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ASSESSING THE IMPACT OF FINANCIAL INCLUSION ON BANKING SYSTEM

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ABSTRACT

Financial Inclusion entails the delivery of banking services at an affordable cost across a vast section of the underprivileged. Financial inclusion means inculcating banking habits among the less privileged in the urban and rural areas and winning them over from the unorganized sector such as moneylenders. But the path of financial inclusion continues to be extremely daunting given the complexities involved with it. The reforms in the financial sector are meant to meet two major objectives, which is profitability of the financial institutions which participate in it and servicing the needs of the real economy with due consideration to principles of equity. Overall, Government has taken several initiatives to include the unbanked part of the population. The paper also explains the further opportunities, scope and challenges for financial inclusion. The paper concludes that financial inclusion plays a major role in driving away the poverty from the country. In India a day will come when all Indian have their bank accounts and everybody will take part in financial inclusion. The research has made a study to analyze the financial inclusion initiatives are effectively reach the rural peoples.

Keywords: *Financial Inclusion, Financial Exclusion, Business Correspondents, Kccs, Gccs, Money-Lenders, Dimensions.*

I. INTRODUCTION

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The goal of financial inclusion as follows

- Reasonable cost of access the financial service
- Sound and safe governance of industry
- Sustainable development/ deregulation of industry
- Healthy competition

Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance

to the weaker section. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. Thus the term Financial Inclusion can be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The nations should takeover and remedy to reach the financial services to the weaker sections.

The Government of India and the Reserve Bank of India have traditionally played a large role in establishing banks and other financial infrastructure in order to increase who are excluded from the financial inclusion and access to the quality financial products. Banks and other top financial institutions such as National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) have supported and aided the government in a variety of ways towards this end.

The following several financial measures to be adopted by the Government of India.

1.1 Micro Finance

The RBI and NABARD have supported the propagation of micro finance considerably through the SHG-Bank Linkage Programme (SBLP) and have designed incentives to support micro finance institutions in forming Joint Liability Groups (JLGs). Commercial Banks are incentivised to lend to Micro finance institutions (MFIs) by placing MFIs under priority sector lending (PSL).PSL requirements mandate banks to ensure that 40% of their aggregate net banking credit goes to stipulated sectors that are considered important to foster financial inclusion.

1. Self Help Group

Self Help Group Bank Linkage Programme (SBLP): Designed and developed by the NABARD to promote and link Self Help Groups (SHGs) to banks in 1992, NABARD still supports this initiative by refinancing and promoting stakeholders such as banks, Non-Government Organizations (NGOs), and other government agencies and departments.

2. Induction of SHG-2 Model

NABARD has recently acknowledged SHG's inadequate outreach in many regions in recent years, delays in opening of savings accounts and disbursement of loans, and non-approval of repeat loans even when first loans are repaid on time9. This has motivated NABARD to prepare a strategy to

revitalize the SHG movement leading with the induction of SHG-2 model. While the primary function of the SHG-2 model continues to be the promotion of savings-led credit product, some additional features have been added such as:

• Voluntary savings apart from compulsory savings
• Allowing the sanction of a cash credit / overdraft system of lending for SHGs for a longer operational tenure, and
• Graduating selected members of the group that have entrepreneurship potential into a joint liability groups for borrowing larger amounts.

3. Women SHGs Development Fund

The Union Budget 2011-2012 has proposed to set up a "Women's SHG's Development Fund" with a corpus of Rs. 500 crore. The GoI created this fund to empower women and promote their SHGs11 and it is operated by NABARD12 through its two major microfinance funds- Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).

The FIF primarily supports capacity building inputs to service providers, resource centres, training institutes, financial institutions as well as promoting and nurturing SHGs. This fund will also support pilot projects for development of innovative products, processes and prototypes for financial inclusion. Likewise, FITF promotes technology innovation and solutions as well as research relating to technological interventions for financial inclusion.

4. No-Frills Accounts (NFAS)

The RBI in its annual policy statement expressed the concerns of banking policies and practices that "tend to exclude rather than attract vast sections of the population" The RBI urged banks to review their existing practices to align with the objective of financial inclusion by providing all "un banked" households in a district, with savings account by opening "no-frills" account (NFAs) with nil or very low minimum balance. While opening such bank accounts, banks are asked to relax their KNOW YOUR CUSTOMER (KYC) norms for individuals who do not foresee having more than Rs. 50,000 in all their combined accounts and whose annual total borrowing will not exceed more than Rs. 1,00,000. In addition, the RBI also announced a targeted drive for financial inclusion throughout the country, wherein each household would receive one 'no frills' bank account.

5. General Purpose Credit Cards (GCC) and Kisan Credit Cards (KCC)

The RBI has advised all Scheduled Commercial Banks (SCBs), including Regional Rural banks (RRBs) to provide General purpose Credit Card (GCC) facility at their rural and semi-urban branches. The credit card is provided based on the assessment of income and cash flow of the household similar to that prevailing under normal credit cards. Likewise, the RBI has also introduced Kisan Credit Cards (KCC) scheme to provide adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs.

6. Swarnjayanti Gram Swarozgar Yojana (SGSY):

It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

II. REVIEW OF LITERATURE

Mahadeva .M (February 2008), has published an article entitled "Financial Growth in India: Whether Financial Inclusion?" The author suggests that the financial inclusion, in any economy, is a precondition for achieving industrial growth and overall development. On the demand side, lack of awareness, illiteracy, unemployment, low income status, social exclusion of people etc are some of the major hindrances for financial inclusion. Some alternative measures may come in term of re-examine credit needs of people, maintaining a good relation between financial institution and rural inhabitants, building strong links between financial institutions and rural-based institutions, creating a financial inclusion fund under the NABARD and initiating a special motivational training to the workforce.

Shashikumar .T .P, Rangaswamy .K and Kiran .S .P (January - June 2013) have published an article entitled "Financial Inclusion in India: An Overview". The researchers discussed about the issues and challenges involved in financial inclusion for inclusive growth and have also successfully attempted to highlight the factors that can aid in achieving financial inclusion for inclusive growth in India. Financial inclusion is one such intervention that seeks to overcome the frictions that hinder the functioning of the market mechanism to operate in favors of the poor and underprivileged.

Sunil Ram Gaikwad (August 2012) has published an article entitled "Successful Role Played by State Bank of India in Promoting Financial Inclusion in India". The author discussed about the role of SBI to achieve the financial inclusion in rural areas. He also found that SBI is one among the largest third employers in India and also concluded with SBI plays on vital role for achieving financial inclusion in India.

Shital Bhatt (April 2012) has published an article entitled "Kisan Credit Card an Instrument for Financial Inclusion". The researcher concluded that the role of kisan credit card as an instrument for financial inclusion and the progress made so far. Kisan credit card has emerged as an innovative and indispensable credit delivery mechanism to meet the credit needs of formers in a timely and hassle free manner. Right from its inception the former are enjoying the embedded advantages.

Swapan Kumar Roy (October 2012) has published an article entitled "Financial Inclusion in India: An Overview". The author focused on the majority of the people living in rural areas remains from the purview of the financial institutions even after 64years of independence. To bring a large segment of the society under the umbrella of financial inclusion, banks have setup their branches in remote corners of the country India's fastest growing economics have become possible through financial inclusion. In spite of that, still there are large segments of the society outside the financial system.

Pardeep Kumar and Charu Saxena Sharma (November 2011) have published an article entitled "People Empowerment and Financial Inclusion through Microfinance in India". The authors concluded that the microfinance has an evolving role in the empowerment of people and the realization of financial inclusion India. While microfinance continues to be the center offering financial services to low income population, it has been proactive in the process of inclusive growth in India by innovative approaches. Accessibility, accountability and sustainability in all operations will help the MFIs to lift themselves as social engineers, effectively.

III. STATEMENT OF THE PROBLEM

Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. An inclusive financial system has several merits. It facilitates efficient allocation of financial service to the vulnerable groups. The importance of an inclusive financial system is widely recognized in the policy circle and recently financial inclusion has become a policy priority in many countries. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. The Indian banking sector

has also taken a lead role in promoting financial inclusion. Therefore, an attempt has been made by the researcher to analyse the financial inclusion prospects of rural areas.

IV. SCOPE OF THE STUDY

The equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations. The weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilized for the capital formation and growth of the economy.

V. OBJECTIVES OF THE STUDY

1. To explore the need and significance of financial inclusion for economic and social development of society.
2. To analyse the status of financial inclusion in rural areas.
3. To study the access of rural people to bank branches and the number of ATM opened in those areas.
4. To study the expectation of rural peoples about the financial services.
5. To measure the perception level rural people towards the financial services.

5.1 THE CUSTOMER EXPECTATION OF FINANCIAL INCLUSION

The study of relationship between socio-economic variables has further brought to the customer expectation. The details are presented in the following table

5.1 Customer Expectation

S. No.	Customer Expectations	S.A.	A.	N.O.	D.A.	S.D.A	Total
i.	I have satisfied with the services provided by the banks.	68	58	38	27	7	**198**
i.	The SHG/NGO doing a good work for financial Education of the villagers.	36	71	53	24	14	**198**
i.	The Government doing satisfactory work for financial Inclusion.	29	48	56	33	32	**198**
v.	I am satisfied with the products which are offered by the banks.	17	52	46	52	28	**198**

Source: Primary Data

The table 5.1 shows that, out of 198 respondents about the customer expectation in financial services. It is understand from that for the statement serial number one customers say strongly agree, for the statements serial number two and four customers feel agree, for the statement serial number three customers say no opinion and the statement serial number four customers say disagree.

5.2 IDENTIFICATION OF LEVEL OF EXPECTATION TOWARDS FACTORS AFFECTING THE CUSTOMER EXPECTATION OF FINANCIAL INCLUSION

The scores are assigned in the order of 5 for 'highly satisfied', 4 for 'satisfied', 3 for 'no opinion', 2 for 'dissatisfied' and 1 for 'highly dissatisfied'. The score value for every respondent is obtained. The level of customer expectation has been classified into three categories, namely, low level, moderate level and high level for analytical purpose. While the score value of the respondent ≥ ($\bar{x}$+SD) and the score values of the respondent ≤ ($\bar{x}$+SD) have been classified as high level customer expectation and low level customer expectation respectively and the score values between ($\bar{x}$+SD) and ($\bar{x}$-SD) have been classified as medium level customer expectation. $\bar{x}$ and SD is the arithmetic mean and standard deviation which are calculated from the score values of 198 respondents. The arithmetic mean and standard deviation are 10.83 and 3.48, respectively.

- ($\bar{x}$+SD) = (10.83+3.48) = 14.31and above – High level.
- ($\bar{x}$-SD) = (10.83-3.48) = 7.35 and less – Low level.
- ($\bar{x}$-SD) to ($\bar{x}$+SD) = (14.31 to 7.35) – Medium level.

5.2 Level of Expectation of Customer in Financial Inclusion

Factors Affecting Customer Expectation

S. No.	Level of Customer Expectation	No. of Respondents	Per Cent to Total
i.	Low	26	13.1
ii.	Medium	128	64.6
iii.	High	44	22.2
Total		**198**	**100.00**

Source: Computed Primary Data

From table 5.2 , it is cleared that out of 198 respondents, 26 of them (13.1 per cent) fall under the category of low level expectation, 128 of them (64.6 per cent) come under the category of medium level expectation and the remaining 44 of them (22.2 per cent) fall under the category of high expectation.

In the table 5.2 makes it clear that 64.6 per cent of the respondents have medium level of expectation towards factors affecting customer expectation.

5.3 INTEREST OF RESPONDENTS ON THE VARIOUS SERVICES

The researcher has gathered information regarding difficulties faced by the respondents while availing the various services. The details are presented in the following table

5.3 Interest of Respondents on the Various Services

S. No.	Interest in Various Services	Availed	Aware	Disaware	Total
i.	Deposit/withdrawing cash	107	4	87	**198**
ii.	Passbook	131	3	64	**198**
iii.	Cheque book	85	36	77	**198**
iv.	Loans	85	40	73	**198**
v.	Overdraft	73	59	66	**198**
vi.	General Credit Card/ Kissan Credit Card	81	75	42	**198**
vii.	ATM Card	75	27	96	**198**
viii.	Online Payment	83	51	64	**198**
ix.	Internet Banking	66	80	52	**198**
x.	Mobile Banking	75	80	43	**198**

Source: Primary Data

In this table 5.3 reveals that interest of respondents on the various services. It is understand from that for the statements serial number one, two, three, four, five, six and eight customers say availed, for the statements serial number nine and ten, customers feel aware and the statement serial number seven customers say disaware.

5.4 LEVEL OF FINANCIAL INCLUSION

The scores are assigned in the order of 3 for 'availed', '2 for 'aware' and 1 for 'disaware'. The score value for every respondent is obtained. The level of customer expectation has been classified into three categories, namely, low level, moderate level and high level for analytical purpose. While the score value of the respondent ≥ ($\bar{x}$+SD) and the score values of the respondent ≤ ($\bar{x}$+SD) have been classified as high level customer expectation and low level customer expectation respectively and the score values between ($\bar{x}$+SD) and ($\bar{x}$-SD) have been classified as medium level customer expectation.

$\bar{x}$ and SD is the arithmetic mean and standard deviation which are calculated from the score values of 198 respondents. The arithmetic mean and standard deviation are 20.99 and 3.54, respectively.

- ($\bar{x}$+SD) = (20.99+3.54) = 24.53and above – High level.
- ($\bar{x}$-SD) = (20.99-3.54) = 17.45 and less – Low level.
- ($\bar{x}$-SD) to ($\bar{x}$+SD) = (24.53 to 17.45) – Medium level.

5.4 Level of Financial Inclusion

S. No.	Level of Financial Inclusion	No. of Respondents	Per Cent to Total
i.	Low	24	12.12
ii.	Medium	138	69.70
iii.	High	36	18.18
Total		**198**	**100.00**

Source: Computed Primary Data

From the above table 5.4, it is cleared that out of 198 respondents, 24 of them (12.12 per cent) fall under the category of low level of financial inclusion, 138 of them (69.70 per cent) come under the category of medium level of financial inclusion and the remaining 36 of them (18.18 per cent) fall under the category of high expectation.

It is clear that 69.70 per cent of the respondents have medium level of expectation towards financial inclusion.

V. SUGGESTIONS

After having a through analysis, the following suggestions are made to improve financial inclusion rural areas. The rural customers are lack in their awareness about the financial services. Hence, the banker should conduct the awareness about this service. Now a day's ATM is very important one for the day to day man activities. Banks have no ATM facilities in rural area, it's very big drawback for banks. Therefore it's suggested to open more ATMs in rural areas. The bankers should concentrate the complaints of customers and be rectified as early as possible.

VI. CONCLUSION

India's geopolitical location is such that the financial crises present it with many challenges as well as opportunities. The extent to which India will be able to tackle the challenges and make the most of the opportunities is impossible to predict at present at this juncture, India needs to think unconventionally to deal with an unconventional crisis. It must take care of not just its domestic affairs but also those of its neighbourhood to be able to implement its growth and development policies. 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. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.

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