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Financial Inclusion: An Initiative of Indian Banks towards Sustainable Rural Development

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Abstract—*The Indian banking sector plays a pivotal role in the development of Indian economy as well as contributes a modest share to the country's GDP growth rate. The nationalisation of banks in 1969 and the introduction of new economic reforms in 1991 have brought many constructive changes to the Indian banking sector. Since then, this sector has been making remarkable progresses from offering diversified financial products and services for meeting the diverse needs of different segments of the population to the use of emerging technologies in order to cope with the growing competition. However, despite these remarkable progresses, majority of rural population of India are still dependent on informal sources like money lenders for meeting their basic financial needs. Therefore, financial inclusion has been and still continues to be one of the most important initiatives of Indian banking sector towards sustainable rural development. Financial inclusion can be termed as a multi dimensional initiative as it is not only a critical indicator of the well being of a society but also an important measure of economic development. Therefore, Indian banks must put emphasis on all the dimensions of financial inclusion for its successful and effective implementation as a policy initiative. This paper aims to explore the initiatives taken by Reserve bank of India with regard to financial inclusion and also the recent trend and progresses of financial inclusion in Indian banking sector. In the end, this paper also attempts to highlight the relationship that exists between a solid credit scoring system and credit delivery and financial inclusion. The current study is based on secondary data sources and analysis of data has been done subjectively.*

Keywords*: Financial inclusion, trend and progress, multi dimensional, credit scoring system, credit delivery.*

1. INTRODUCTION:

In a developing country like India, where the growth rate of population is very high, issues like poverty, inequitable distribution of income and wealth pose a serious threat to the growth and development of the economy. To achieve sustainable development goals and to ascertain financial stability of the economy, these issues need to be resolved in every way possible. Realizing the negative implications of these menaces on financial stability and to ensure that the benefits of economic growth reaches the weaker and underprivileged sections of the society, Reserve bank of India has undertaken financial inclusion initiatives in India.

Financial inclusion will not only provide the underprivileged population access to basic minimum banking and financial services but it will also help in mitigating poverty in the long term by creating employment opportunities for the weaker sections of the society. According to the definition given by RBI, ***"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players"*** (Dr. C. Rangarajan Committee, 2008)**.**

This paper is divided into nine sections. The first section, that is, section 1, consisted of the introduction, the next section that is, section 2 consists of the review of literature followed by section 3 consisting of the research objectives, section 4 consisting the research methodology, section 5 which includes the initiatives undertaken by RBI, section 6 that highlights the progresses of banks in India with respect to financial inclusion initiatives, section 7 focuses on highlighting the relationship between financial inclusion and credit scoring mechanism, section 8 consists of the analysis and findings of the researcher, and the last section, that is, section 9 will cover the conclusion and suggestion for future wok.

2. REVIEW OF LITERATURE:

A wide range of research has been carried out in respect of financial inclusion initiatives undertaken by RBI, banks and micro finance institutions in India and different aspects of financial inclusion have been studied. Iqbal & Sami (2017) defined financial inclusion as a new paradigm of economic growth that plays major role in driving away poverty from the country and enables to reduce the gap between rich and poor population. Their study aimed at examining the impact of financial inclusion on growth of the economy over a period of years, using multiple regression model as the main statistical tool, has found positive and significant impact of number of bank branch and credit deposit ratio on GDP of the country. Gogia (2017) pointed out the importance of financial inclusion and also attempted to make a comparative analysis of the financial inclusion initiatives undertaken by selected banks in India. In conclusion, the researcher added that financial inclusion programme needs to be incorporated in the business models of public sector banks considering the cost factor rather than incorporating it for meeting regulatory requirements or only as a charity. Rao & Anand (2015) put emphasis on the financial sector reforms and attempted to review the changes in policy since 1991. The outcomes in terms of the spread of financial infrastructure, supply and availability of credit to poor and to rural areas during 1991-2007 were traced. They also examined the new organizational forms and new policy initiatives. In their paper, they have made three important suggestions: (a) the creation of new organizations for financial inclusion instead of building on the strength of the existing organizations, (b) if the process of Financial Inclusion is to be sustainable, increase in access to financial services needs to be accompanied by trust, compliance to standards, and sound financial regulation since Financial inclusion can't proceed without financial stability, and, (c) a single point regulator with a mechanism for monitoring lending activities of entities with regular data collected on interest rates and loan tenure needs to be put in place.

Mundra (2016) stated that, the vision for Financial Inclusion, as envisaged by the Committee on medium Term Path to Financial Inclusion, that 90% of the hitherto underserved sections of the society would become active stakeholders in economic progress by 2021, would be possible through focussed efforts on both supply side and the demand side. In conclusion, he also added that, the cherished goal of universal Financial Inclusion can be achieved only through synergistic efforts between the mainstream financial entities and fringe players like rural co-operatives, NBFCs, MFIs, credit societies, NGOs etc. According to CRISIL Inclusix report, lack of awareness, poverty and illiteracy are among factors that lead to low demand for financial services and consequently to exclusion. Their report pointed out that, the procedural hassles involved in formal banking services have compelled people to borrow from informal credit sources even though it results in compromised standards of living, higher costs on account of dependence on unethical and unregulated providers, greater incidence of crime, and increased unemployment (CRISIL Inclusix, 2018).

Bansal (2014) carried out a study which focused on the contribution of Information and Communication Technology (ICT) towards Financial Inclusion in India and also analyzed different applications of ICT which banks are adopting. In conclusion, he stated that, ICT may act as a tool to overcome challenges and provide a platform to reach customers directly and it would also help to bring down the cost of transaction significantly, thereby creating a win-win situation for both banks and customers. Study carried out by Gwalani and Parkhi (2014) pointed out the importance of Financial Inclusion and highlighted various policies that have been adopted in India to increase the same. They suggested that the agenda needs to be more focused and more attention must be shifted towards the causes of the failure. They concluded the study with a note that efforts have been made for achieving the goal of financial inclusion but for a diversified country like India, it is necessary to customize the models as per the needs of the people for accelerating the pace of financial development as well as economic growth. Das (2012) put emphasis on the role of RRBs, co-operative banks and private enterprises along with RBI, GOI and commercial banks in promoting financial inclusion. It was found in the study, that, sustainable development of the impoverished through initiatives like financial inclusion is inevitable for the country to grow in a sustainable way.

3. OBJECTIVES:

1. To explore the initiatives undertaken by Reserve Bank of India in regards to financial inclusion.
2. To investigate the progress of Indian banking sector under Financial Inclusion Plan.
3. To highlight the crucial relationship that exists between a solid credit risk assessment mechanism and credit delivery and financial inclusion.

4. RESEARCH METHODOLOGY:

The study for this current paper is based on secondary data sources, such as, RBI annual reports published on the RBI official website, speeches of RBI Governors, reports published by BIS, research journals, reports published by various organizations and newspaper publications. The research design is exploratory for the first part and for the remaining parts it is descriptive in nature. A subjective analysis of the data has been done by the researcher and the results of the analysis so conducted have been highlighted in Section 8 under analysis and findings.

5. RECENT INITIATIVES UNDERTAKEN BY RESERVE BANK OF INDIA [10] [11]:

Some of the important initiatives undertaken by Reserve bank of India for strengthening the credit delivery mechanism and enhancing financial inclusion during the year 2017-18 can be stated as follows:

i. **Priority sector lending (PSL)**: Revision in guidelines on lending to priority sector with an emphasis on enhanced flow of credit to more employment intensive sectors is done. Social infrastructure and renewable energy sectors are also included in the priority sector.

ii. **Priority Sector Lending Certificates (PSLCs)**: This scheme was introduced in April 2016 as an initiative to incentivise banks which surpass their targets in lending to different categories under the priority sector. The Reserve Bank of India facilitates the trade of these certificates through a platform called e-Kuber. The total trading volume of PSLCs was Rs. 1843.3 billion as against Rs. 498.0 billion at the end of March 2017.

iii. **Certified Credit Counsellors (CCCs) Scheme**: A framework for accreditation of credit counsellors was prepared by the Reserve Bank of India and provided to the SIDBI (Small Industries Development Bank of India) which subsequently launched the CCCs scheme in July 2017. As on June 30, 2018, 512 credit counselling institutions and 13 certified credit counsellors were registered with SIDBI.

iv. **Revamping the Lead Bank Scheme (LBS)**: The RBI constituted a Committee of Executive Directors of the Bank to study the efficacy of the LBS and suggest measures for its improvement. Many changes including bifurcating policy and operational issues for streamlining functioning of the State Level Bankers' Committees (SLBCs), a standardised approach to manage websites of the SLBCs, digital modes of payments including connectivity and Direct Benefit Transfer (DBT), Financial literacy initiatives, digitisation of land records and discussion on improving rural infrastructure/credit absorption capacity have been brought about.

v. **Financial Inclusion Plans (FIPs)**: In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans(FIPs) which capture banks' achievements on parameters such as number of outlets (branches and business correspondents), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities availed in those accounts, transactions in Kisan Credit Cards(KCCs) and General Credit Cards (GCCs) accounts and transactions through the Business Correspondent – Information and Communication Technology (BC-ICT) channel.

vi. **National Strategy for Financial Inclusion**: The National Strategy for Financial Inclusion document is being finalised under the aegis of Financial Inclusion Advisory Committee (FIAC) to accelerate the momentum generated by the financial inclusion policies of RBI, the Government of India's Pradhan Mantri Jan Dhan Yojana and the emerging advancements in the field of digital technology.

vii. **Financial Inclusion and Development Department (FIDD)**: The nodal department for implementation of financial inclusion agenda, has developed customized financial literacy content for five target groups namely; farmers, small entrepreneurs, school children, self-help groups and senior citizens, that can be used by the trainers in financial literacy programmes.

viii. The Reserve Bank of India, in collaboration with Organisation for Economic Co-operation and Development (OECD) organised the **RBI-OECD Global Symposium on Financial Education** during November 8-9, 2017 in New Delhi. It discussed many issues such as evaluation programmes of countries, advantages and disadvantages of digital transformations in financial service delivery, digital tools and the level of financial literacy.

ix. Since 2017, RBI has been observing one week in a year as **"Financial Literacy Week"** and this year it was observed during June 4-8, 2018 with the theme of "Consumer Protection". The week focussed on four consumer messages-

- Know your Liability for Unauthorised electronic Banking Transactions,
- Banking Ombudsman,
- Good Practices for a Safe Digital Banking Experience
- Risk versus Return.

6. THE PROGRESS OF FINANCIAL INCLUSION IN INDIA:

To provide impetus to the initiative of Financial inclusion, the RBI has directed the banks to prepare a board approved Financial Inclusion Plan (FIP) for a period of three years starting from 2010. The progress of banks under FIP can be summarized in the following table, **Table 1**.

Table 1: Financial Inclusion Plan: A progress report

Sl. No.	Particulars	2010	2011	2012	2013	2014	2015	2016	2017
1	Banking outlets in villages- Branches	33,378	34,811	37,471	40,837	46,126	49,571	51,830	50,860
2	Banking outlets in villages- Branchless mode	34,316	81,397	144,282	227,617	337,678	504,142	534,477	547,233
3	Banking outlets in villages- Total	67,694	116,208	181,753	268,454	383,804	553,713	586,307	598,093
4	Urban locations covered through BCs	447	3771	5891	27,143	60,730	96,847	102,552	102,865
5	BSBDA through branches (No. in million)	60	73	81	101	126	210	238	254
6	BSBDA through branches (Amount in Rs. billion)	44	58	110	165	273	365	474	691
7	BSBDA- through BCs (No. in million)	13	32	57	81	117	188	231	280
8	BSBDA- through BCs (Amount in Rs. billion)	11	18	10	18	39	75	164	285
9	BSBDA Total (No. in million)	73	105	138	182	243	398	469	533
10	BSBDA Total (Amount in Rs. billion)	55	76	120	183	312	440	638	977
11	OD facility availed in BSBDAs (No. in million)	0.2	0.61	2.71	4	6	8	9	9
12	OD facility availed in BSBDAs(Amount in Rs. billion)	0.1	0.26	1.08	2	16	20	29	17
13	KCCs- Total (No. in million)	24	27	30	34	40	43	47	46
14	KCCs- Total (Amount in Rs. billion)	1,240	1,600	2,068	2,623	3,684	4,382	5,131	5,805
15	GCCs- Total (No. in million)	1.4	1.7	2.11	4	7	9	11	13
16	GCCs- Total (Amount in Rs. billion)	35	35	42	76	1,097	1,302	1,493	2,117
17	ICT A/Cs-BC-Total transactions (No. in million)	27	84	156	250	329	477	827	1,159
18	ICT A/Cs-BC- Total transactions (Amount in billion)	7	58	97	234	524	860	1,687	2,652

Source: RBI Annual Report (2010 to 2018)

One important fact revealed here is that, the total number of village outlets opened in branchless mode stood at 547,233 in 2017 which outperformed the number opened in branch mode that stood at 50,860 in 2017. The urban locations covered through BCs have shown a tremendous growth as the number increased from 447 in 2010 to 102,865 in 2017. Again, the number of BSBDAs opened through branchless mode is higher than that of branch mode. The total number of KCCs was 46 million in 2017 as against 24 million in 2010. Again the total number of GCCs provided was 1.4 million in 2010 and the same has increased to 13 million in 2017. Again, Table 1, revealed that, total amount of transaction in ICT accounts opened through BCs has recorded an increase of Rs. 2645 billion from 2010 to 2017.

7. FINANCIAL INCLUSION AND CREDIT SCORING SYSTEM:

Credit scoring models are developed to evaluate the creditworthiness of borrowers before credit delivery. Financial Inclusion is not only about facilitating financial services to every section of the society but also about providing it in an efficient and effective manner so that the sustainability of the bank is not compromised. In other words, for the successful implementation of credit delivery and financial inclusion initiative it is very much important to have a solid credit risk assessment mechanism including a robust credit scoring system and a credit monitoring system. In a country like India, where the problems of bad loans and worsening asset quality are still posing a threat to the entire banking and financial economy, it is very much important to have a proper credit risk assessment system in place. According to the RBI report on trend and progress of Banking in India 2017-18, the share of priority sector NPAs constitutes a fifth of the total NPAs, therefore, going forward banks will need to focus on developing a solid credit scoring system for evaluating the customers for sustainable development of the bank which in turn will lead to sustainable rural development.

8. ANALYSIS AND FINDINGS:

1. **In-depth analysis:** Financial inclusion as a policy agenda has always been given significant attention by Reserve Bank of India and Government of India. However, its implementation in the real world has not been very effective as evident from many existing literature on financial inclusion and hence, there is the need for more in depth analysis of the pros and cons of the current financial inclusion practices followed by banks.

2. **Fintechs and Financial Inclusion:** In this era of digital transformation, when many fintech start ups and existing fintech companies are trying to develop alternative scoring models in order to bring those sections of the population under formal financial services who don't even have bank accounts, the banking sector should also focus its attention into developing such mechanisms for evaluating the profiles of the unbanked yet deserving and needy future customers. In other words, banks in India must focus in developing customized models for assessing the credit worthiness of existing as well as prospective customers.

3. **Business Correspondents Vs. Branches:** Most of the times, the financial inclusion initiatives of the banks are carried out through Business correspondents (BCs) in rural areas rather than through bank branches, as evident from the data provided in Table 1. However, BCs could only cater to limited needs of the population and hence, majority of population living in the rural areas are deprived of a no. of facilities provided under financial inclusion initiatives. Therefore, steps must be taken to maintain a balance between the services provided by the banks as well as through BCs and more emphasis should be given on bringing the underprivileged population under mainstream banking.
4. **Customized products and services:** In order to lead the financial inclusion initiative towards the ultimate goal of sustainable rural development, it is necessary on part of the banks to customize its products and services as per the diverse needs of existing and prospective customers. Moreover, customization of products and services should entail all the three aspects of financial inclusion, namely, credit delivery, financial inclusion and financial literacy.
5. **Financial Inclusion and sustainable development:** Financial inclusion and sustainable development are the two sides of the same coin. For sustainable rural development financial inclusion is inevitable, likewise, for financial inclusion, sustainable development of the banking and financial services system as a whole is also inevitable.

9. CONCLUSION AND SUGGESTION FOR FUTURE WORK:

Financial inclusion can be considered as a key indicator of financial health of banking and financial institutions and stability of an economy. Financial inclusion is generally meant for the weaker section and the rural population, however, in India rural penetration is much lower as compared to urban penetration. In order to drive this initiative towards proper direction and to achieve the ultimate goal of sustainable development all the organizations that are providing formal banking and financial services must build synergy among themselves and work collectively towards the ultimate goal. Moreover, all the dimensions of financial inclusion must be taken into account while undertaking any new policy initiative and making any decisions regarding the agenda.

Most of the studies on financial inclusion in India put emphasis only on the success and failure of financial inclusion initiatives and not on the causes of such failures. So, exploring the causes of failures and suggesting remedial measures can be a probable dimension for future work. A comparative analysis of the approaches undertaken by fintechs and banks as regards to financial inclusion can also be conducted in future research work. Finally, an analysis of the credit risk assessment mechanism in relation to the financial inclusion initiative in India can also be carried out keeping in mind the current scenario of Indian banking system.

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