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A Study on Recent Measures of RBI on Financial Inclusion plan of Banks

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Abstract: Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. Banks and financial institutions need to synchronize all their energies towards financial inclusion because the development of the economy depends to a large extent of financial inclusion in the country. India is considered as largest rural populations in the world and belongs to agriculture activities. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. Financial inclusion requires efforts on the parts of three parties- RBI, all the banks and also the general public for its better progress. The study focuses on the recent measures of RBI (Reserve Bank of India) on financial inclusion for the inclusive growth process of economy.

Keywords: Financial Inclusion Plan (FIP), Reserve Bank of India (RBI), Financial stability, Financial Services, Financial Literacy

I. INTRODUCTION

Financial inclusion is the process of ensuring access to financial services timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Financial inclusion means connecting all individuals, including those living in the remotest of rural areas, to a well-functioning financial system. This would include Easy access to bank accounts for safe parking of savings, Availability of cheap credit through appropriately designed loans for poor & low income households and small entrepreneurs, Availability of basic financial products like insurance.

II. OBJECTIVES OF THE STUDY

1. To study present scenario of financial inclusion in India.
2. To study the major initiatives and policy measures taken by RBI for financial inclusion plan of banks.
3. To study the future prospects of financial inclusion plan of banks.

III. RESEARCH METHODOLOGY

The present study is descriptive in nature. The data used for the study is secondary data that has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI.

IV. REVIEW OF LITERATURE

Mandira Sarma and Jesim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion.

Dr. Vigneswara Swamy and Dr. Vijayalakshmi (2009) conducted the study on Role of Financial Inclusion for Inclusive Growth in India - Issues & Challenges and concluded that financial inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.

Vijay Kelkar (2010) analyzed in his article Financial Inclusion for Inclusive Growth that enhanced financial inclusion will drastically reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides. The second important benefit is that it will lead to more rapid modernization of Indian agriculture.

Kunt and Klapper (2013) introduced Global Financial Inclusion ("Global Findex") database. The study explores country and individual level variation in how adults around the world use formal and informal financial products. The study also examines the barriers to financial inclusion and document the relationship between subjective and objective barriers to access.

V. FINANCIAL INCLUSION IN INDIA

Like most developing countries, India has a long way to go to ensure financial inclusion. About half of India's population does not have access to bank accounts while three fourths is not covered by any form of insurance. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance Basic Saving Bank Deposit (BSBD) accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the financially excluded Indian population. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

The Reserve Bank of India setup a commission (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 RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, the term financial inclusion first featured in 2005, when RBI, in its annual policy statement of 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, urged banks to review their existing practices to align them with the objective of financial inclusion. The Reserve Bank of India has set up a high level committee on October, 2012 to ensure accessible financial services and to increase the speed of financial inclusion in India. The Committee is called Financial Inclusion Advisory Committee (FIAC), to be headed by RBI Deputy Governor.

Reserve Bank of India has made sustained efforts to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate but viable flow of credit to priority sectors of the economy. RBI has adopted a structured, planned and integrated approach towards Financial Inclusion which is focusing on improving access to financial services and also encouraging demand for financial services through financial literacy initiatives.

VI. Recent Measures Of RBI On Financial Inclusion Plan Of Banks

The RBI encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). Board approved 3 Year FIPs- April 2010 to March 2013, Next 3 years FIPs prepared for April 2013-2016. The Reserve Bank has used the FIPs to measure the performance of banks under their FI initiatives. In this direction RBI put in place a structured and comprehensive monitoring mechanism for evaluating banks' performance in respect of their targets. To ensure support of the Top Management of the Bank to the Financial Inclusion process and to ensure accountability of the senior functionaries of the bank, one on one annual review meetings are held with CMDs/CEOs of banks.

These plans include: self-set targets for rural brick & mortar branches opened; BCs deployed; coverage of unbanked villages with population above and below 2,000 through branches/ BCs/ other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued; and other products designed for financially excluded segments. Banks were advised to integrate the Board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is closely monitored by the Reserve Bank on a monthly basis through a quantitative reporting format. The qualitative aspects of the FIPs are monitored through a qualitative report submitted by banks every quarter.

Financial Inclusion Plan 2010-13

A snapshot of the progress made by banks under the 3-year FIP (April 2010 - March 2013) are shown in Table 1

1. Banking outlets in villages have increased to nearly 2,68,000 from 67,694 outlets in March 2010.
2. About 7,400 rural branches have been opened during this 3-year period compared with a reduction of about 1300 rural branches during the last two decades.
3. Nearly 101 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDA to 182 million. The share of ICT-based accounts has increased substantially. The percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013.
4. With the addition of nearly 9.48 million farm sector households during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013.
5. With the addition of nearly 2.24 million nonfarm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.

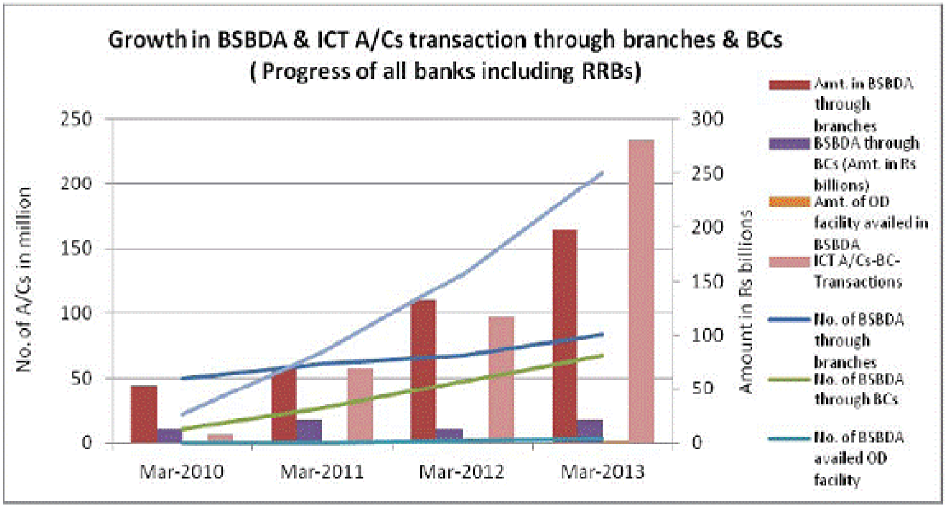
Table 1: Financial Inclusion Plan – Summary progress of all banks including RRBs

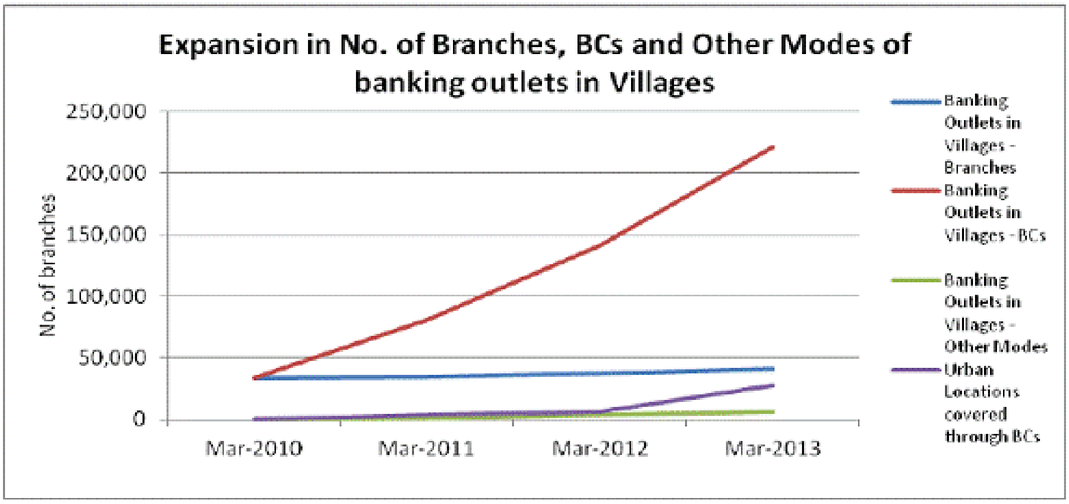
SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Year ended March 13
1	Banking Outlets in Villages - Branches	33378	34811	37471	40837
2	Banking Outlets in Villages - BCs	34174	80802	141136	221341
3	Banking Outlets in Villages - Other Modes	142	595	3146	6276
4	Banking Outlets in Villages -TOTAL	67694	116208	181753	268454
5	Urban Locations covered through BCs	447	3771	5891	27143

6	Basic Savings Bank Deposit A/c -branches (No. In millions)	60.19	73.13	81.20	100.80
7	Basic Savings Bank Deposit A/c - branches (Amt. In billions)	44.33	57.89	109.87	164.69
8	Basic Savings Bank Deposit A/c - BCs (No. in millions)	13.27	31.63	57.30	81.27
9	Basic Savings Bank Deposit A/c - BCs (Amt. in billions)	10.69	18.23	10.54	18.22
10	OD facility availed in BSBDA's (No. In millions)	0.18	0.61	2.71	3.95
11	OD facility availed in BSBDA's (Amt. in billions)	0.10	0.26	1.08	1.55
12	KCCs - (No. in millions)	24.31	27.11	30.24	33.79
13	KCCs - (Amt In billions)	1240.07	1600.05	2068.39	2622.98
14	GCCs - (No. in millions)	1.39	1.70	2.11	3.63
15	GCCs - (Amt In billions)	35.11	35.07	41.84	76.34
16	ICT A/Cs-BC- Transaction -No. in millions	26.52	84.16	155.87	250.46
17	ICT A/Cs-BC- Transactions -Amt in billions	6.92	58.00	97.09	233.88

Source: RBI Annual Reports

About 490 million transactions have been carried out in ICT-based accounts through BCs during the three-year period. The number of transactions through ICT-based BC outlets, though increasing, is still very low when compared with the manifold increase in the number of banking outlets and the number of accounts. The focus on monitoring is now more on the usage of these accounts, which is to be monitored through the number and value of transactions in BSBDAs and on the credit disbursed through ICT-based BC outlets.





Source: RBI Annual Reports

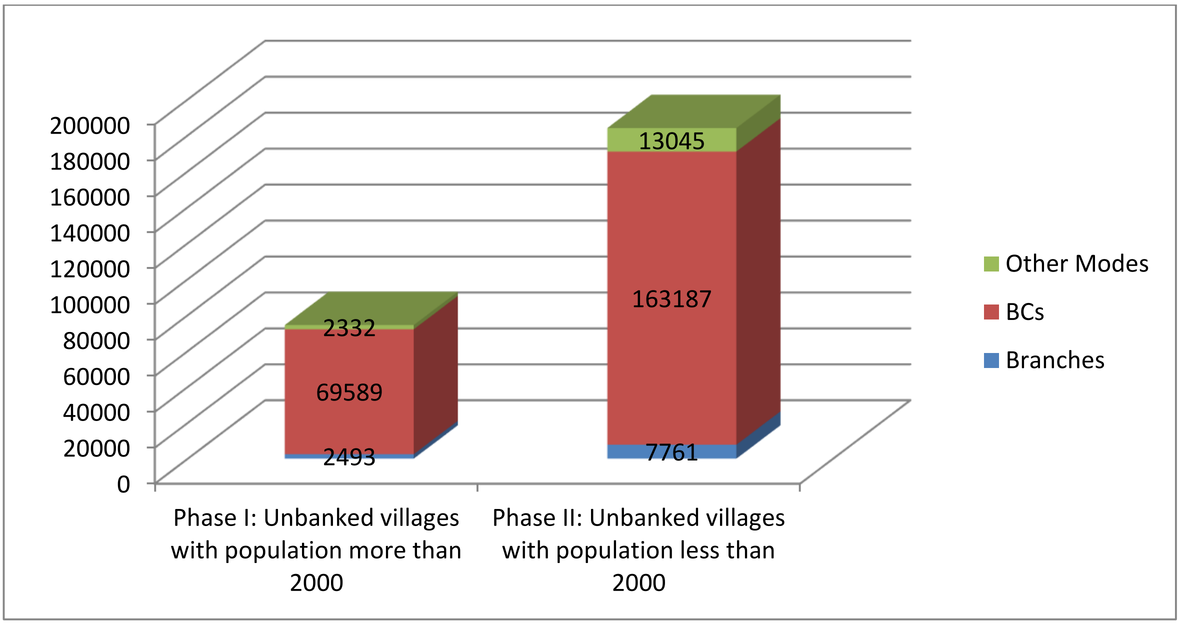
Financial Inclusion Plan 2013-16

To continue the process of ensuring access to banking services to the excluded, banks are to draw up a 3-year FIP for the period 2013-16. Banks have now been advised that their FIPs should be disaggregated to the branch level. The disaggregation of the plans is being done to ensure the involvement of all stakeholders in the financial inclusion efforts.

Roadmap for providing banking outlets in unbanked villages

The Reserve Bank continued efforts to create a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phase-wise manner. During Phase I, 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through SLBCs for coverage through various modes, that is, branches, BCs or other modes such as ATMs and satellite branches etc. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes. In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 183,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes. The Reserve Bank is closely monitoring the progress made by the banks under the roadmap.

Table 2: Unbanked villages in a phase wise manner covering with banking outlets by March 2014



Source: RBI Annual Report 2013-14

Direct Benefit Transfer:

The Reserve Bank has played a proactive role in the rollout of the Direct Benefit Transfer (DBT) scheme. State-Level Bankers' Committee (SLBC) Convener Banks were advised to co-ordinate with the government functionaries for implementation of Aadhaar-enabled payments. Banks have to expedite the process of opening bank accounts in camp mode and seeding of accounts with Aadhaar numbers. The status of the rollout of Aadhaar-enabled payments is a regular agenda item for discussion in SLBC meetings as part of Financial Inclusion/ Electronic Benefit Transfer (EBT) implementation. The DBT was rolled out in 43 districts in the first phase from January 1, 2013, and has been extended to 78 districts from July 1, 2013. Eventually, all districts in the country will be covered.

High-Level Financial Inclusion Advisory Committee

In order to spearhead efforts towards greater financial inclusion, the Reserve Bank has constituted a Financial Inclusion Advisory Committee (FIAC) chaired by a Deputy Governor. The FIAC has a few Directors from the Central Board of the Reserve Bank, experts drawn from NGOs and civil society representatives as members. The expertise and experience of the members will be leveraged: to develop viable and sustainable banking service delivery models that provide accessible and affordable financial services; to develop products and processes for rural as well as urban consumers who are currently outside the banking network; and to create an appropriate regulatory framework to ensure that financial inclusion and financial stability move together.

Financial Literacy:

Building financial capability through financial literacy is a key component of financial inclusion. It means providing financial education so that individuals can identify and use appropriate financial products and services in order to build and preserve their assets over time. It should make people better informed, better educated and more confident, able to take greater responsibility for their financial affairs and able to play a more active role in the market for financial services. The Reserve Bank's financial literacy efforts are channeled through banks in the form of a mass scale literacy campaign which includes conducting financial literacy camps in unbanked locations. For this purpose, all the financial literacy centers (FLCs) and rural branches of SCBs are advised to undertake financial literacy activities in the form of awareness camps at least once a month. For this, the Reserve Bank has devised model architecture for conducting the financial literacy camps in three stages starting with generating awareness in the first stage, account opening in the second stage and monitoring the usage of accounts in the third stage.

Table 3: Activities undertaken by Financial Literacy Centre's

Particulars	During year ended March 2013	During year ended March 2014
No. of Outdoor Activities conducted	40,838	56,985
Outdoor Activities - No. of persons participated	1,733,198	3,178,425
Indoor Activities - No. of persons participated	483,980	647,643
Total No. of persons participated -Outdoor & Indoor activities	2,217,178	3,826,068

Source: RBI Annual Report 2013-14

National Strategy for Financial Education (NSFE):

The NSFE has been prepared under the aegis of a Technical Group of the Financial Stability Development Council (FSDC). The NSFE will be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and the grievance redressed mechanisms available in the country. Under the NSFE, a National Centre for Financial Education (NCFE) is proposed to be set up as an institutional mechanism to co-ordinate the efforts of all financial sector regulators. The NCFE will launch a common website on financial education for the country.

VII. Conclusion

Increasing commercialization of agriculture and rural activities is bound to result in to cycle of higher income, higher consumption, higher savings. Growth is changing the face of rural as well as of urban India. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Self-service technologies are the foremost sustainable and scalable solutions because they offer multiple products and services from the same platform/device, at lower costs, ease-of-use, higher levels of availability and accessibility by the potential of leveraging existing physical infrastructures as a distribution channel. The BC model offers a lower cost channel and local presence without the infrastructure costs of branches. However, it is limited by poor security, time-consuming manual processes and a lack of scale. Supplementing the BC model with technology can improve security, speed up enrolments and transactions, and extend the size of the physical territory that agents can cover. Even with enabling technology, the agent model in isolation, will always be limited to the size of the physical territory that can be covered. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

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