperative banks have very good network in rural areas; moreover mostly they have local staff. Therefore the cooperative banks are better placed to solve the problem of rural poverty by strengthen the supply side of financial inclusion. He opined that cooperatives due to their good rural network and local staff are in better position to understand

rural situation.

Vijay Kelker (2010) in his study Financial Inclusion for Inclusive Growth advocated the role of financial inclusion for the betterment of farmers in rural areas by reducing the farmers' indebtedness, which is one of the main causes of farmers' suicides. He said that greater the financial inclusion will promote micro-venture capital fund that will leads the creativity in the untapped segment of our society.

Pal and Sura (2006) ^[5] in their study found that the overall position of the RRBs in India is not quite encouraging. They said that the credit deposit ratio is still putting a question mark on the desired functioning of RRBs. RRBs are considered as the banks of poor people so the government should spread the branches of RRBs at grass root level to provide such banking service to the really needy rural people and to take corrective measures to raise the credit deposit ratio of the bank that would make RRBs relevant in the rural India.

RRB's Status as on 2014

RRBs established with the objective of uplifting the agrarian economy of the country for serving the small and marginal farmers, artisans and small business. The given below express the present status of rural regional banks:

Table 2

Sr. No.	Particulars	Details
1	Total No. of Branches	19197
2	Total No. of Branches in unbanked villages	2030
3	Total No. of CSPs Deployed	27274
4	Number of Basic Saving Bank Deposit Accounts	5.4 Crore
5	Deposit amount in the Basic Saving Bank Deposit Accounts	6970 Crore
6	Number of KCCs Outstanding	1.17 Crore
7	Number of GCCs Outstanding	0.86 Crore

Source: Report of RBI (October 30-31, 2014)

Financial Inclusion and Rural Regional Banks

In the country like ours, starting with access to a simple bank account in good start to achieve financial inclusion which requires access and availability to a whole gamut of financial services. A bank account provides security, convenience liquidity, needs friendly services and potential access to loans. Thus, a saving bank account can play an important role in achieving financial inclusion of the segment of the society which is financial excluded. Rural Regional banks are successful participants in the process of financial inclusion. Notwithstanding the fact that cooperative banks are still lacking in innovative products and services but these banks are modifying their product and services on the basis of

clients, households and workplace to tailor the financial services to reach out the people at the grass root level. The Government of India and Reserve Bank of India are making efforts in this direction and achieving tremendous results. An attempt has been made to present the evidences in the form of tables:

Households achieving banking services

Opening a bank account is one of the fundamental requirements in financial inclusion process. The numbers of account holders is increasing day by day in country during 2001 to 2011 as per Census on Households Availing Banking Services.

Table 3: Households achieving banking services.

	Percentage of Households availing Banking Services	
	Census 2001	Census 2011
Rural	30.1	54.4
Urban	49.5	67.8
Total	35.5	58.7

Source: Census of India.

The above table depicts that appreciable progress has been noticed in households who are availing banking services. As per census only 35.5 percent households were availing banking services in 2001 which has been increased up to 58.7 percent in 2011 as whole.

Initiatives for Financial Inclusion

Financial Inclusion plays a vital role in the development of a nation therefore various initiatives has been taken for this process and few among them are discussed as follows:

Core Banking in Cooperatives

NABARD has brought Core Banking Solution in cooperative banking sector for giving the country's rural sector access to basic banking facilities. It is one of the biggest initiative towards the achievement of financial inclusion since the cooperatives has wide network in rural areas and a total of 201 state and district level central cooperative banks with their 6914 branches have joined the NABARD initiated Project on CBS in cooperatives. This initiative has been taken to comply with the regulatory requirements stipulated by Reserve Bank of India and also to ensure the work efficiency and cost effectiveness. Cooperative banks are now ready to offer the latest product and services to their customers.

Kisan Credit Cards

The Kisan Credit Card (KCC) scheme introduced in August 1998 to provide affordable credit to farmer to meet their production related requirements in time and hassle free manner. This scheme has been revised in 2012 to room for ATM enabled debit card. In the study of NABARD it has been

found that the scheme was well received by both farmers and bankers and flexibility in operations has resulted in improved loan recoveries.

Basic Saving Bank Deposit Account

All the Cooperative Banks has advised by Reserve Bank of India to offer a basic saving bank deposit account which will offer minimum common facilities to all their customers such as ATM card, no requirement of any minimum balance and no charge for inoperative accounts.

Support to RRBs and Cooperative Banks for ATM interchange charges

NABARD has initiative a scheme to support cooperative banks and RRBs by reimbursing their ATM interchange charge on KCC ATM-cum-Debit cards with a view to encouraging ATM penetration in rural areas. NABARD support the scheme by providing financial support for the issuance of these cards to account holder as at the end of March 2014, a total grant support of Rs. 33 crore was sanctioned to 26 RRBs and eight cooperative banks for helping in issuing 52 lakh RuPay Kisan Cards, installation of 10,000 micro ATMs.

Pradhan Mandtri Jan Dhan Yojana

Prime Minister, Shree Narendra Modi announced the National Mission of Financial Inclusion titled, 'Pradhan Mandtri Jan Dhan Yojana' with the objective to provide bank account facility for each household. This scheme is achieving tremendous growth in achieving the financial inclusion in India.

Table 4: Progress under PMJDY.

Sr. No.	Bank	Particulars	
		No. of Bank A/cs	No. of RuPay Dr. Cards issued
1	RRBs	38.17 lakh	2.21 lakh
2	Cooperative Banks	0.96 lakh	0.02 lakh

Source: Report of RBI (October 30-31, 2014)

Conclusion

The study affirms that rural regional banks play a vital role in the progress of financial in the country by increasing accessibility of financial services to unbanked people to providing opportunities for employment and income generation in the rural areas for inclusive growth. The inclusive growth cannot be achieved without ensuring universal financial inclusion. Thought the efforts for this are already underway but still a majority of rural people are lacking the basic financial services. Rural Regional banks can

pay vital role in this direction by modernizing their products and services to penetrate the financially excluded rural areas for universal financial inclusion. Various initiative have been made by RBI and NABARD in this direction such as offering no-frills accounts, simpler Know Your Customer norms, and easier credit facilities to tap the unbanked rural population and increasing the banking penetration. Bringing financial services to rural clients is the biggest challenge which can be achieved by strengthening the cooperative banks with innovative technology and expansion of branches. All these initiatives

converge successfully in including the people at the bottom of the pyramid in the process of inclusive development in of India

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