

## ROLE OF COMMERCIAL BANKS TOWARDS FINANCIAL INCLUSION IN INDIA

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**Abstract:** A banker is a fellow who lends his umbrella when the sun is shining and wants it back the minute it begins to rain...

- Mark Twain

People cannot deny the importance of money because it is the most necessary thing that we require. Just like we need food to live, similarly we need money to survive. It is difficult to sustain without money as it is the basic necessity. In order to live a happy life, we need money. From buying the necessary stuff to paying the fee for our kids, from growing the crops to run a business undertaking, we need money for everything. We cannot imagine our life without money and therefore it is important to have a money at right time. While we think about money, banks come across that.

Accepting deposit and lending money is the primary function of the bank. From the aspect of lending, bank should not make any discrimination with peoples who approached them. Especially, they should provide adequate kindnesses to peoples who are agrarian, rural and financially downtrodden. The problem of our country is not providing equal importance to all sort of peoples particularly the vulnerable groups, deprived and weaker sections and low-income groups. They will remain excluded from the financial system. They are not able to get even the most basic facilities and services provided by the financial sector.

The aim of financial inclusion refers to bring all the peoples to formerly established financial streams and the confirmation of easy access to financial products at affordable cost to the vast sections of disadvantaged and low-income group. At the present time, financial inclusion is ended in opening a bank branch in unbanked areas itself. In reality, banks need to do lot. They should not provide any discrimination in lending financial products to the larger sections of the financially excluded Indian population. The Government of India and the Reserve Bank of India have been making concerted and endless efforts to brought the excluded peoples. One of the recent efforts among them, Government of India announced "JanDhanYojana" in August, 2014 to promote financial inclusion as one of the important national objectives of the country.

**Keywords:** Financial Inclusion initiatives, Jan Dhan Yojana, Commercial Banks

### INTRODUCTION

Financial Inclusion can describe in two ways namely availability and accessibility of financial products and services like saving account, credit facility, and insurance

product to weaker sections of the society. It also ensures the timely and adequate credit to every section of the society. Timely accessing of financial services has been recognized as an important aspect of development and

more emphasis is given to extending financial services. Because of low-income households and agrarian may lack in the education and knowledge needed to understand financial services that are available to them. Even some of the educated peoples are also needed to educate on how to access the timely credit at the affordable cost.

The lack of access in the financial products and services limits the range of services and credits for household and enterprises. While there are some signs of improvement in accessing the financial services but still there are multiple factors which have affected the access to financial services. The following factors are important among them.

### **Place of residing**

Place of living is the major constraint to accessing the financial services. Most of the commercial banks established their branches usually where the density of population more, which gives more profit to them. Hence population where low in areas finds difficult to access the financial services. The people who lives in rural, remote, less density of population areas are affects access to financial services.

### **Gender biasness and lack of legal identity**

The people who belongs to minority, economic and political migrants are excluded from accessing financial services due to lack of legal identities such as original birth certificates and identity cards. Women are also facing many difficulties when they try to accessing the financial services because of not owning of property and assets. They also needed male surety to access the credit from any financial institutions.

### **Poor knowledge of financial services**

Literacy rate plays a vital role in accessing the financial services. Lack of education and financial illiteracy are the major problems to accessing the financial services to the individuals. They do not know the significance of different financial products i.e., bank accounts, cheque facility, bank loan or overdraft and insurance. If people having good financial knowledge, it improves the use of many financial products by different economic agents like Business Correspondents, NGOs and MFIs and etc.

### **Low Earning power and bank charges**

Earning power of people is always playing a crucial role in accessing available financial services. Services which are made exclusively for low income group peoples also has some charges. Bank never offers services without charges except No Frill account (Jan Dhan Account). Even some private sector banks not implementing the Jan Dhan Account scheme properly, they violated by way of duplication of accounts by single person. Moreover in India, a lot of concealed bank charges which has been discouraged poor persons in availing these services.

### **Inflexible terms and conditions**

Peoples are also reluctant to avail the financial products or services which are attached to cumbersome and inflexible terms and conditions. Almost all the financial institutions having different guidelines relating with the use of accounts like minimum balance requirements.

### **Nature of business**

Availability of the financial services depends upon the nature of business and its form. If it is organized and large scale one, can easily access the financial services. Most of the banks do not preferred the small borrowers and unorganized enterprise for giving loans. Hence their loan applications tend to be rejected.

## **REVIEW OF LITERATURE**

The literature available for financial inclusion is plenty. Various studies have been conducted and the hints of some of them are: to improve the rate of financial inclusion banks have to be introduced various strategies. Banks may tie up with finance institutions and local committees to reduce the cost of financial inclusion (V. Leeladhar, 2005). Assured access of financial services by low income groups to save money, prevents the concentration of economic power in few hands and the alleviate the risk of poor people (Beck, Demirguckunt and Peria, 2006). A study by Ms G.S. Nalini in (2012) on Role of Banks in Financial Inclusion finds the various difficulties faced by the banks while implementing the financial inclusion. Radhika dixit&Munmunghoshthe (2013) focused on the understanding of inclusive growth phenomenon and its need, this Paper attempts to discuss financial inclusion as an instrument to attain it with reference to its extent in Indian states.

## **ROLE OF COMMERCIAL BANKS IN FINANCIAL INCLUSION:**

According to the committee on financial reforms, (Chairman: Dr. Raghuram G. Rajan), “Financial inclusion broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. This includes not only banking products but also other services such as insurance and equity products”.

The development of economy lies on implementing financial inclusion in effective manner. After the clear understood of these things by Government of India and Reserve Bank of India makes many efforts, started from nationalization of banks in 19<sup>th</sup> July 1969 onwards. And it still continues through introduction of Jan Dhan Account in 28<sup>th</sup> August 2014.

Under banking reforms, nationalization of banks, setting up of regional rural banks, Grameen Mahila Bank, introduction of SHG- bank linkage program, etc., all this has led to enhancing the extent of financial inclusion in India. In recent years, banks have played a significant role in achieving financial inclusion to a large extent. Banks have adopted various policy measures or initiatives for making people financially included and as a result, the extent of financial inclusion has enhanced.

The role of banks in economic development is to remove the gap in required capital by encouraging savings and investments. A good banking system gathers the small and scattered savings of the community, and gives them the people who are in real need of it for their investment in productive purposes. In any plan of economic development, capital formation occupies a vital role. No economic development of considerable magnitude is possible unless there is an adequate degree of capital formation. A very important characteristic of an under-developed economy is shortfall in required capital which is the result of scarcity in savings made by the community. Backward economies hardly save 5% of the national income, whereas they should save and invest at least 15%.

In 1950, Colin Clark, estimating the capital needs of China, India and Pakistan, pointed out that they must save 12.5% of the national income to absorb the increasing labour force and maintain the past rate of increase in productivity.

In the under-developed countries, not only is the capital stock so small but, as pointed out above, the current amount of capital formation is also very low. These are serious handicaps in economic development and here the banks played a great role by the following ways

- (a) They collect deposits by offering attractive rates of interest and distribute it for productive purposes through loans among enterprises which are connected with economic development. In this way, they promote the development of agriculture, trade and industry.
- (b) Through converting savings, which otherwise would have remained inactive, into active capital.

It is difficult to see how, in the absence of banks, could small savings be stimulated for productive uses. It is also difficult to see who would distribute these savings among entrepreneurs. The banks are the right stream, which can flow the community's savings into channels which are productive.

Banks can provide discrimination among its customers to ensure their own safety and also for optimum utilization of the financial resources of the community. We see that in India the period of economic development has coincided with a phenomenal increase in bank deposits—and bank branches.

Thus, the banks have come to play a dominant and useful role in promoting economic development by mobilising the financial resources of the community and by making them flow into the desired channels. The Indian banks are now playing a very active role in fostering economic development of the country.

## **ISSUES AND CHALLENGES**

India now faces numerous issues and challenges in the area of Financial Inclusion for Inclusive growth. Some of the important points among them are stated here below:

### **Business Correspondents (BCs)**

Business correspondents remunerated on the basis of amount of transactions involved by the customers. Poor villagers usually involved low volume of transactions resulted in reduced income of Business correspondents. It is discouraged the business correspondents and it

will be reflected in their involvement. So, bank assured qualified amount of income to the BCs.

The usefulness of BC model depends upon the services offered by the bank branch through BCs. To eliminate the cash management issues and also to take care the grievances of village customers, Bank should open branch offices at a reasonable distance with the bank officials.

### **Innovative and exclusive products for poor customers**

Banks should introduce new products to meet the needs of poor customers with the simplified procedures in terms of disbursement and repayment.

### **Application of Technology for earlier growth**

Technology enabled environment results in eventual goal of the financial inclusion at earliest. So, Bank should introduce the new advancements in banking products exclusively for poor villagers.

### **Jan Dhan Account**

It is understood that nearly half of the Jan Dhan Account are inactive. And also, recent studies reveal duplication in Jan Dhan Accounts by private banks. To achieve the objective of accounts like Jan Dhan account, effective implementation and economic activities to be improved.

### **. Financial Inclusion in Urban Areas**

Generally, urban financial inclusion provides huge scope for improvement by various initiatives by conducting dissemination of awareness.

### **Use of Primary Agricultural Co-operative Societies (PACS) and Primary Cooperatives as BCs**

PACs introduction in rural areas is like a bank branches in villages. Banks may use this largest rural network of cooperatives as business correspondents. Recent NABARD circular also envisaged that PACs can be utilized as BCs for CCBs/SCBs.

### **Migrants are not adequately covered**

Some of the customers often change their residencies caused by their nature of work. New bank products should introduce to satisfy their needs.

### **Human face of Banking**

When bank staffs deal with the poor villagers and illiterate, they should in humanity particularly public sector banks. To ensure this, bank conduct adequate and frequent training programmes to their frontline staffs, managers and BCs also.

### **Low credit share of rural areas**

After the implementation of various schemes of financial inclusion, the number of branches in rural areas are increased and have the share of 30 per cent in total branches of scheduled commercial banks. But the share of rural credit in total provided credit is not alike. Govt./Banks should ensure and initiate the steps to increase the availed credit by rural peoples through promoting employment.

### **Private Sector banks need to open more branches in rural areas:**

The rate of opening new branches by private sector banks in rural areas is comparatively low as per the statistical report of RBI as on September 2018. The rate of total branches by various private sector banks in rural areas accounted for just 19.92 per cent of their total branches (while in the case of public sector the same stood at 63.37 per cent). There is absolute need to increase the number of rural branches by the private sector banks.

### **Infrastructure Development**

To implement the financial inclusion in a better manner, necessary infrastructure such as digital and physical connectivity, uninterrupted power supply etc. are needed. Reportedly, out of six lakh villages in India, nearly 80,000 villages do not have electricity, and it makes one more constraint to implement financial inclusion in effective manner.

### **Language problem**

Financial inclusion efforts should necessarily be done in local languages. In this context, the need for vernacularisation of all forms (including legal forms) is an absolute must, at least in major local languages. As part of Financial Literacy initiatives, if banks were to undertake positive steps in helping the common public to get over their English phobia.

## **Indian Post Payments Bank**

Post offices are very closest to the rural people compared to bank branches. As on March 31, 2018, there are 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas.

Prime Minister Narendra Modi launched India Post Payments Bank (IPPB) on 1 September 2018. India Post Payments Bank will focus on providing banking and financial services to people in rural areas, by leveraging the reach of 1.55 lakh post office branches. "On the day of the launch, IPPB will have 650 branches and 3,250 access points spread across the country," the government said in a statement. The government aims to link all the 1.55 lakh post offices to the India Post Payments Bank system by 31 December, 2018.

India Post Payments Bank has been set up under the Department of Posts, Ministry of Communication, with 100% equity owned by Government of India. It started operations on 30 January, 2017, by opening two pilot branches, one at Raipur and the other at Ranchi. India Post Payments Bank will offer 4 per cent interest rate on savings accounts. Payments banks can accept deposits of up to ₹ 1 lakh per account from individuals and small businesses, but do not have the mandate to extend loans. But India Post Payments Bank will, in alliance with other financial service providers, offer third-party products. For example, in case of loans, India Post Payments Bank will work as an agent of PNB. India Post Payments Bank will offer a range of products such as savings and current accounts, money transfer, direct benefit transfers, bill and utility payments, and enterprise and merchant payments. These products, and services, will be offered across multiple channels (counter services, micro-ATM, mobile banking app, SMS and IVR), using the India Post Payments Bank's technology platform. India Post Payments Bank has been allowed to link around 17 crore postal savings bank (PSB) accounts with its accounts. India Post Payments Bank "has been envisioned as an accessible, affordable and trusted bank for the common man," the government said in statement. It will leverage the vast network of the Department of Posts, which covers every corner of the country with more than 300,000 postmen and grameendaksewaks. The Cabinet earlier this week approved an 80% increase in spending for India Post Payments Bank (IPPB) to ₹ 1,435 crore. The increase will take the IPPB project outlay to ₹ 1,435

crore from ₹ 800 crore giving it additional firepower to compete in the market with existing operators like Airtel Payments Bank and Paytm Payments Bank.

Following are the role of commercial banks to be performed as part of financial inclusion programme: a) Financial literacy b) Credit counseling c) BC/BF model d) KYC norms e) KCC/GCC f) effectiveness in Jan Dhan Account g) Branch expansion in rural areas, h) Other measures.

## **CONCLUSION**

Commercial banks play a pivotal role in the economic development of a country. They initiate many efforts towards the development of nation in the form of financial inclusion. But some of them could not accessed by the deprived section of population. To address the issue of such financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. Financial inclusion may not be seen as social responsibility of the banking system, it may see as potential business opportunity. The timely access of the financial products by deprived section of population results in growth of the life of them. And this may call the real development of the country. It is rightly said by the Prime Minister Narendra Modi- "Mahatma Gandhi tried to end untouchability in the society, if we want to eradicate poverty, we need to get rid of financial untouchability.

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