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FINANCIAL INCLUSION INITIATIVES OF COMMERCIAL BANKS IN INDIA

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Abstract

Access to basic banking services will play a vital role in measures to fight unemployment and to attain housing, education, insurance, pension and health care. Financial inclusion is all about ensuring that everyone has the opportunity to access the financial services needed to participate fully in a modern day society and the economy. The current financial disorder has emphasized more than ever the need for the issue of financial inclusion across India. Financial Exclusion is the scenario in which a segment of the population are denied access to basic financial services in certain areas having poorer, marginalized and socially deprived people. It is also a question of economic efficiency. In spite of the many progressive actions taken by Government of India, Reserve Bank of India and financial service providers, there are still considerable efforts to be made across India to ensure access to banking services. This paper attempts to identify the various measures to prove financial inclusion initiatives taken by the Commercial Banks in India.

Key Words: *Financial Inclusion, Commercial Banks, Penetration of - Branches, Deposits, Credit*

Introduction

The economic development of any nation predominantly depends on the equitable regional growth of the country. India being majorly a rural economy, bulk of the population in the rural region is below the standard of living. The reason for this substandard living is the very poor circulation of money and employability in the rural areas leading to disparity of purchasing power compared to the urban areas. Therefore there is a felt need of a financial institution to bridge the gap between free flow of money and rural population through establishing threshold Commercial banks in rural India.

India has a long history of development of banking system. After independence, the major focus of the Government and of the Reserve Bank of India had been to develop a sound banking system which could support planned economic

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development through mobilization of resources/deposits and channel them into productive sectors. Accordingly, the Government is decided to use the banking system as an important agent to change the core policies that were formulated since independence. The recent developments in banking technology have transformed banking from the traditional brick and mortar infrastructure like staffed branches to a system supplemented by other channels like Automated Teller Machines (ATM), Credit/Debit Cards, Internet Banking, Online Money Transfers, etc.

Commercial bank plays a significant role in the development of the nation and it constitutes the life blood of an advanced economic society. The growth of sound commercial banking will lead the nation to the top in the world; equivalent to the status of the developed economy. Commercial bank is a lever of the economy; as it mobilizes the spreader savings of society and redistributes them into more useful routes.

It receives deposits from the public and it makes loans and advances out of the public deposits. In addition, it satisfies the financial needs of the various sectors such as agriculture, industry, trade, communication, which is necessary for the economic social needs. The functions performed by banks, of late are becoming more people-oriented irrespective of the rich and the poor. The service rendered by a modern commercial bank is immeasurable. It enables large payments to be made over the world through e-banking.

The Government of India has taken a decision to include that part of the population which is not availing itself of the services in the fold of monetary products and services. Reserve Bank of India (RBI) initiated the commercial banks to serve that segment of society in the rural India. There are certain initiatives taken by the commercial banks such as opening of No-frills accounts, Kisan Credit Card (KCC), General Credit Card (GCC), Over Draft (OD) facilities, appointment of Business Correspondents (BCs), Extension of Automated Teller Machine (ATM) centres etc., strengthening the lead bank scheme, opening the ultra small branches, automation of branches, and speedy services. Today the banks are more willing to cover the financially excluded segment of society by extending both their operations and acquiring of customers. In this respect, the banks have taken financial inclusion initiative on the basis of villages covered over the population of 2000, between the population 1600 and 2000, and the population below 1600 in India. In addition, Regional rural banks and Co-operative banks are also initiated by RBI through various commercial banks and NABARD respectively for attaining full financial inclusion in India.

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Review of Literature

The financial inclusion across the world has created a major impact on the development of the economy and several studies have been carried out by the researchers to establish these effects. Sarma, M. (2008) presented the index of financial inclusion on the three basic dimensions of an inclusive financial system: banking penetration (BP), availability of the banking services (BS) and usage of the banking system (BU). The analysis revealed that inducing the rural households through formation and nurturing self-help groups, giving higher education and providing adequate infrastructure especially bank branches/offices and irrigation facilities would positively influence financial inclusion from both deepening and widening perspectives. Goyal, C.K. (2008) analyzed the status of financial inclusion in Assam and North eastern Region (NER), and India as a whole revealed that branch distribution per sq km in the states is quite unfavourable for the region compared to the Indian average, which denies the advantage of lower APPBO (Average Population per Branch Office) to some of the states. In Assam, each bank branch covered an area of 62 sq km, whereas in Arunachal Pradesh a single branch covered 1,232 sq km. The average for the NER (131 sq km) is around thrice that of the national figure of 47 sq km. Thyagarajan. S, et al. (2008) found that around 47 percent of the households did not have bank accounts so far. The reasons for possible unwillingness could be that many villages were as far as 15-20 kms. from the branches; many households might not be in a position to save and use the accounts; some branches were not willing to open the accounts as these new accounts would not be profitable; there was absolute lack of financial education among the households; so governmental agencies, voluntary intermediaries like the SHGs/ NGOs, and most importantly the bank staff concerned ended in non-inclusion of many households in the banking net. Rangarajan, C. (2008) report recommends, The National Rural Financial Inclusion Plan (NRFIP), Business Facilitator (BF) / Business Correspondent (BC) Models, Self-help Group (SHG) - Bank Linkage Programme, MFIs and the credit and financial services delivery system to achieve greater inclusion by modifying the credit delivery system of the banks and other related institutions to meet the credit requirements of marginal and sub-marginal farmers and other entrepreneurs in the rural areas. While banks and other financial institutions make some efforts on their own to improve the absorptive capacity of the clients, it is equally important for Government at various levels to initiate action to enhance the earning capacity of the poorer sections of society. The report of Mehrotra, N, et al. (2009) concluded that Financial Inclusion is one such intervention that seeks to overcome the frictions that hinder the functioning of the market mechanism to operate in favour of the poor and underprivileged, and for achieving comprehensive financial inclusion, the first step is to achieve credit inclusion for the disadvantaged and vulnerable sections of our society.

Research Methodology

The purpose of the study is to understand the present position / effectiveness of Financial Inclusion initiatives taken by the commercial banks viz., Public Sector Banks, Private Sector Banks and Foreign Banks in India. The secondary sources of information with respect to the number of commercial banks / branches, employees, business per employee, profit per employee, deposits, advances, investments, interest income, other income, interest expended and operating expenses, etc., were collected from the source (official website of RBI) www.rbi.org.in. The quarterly data pertaining to above mentioned variables were used for a period of seven years from 2005 to 2012. Statistical techniques like mean, standard deviation and ANOVA were used to interpret the results.

Analysis and Interpretations

ANOVA is used to analyze the differences between group means and their associated procedures. It is therefore applied to identify the differences among the commercial banks viz., Public Sector Banks, Private Sector Banks and Foreign Banks on Financial Inclusion initiatives taken by them in India.

Table – 1: One Way ANOVA for Public Sector Banks (PSBs), Private Sector Banks (PvtSBs) and Foreign Banks (FBs) in India

		Mean	Std. Deviation	Std. Error	F	Sig.
Branch Penetration (in Numbers)	PSBs	57507.12	7469.71	2640.94	361.45	**0.000*** **
	PvtSBs	9148.75	2680.39	947.66		
	FBs	286.75	28.64	10.12		
	Total	22314.20	26058.05	5319.07		
$H0_1$: There is no significant difference among the Banks in Branch Penetration						
Employees Penetration (in Numbers)	PSBs	740969.87	17017.42	6016.56	1542.66	**0.000*** **
	PvtSBs	157329.37	44104.95	15593.45		
	FBs	26897.37	3827.07	1353.07		
	Total	308398.87	318229.37	64958.29		
$H0_2$: There is no significant difference among the Banks in Employees Penetration						
Business per Employee Penetration (Rs. in Millions)	PSBs	68.84	30.67	10.84	9.23	**0.001*** **
	PvtSBs	78.00	13.02	4.60		
	FBs	124.29	34.42	12.17		
	Total	90.38	36.24	7.39		

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H0$_3$: There is no significant difference among the Banks on Business per Employee Penetration						
Profit per Employee Penetration (Rs. in Millions)	PSBs	0.41	0.16	0.05	26.38	**0.000*** **
	PvtSBs	0.65	0.23	0.08		
	FBs	2.06	0.79	0.28		
	Total	1.04	0.87	0.17		
H0$_4$: There is no significant difference among the Banks on Profit per Employee Penetration						
Deposits Penetration (Rs. in Millions)	PSBs	29607896.84	13105525.10	4633502.83	28.85	**0.000*** **
	PvtSBs	7133287.32	2870181.71	1014762.47		
	FBs	1882439.02	660805.58	233630.05		
	Total	12874541.06	14345660.98	2928295.78		
H0$_5$: There is no significant difference among the Banks on Deposits Penetration						
Advances Penetration (Rs. in Millions)	PSBs	21676281.86	10710112.16	3786596.46	22.56	**0.000*** **
	PvtSBs	5548936.90	2465324.78	871623.93		
	FBs	1517944.68	504900.14	178509.15		
	Total	9581054.48	10769935.34	2198403.84		
H0$_6$: There is no significant difference among the Banks on Advances Penetration						
Investments Penetration (Rs. in Millions)	PSBs	9816104.56	3372379.50	1192316.20	37.30	**0.000*** **
	PvtSBs	3028944.04	1288765.50	455647.41		
	FBs	1151568.76	577366.59	204129.91		
	Total	4665539.12	4303732.10	878495.63		
H0$_7$: There is no significant difference among the Banks on Investments Penetration						
Interest Income	PSBs	2581805.53	1252579.97	442853.89	21.65	**0.000*** **
	PvtSBs	725770.26	352251.47	124539.70		

Data Source: www.rbi.org.in | Computed by Researcher
*** Significant at 1% level

The results from the above table show the initiatives taken by the Public Sector Banks, Private Sector Banks and Foreign Banks on financial inclusion showing a significant difference. H0$_1$ is rejected, stating the Branch Penetration of PSBs, PvtSBs and FBs are significantly different at 1% level of significance, in which PSBs mean value is greater than the total mean value of all the three banks. H0$_2$ is rejected, at 1% level of significance the Employees Penetration of PSBs, PvtSBs and FBs are significantly different indicating PSBs mean value is more than two hundred times of the total mean value of all the three. H0$_3$ has been rejected, where the Business per Employee Penetration of PSBs, PvtSBs and FBs were Rs.68.84, Rs.78.00 and Rs.124.29 out of Rs.90.38 as a total average mean score. In this the Foreign Banks have a greater mean score compared to Public and Private Sector Banks. H0$_4$ is rejected, where the Profit Per Employee Penetration of PSBs, PvtSBs and FBs were Rs.0.41, Rs.0.65 and Rs.2.06 out of Rs.1.04, once again here the foreign banks dominate over the public and the private sector banks, and two hundred times of the overall profit per employee of the total banks indicating the profit per employee with respect to the foreign banks are overriding. $H0_5$ has been rejected; Deposits Penetration of PSBs is higher compared to the PvtSBs and FBs due to the large number of branches held by the PSBs. $H0_6$ is rejected: Advances Penetration of PSBs, PvtSBs and FBs, where the PSBs advances mean score, is significantly higher providing several advances for different customers unlike the other two. The mean advances of PSBs, PvtSBs and FBs are Rs.21676281.86, Rs.5548936.90 and Rs.1517944.68 respectively. $H0_7$ is rejected at 1% level of significance; Investments Penetration of PSBs, PvtSBs and FBs are Rs.9816104.56, Rs.3028944.04 and Rs.1151568.76 respectively where the PSBs Investments supersede the other PvtSBs and FBs. $H0_8$ is rejected, where the Interest Income Penetration of PSBs, PvtSBs and FBs were significantly different at 1% level. $H0_9$ has been rejected; the Other Income Penetration of PSBs was leading over the PvtSBs and FBs. $H0_{10}$ is rejected: Interest Expended Penetration of PSBs, PvtSBs and FBs were significantly different with the mean scores of Rs.1706511.95, Rs.464035.92 and Rs.93716.38 respectively. $H0_{11}$ has been rejected: Operating expenses Penetration of PSBs, PvtSBs and FBs were Rs.578781.09, Rs.202352.89 and Rs.97352.16 respectively, having a significant difference at 1% level in India. The mean scores show that Public sector banks dominate over the private sector Banks and Foreign banks on all the parameters excepting the two parameters, namely business per employee and profit per employee, in which the domination is by the foreign banks.

Conclusion

Banks should adopt steps to impart technological and financial education that helps in creating awareness about the financial products and services. To attain complete financial inclusion Bankers also should encourage the vulnerable population to get into the banking net. Moreover, the banks should concentrate on financial inclusion of low-income groups, thereby creating business opportunity to the banks. Financial Inclusion Initiatives taken by the Commercial Banks in India are predominantly good in terms of certain measures like Branch Penetration, Employees Penetration, Business Per Employee Penetration, Profit Per Employee Penetration, Deposits Penetration, Advances Penetration, Investments Penetration, Interest Income Penetration, Other Income Penetration, Interest Expended Penetration and Operating expenses Penetration among the Public Sector Banks, Private Sector Banks and Foreign Banks. From the above study it is evident that the contribution of Public Sector Banks on Inclusive measures is predominantly more than that of the Private Sector Banks and Foreign Banks. Henceforth, the RBI and the GOI should bring out policy measures for the Private Sector Banks and the Foreign Banks to concentrate and achieve full financial inclusion in equivalent to Public

Sector Banks.

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