

# **“Critical appraisal of Process of Financial Inclusion and Indian Banking Sector”**

By

**Dr. S. K. Pole**

Principal,

S.B.B. alias Appasaheb Jedhe Arts, Commerce & Science College,

Shukrawar Peth, Pune 411002,

Maharashtra (India)

Cell No. 8149232377

E-mail ID: [shashankpol311257@gmail.com](mailto:shashankpol311257@gmail.com)

---

## **ABSTRACT**

The mobilization of resources to channelize the funds is dependent on the availability of the organized financial sector, especially banks in an economy. After independence the planned efforts were initiated by the government to increase the importance and role to be played by the Banks. While ranking financial inclusion the Goa State stands first, followed by Delhi and Maharashtra, Odisha, Bihar and North-Eastern states of India are at the bottom of the ranking. It is revealed from the financial data available that proportion of people savings with bank is the highest in Punjab and lowest in Kerala across all the states. The financial products devised by the banks should be suited to the rural poor people. Accordingly banking sector must assess the needs of the people and products of the banks must satisfy those needs. Financial inclusion process has national as well as global importance. Efforts from all walks of life are but essential to make the policy successful. The Financial inclusion process is the nation building process where all formal and non-formal organizations should work together without any bias in mind

**Keywords:** Financial Inclusion, poverty, NABARD, economic growth, bank branch penetration, Financial products,

# **“Critical appraisal of Process of Financial Inclusion and Indian Banking Sector”**

By

**Dr. S. K. Pole**

Principal,

S.B.B. alias Appasaheb Jedhe Arts, Commerce & Science College,

Shukrawar Peth, Pune 411002,

Maharashtra (India)

Cell No. 8149232377

E-mail ID: [shashankpol311257@gmail.com](mailto:shashankpol311257@gmail.com)

Presented at the International Conference organized by Neveile Wadia Institute of Management during 20<sup>th</sup> and 21<sup>st</sup> January 2017

---

## **Introduction**

The mobilization of resources to channelize the funds is dependent on the availability of the organized financial sector, especially banks in an economy. After independence the planned efforts were initiated by the government to increase the importance and role to be played by the Banks. The distribution of wealth should reach to the masses in the society, to the poor from poorest and most deprived off communities in the society. The organized financial sector includes commercial Banks, Regional Rural Banks, Urban Cooperative Banks, Primary Agricultural Coop. Credit Societies, the post offices. The planned efforts of the Planning Commission of the Government and the financial policies of Reserve Bank of India has resulted a step ahead for financial inclusion of the people which are outside the orbit of the banking system. It has hence become essential to analyze the role of Banking sector in development of the policies related to financial inclusion. The banking business in India has long history. The credit facilities should be made available to all those who need it, especially in the rural sector of the Indian economy. The rural economic development shall be said to occur only when the financial inclusion will have its impact on the masses of the society. The planned efforts of banking sector since independence have shown considerable growth towards the financial inclusion in terms of opening of accounts and such other measures as to credit.

## **Why to study the Financial Inclusion process in India?**

- a) **To analyze the working of banking sector for their efforts relating to financial inclusion.**

This has a major consideration as the Banking Sector is a structured organization and it must have certain policies to promote financial inclusion in general and to reach to the masses in the community in particular. However, the data shows much efforts are essential to provide considerable growth rate. After the Prime Minister Narendra Modi's Government has taken over at the Centre, the efforts like Jan, Dhan Yojana, Insurance Policies, are leading

towards the process of financial inclusion. Accordingly the focus of this study is to understand the role of Banking Sector in the process of financial inclusion.

**b)** To study the policies framed by the Indian Banking Sector to enhance the scope of Banking Sector to those who are excluded from this part of the formal/structural organization.

Especially during past few decades technology is replacing and reaching to the masses in the society. Accordingly the Banking Sector has shown considerable change in bringing excluded strata of the society into the financial services extended by banks.

Both efforts and policies mentioned in above (a) & (b) are equally important where policies are framed taking into consideration the financial capabilities, financial needs and the usage of structural aspects by the excluded people of the society from the Banking sector and efforts are deliberate attempts made by the Banking Sector. In order to attain the desired objectives or the goal framed by the Reserve Bank of India and the Govt. of India.

### **Methodology**

This article is based on the relevant secondary data available from the various sources such as Reserve Bank of India (RBI), National Bank of Agriculture and Rural Development (NABARD) and such other structural organizations. The period of the data varies from 2010-2011 to 2014-15. There are various indicators that analyze the financial inclusion such as – Number of Bank branches, Number of deposits and Accounts, increase in savings, policies of the Government, imitative for the financial inclusion. The new Government has shown the interest in opening Zero balance accounts by the urban and rural poor. This has resulted in the speedy attainment of financial inclusion.

#### **Number of Banks in India from 2010-1 to 2014-15**

Sr. No.	Types of Banks	2010-11	2011-12	2012-13	2013-14	2014-15
1	Commercial banks	169	167	172	175	180
2	Scheduled Commercial Banks	165	163	167	170	172
3	Of which Regional Rural Banks	86	82	82	85	86
4	Non-Scheduled Commercial Banks	04	04	04	04	05

Source: Basic Statistical Returns of Commercial Banks in India, RBI. Ending June 2015

When the number of commercial banks increases it shows opportunity being increased for the people of the country to get financially included. When the banks provide need base financial products naturally the people at large are being benefitted.

In 1969, there were only 89 commercial banks . This number has been increased to 180 till 2014-15. This is almost double since 1969. Since nationalization the branch network of scheduled commercial banks increased rapidly. So the banking branches reached to the remote and rural areas also. The increase in the number of branches also resulted in accessibility to the needy people,. Accordingly the pressure on each branch also declined as population per branch also reduced considerably. Because of urbanization and growth of urban centres many rural branches got converted into the urban branches.

In India, Nationalization of Banks in 1969 relates to the beginning of the process of financial inclusion. After this remarkable step India adopted a number of other strategies such as setting up of Regional Rural Banks (RRB's), Priority Sector Lending by commercial banks, lead Bank Scheme, introduction of non-fill account, linking Self-Help Groups (SHGs) to banks, Kissan Credit Cards, Services of approved Banking Correspondents and so on to promote financial inclusion.

While ranking financial inclusion the Goa State stands first, followed by Delhi and Maharashtra, Odisha, Bihar and North-Eastern states of India are at the bottom of the ranking. It is revealed from the financial data available that proportion of people savings with bank is the highest in Punjab and lowest in Kerala across all the states.

As far as the formal borrowings are considered male adults can get easy credit and avail credit facility more easily as compared to female counterparts. The prime objective of the financial inclusion is to bring the excluded and the disadvantaged social groups with the purview of the formal financial system. This requires more accessible, affordable, safe and dependable through technological innovations. (Leyshon and Thrift 1995, Sindair 2001, Conroy 2005).

Financial inclusion helps poor households a majority of whom are employed in the informal sector to improve their standard of living and paves the way for achieving higher economic growth (Rajan and Zingales 1998, Burgess and Pande 2005, Bruhn and Love 2009, Bittenchourt 2012). At the same time inclusive financial system helps in reducing poverty and income inequality (Beck et al. 2009). Developed countries have 91 per cent of its population own their accounts the same percentage is just 41 per cent in developing countries. The Rang Rajan Committee on Financial Inclusion in India 2008 defined financial inclusion as a process of ensuring access to the financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable costs. In India despite several steps taken by the government the acceleration of the financial inclusion is still at a glower pace.

#### Regional Rural Banks in India –Credit Accounts / Amounts

(No. of accounts in'000, Amount in Rupees crore)

End March	Credit Account		Small Borrowing Accounts		Col. 4 as % of Col. 2	Col. 5 as % of Col. 3
2009	17,013	66,828	16,555	51,201	97.3	76.6
2010	18,630	82,761	18,015	60696	96.7	73.3
2013	19,670	92,700	191,14	67,900	93	73
2014	21,730	103,800	20,168	75,800	93	73
2015	22,710	110,700	22,355	81,700	98	74

The above data specifically reveal that the number of accounts since 2010 are consistently increasing from 18630 to 22,710. The amount deposited in these accounts are also showing considerable growth i.e. from Rs.68,828 (2009) to 110,700 (2015). This reveals that more and more persons are opening accounts in RRB's and making the deposits in such accounts. The percentage growth is also considerably high.

#### Demographic ATM Penetration of State Cooperative Banks in India

End March	Total number of ATMs	Demographic ATM Penetration %
2013	84505	8.1
2014	97710	10.2
2015	106718	11.5

Compiled on the basis of R.B.I. Data

The population per branch of Scheduled Commercial banks over the years from 2009 to 2015 is reducing considerably. ATM penetration has shown considerable over past few years. However, we are still behind and need to have more efforts to reach to the majority of the public in India.

#### Demographic Branch penetration of SCBs in India

End – March	Total number of branches	Demographic branch penetration
1991	60220	7.17 %
2001	65919	6.46 %
2011	89622	7.41
2013	94710	8.69
2014	98210	9.71
2015	106125	10.32

Compiled on the basis of R.B.I. Data

The above data shows that there is consistent growth in the number of bank branches. Besides this there are number of urban and primary cooperative banks operating in India which has a rural reach.

#### Conclusion:

1. The financial inclusion process must be accelerated in the states like Odisha, Bihar and North-Eastern States as they are far behind as compared to the other states in India.
2. The more emphasis should be given by the Banking sector to make use of financial services, it is not sufficient to promote only opening of accounts.
3. The finance should be extended to the poor in the country to make effective the process of financial inclusion.
4. The savings and other products of the bank should reach to the poor and needy in the country. The people in many part of the country still continue to save in non-formal and non-structural organizations such as chit-funds and at home.

5. In rural India now by the efforts of RBI banking correspondents have been appointed to look after the promotion of savings in remote and tribal areas.
  6. Pradhanmantri Jan Dhan Yojana is very useful measure for financial inclusion, provided this Yojana (Scheme) would become successful and useful to the urban and rural poor in the society.
  7. The Bank accounts opened by the means of Jan Dhan Yojana must remain operative. Merely opening of the account will not serve the desired purpose.
  8. The financial products devised by the banks should be suited to the rural poor people. Accordingly banking sector must assess the needs of the people and products of the banks must satisfy those needs.
  9. Financial inclusion process has national as well as global importance. Efforts from all walks of life are but essential to make the policy successful.
  10. The Financial inclusion process is the nation building process where all formal and non-formal organizations should work together without any bias in mind
- 

#### **REFERENCES:**

1. Census of India 2001 and 2011.
2. Handbook of statistics on Indian economy 2011-12
3. Report on Currency and Finance 2010-11 to 2014-15.
4. R. B. I. Annual Report 2014-15
5. Sadhan Kumar Chattopadhyay, (2011), "Financial Inclusion in India: A case-study of West Bengal" RBI working paper series: W P S (DEPR): 8/2011