Financial Inclusion Plans And Its Performance

Evaluation

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Global Impact Factor (2013)= 0.326 (By GIF)

Indexing:
ABSTRACT

In India, where a large section of the population still lives outside the ambit of formal financial services, the need to focus on inclusion is of paramount importance. Financial Inclusion is a key enabler of economic and social development. Financial Inclusion is a vital component of Government of India’s agenda and also a priority of Reserve Bank of India. The effectiveness of Financial Inclusion agenda can be significantly enhanced if there are objective way to evaluate its performance. The government of India has launched number of financial inclusion plans such as Pradhan Mantri Jan Dhan Yojana and Atal Pension Yojana intended at widening the process of financial inclusion. The Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Yojana have been launched by Govt. of India towards comprehensive social security for all citizens of the country. The Financial Inclusion Plans envisages products to be offered to customers such as No-frill zero balance savings account, Recurring deposits, Overdraft facility, Remittance facility, Kisan Credit Card, General purpose Credit Card. The financial inclusion will be of great help to the stackeholders such as policy makers, regulators, and financial services intermediaries if these plans are evaluated rightly.

Key Words: Financial Inclusion, Financial Services Intermediaries, Development

FINANCIAL INCLUSION PLANS AND ITS PERFOERMANACE EVALUATION

ABSTRACT

In India, where a large section of the population still lives outside the ambit of formal financial services, the need to focus on inclusion is of paramount importance. Financial
Inclusion is a key enabler of economic and social development. Financial Inclusion is a vital component of Government of India’s agenda and also a priority of Reserve Bank of India. The effectiveness of Financial Inclusion agenda can be significantly enhanced if there are objective way to evaluate its performance. The government of India has launched number of financial inclusion plans such as Pradhan Mantri Jan Dhan Yojana and Atal Pension Yojana intended at widening the process of financial inclusion. The Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Yojana have been launched by Govt. of India towards comprehensive social security for all citizens of the country. The Financial Inclusion Plans envisages products to be offered to customers such as No-frill zero balance savings account, Recurring deposits, Overdraft facility, Remittance facility, Kisan Credit Card, General purpose Credit Card. The financial inclusion will be of great help to the stakeholders such as policy makers, regulators, and financial services intermediaries if these plans are evaluated rightly.

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INTRODUCTION

Financial Inclusion is at the centre stage of international policy discourse under the G-20 umbrella. More than fifty countries have set formal targets and goals of Financial Inclusion. The people living in these villages are compelled to pay four times the price we pay for them because they are not linked to formal financial system and have to rely on unreliable informal sector providers. The government is trying to penetrate into six lakh villages to cater to the financially excluded segment with the objective of providing banking services. If fifty percent of India’s population were to be financially included and
permitted to move from the marginal level to the main stream as producers and consumers of goods and services, consider the tremendous entrepreneurial energies which would be unleashed leading to a multiple effects on the economic growth of the poor. Considerable evidence is there which shows that poor people benefit immensely from basic payment, savings and insurance services e.g PMJDY an ambitious programme on financial inclusion launched by the Hon’ble Prime Minister on 28th August 2014. The accounts numbering 12.54 Crores have been opened under this scheme as on 31st January 2015. Out of these 7.50 crores accounts have been opened in rural areas whereas 5.04 have been opened in urban area. Further an amount to the tune of Rs. 10499.62 crores have also been deposited under this programme.

**OBJECTIVE OF THE STUDY**

The objective of the study is to portrait the success of Financial Inclusion Plans prepared by banks to penetrate into villages to cater to the financially excluded segment with the purpose of providing banking services.

**RESEARCH METHODOLOGY**

**Collection of data**

The research study is descriptive in nature and primarily based on secondary source of data. The secondary data is drawn from published sources, documents in connection with various legal statutes, official announcement in the press and the parliament, records and survey published by official agencies such as Reserve Bank of India, Ministry of Finance, National Institution for Transforming India, Aayog (NIITI Aayog), Pension Fund
Regulatory and Development Authority (PFRDA) and National Bank for Agriculture and Rural Development (NABARD). Reports of various expert committee submitted to the Government from time to time has also been studied. The purpose of it is to portrait the success of Financial Inclusion Plans prepared by banks to penetrate into villages to cater to the financially excluded segment with the objective of providing banking services.

**Period of Study**

The data for the period 2010 to 2014 is taken for the purpose.

**Data Analysis (Tools and Techniques)**

Trend Analysis has been used through pie Diagram, which is the simplest and easiest technique to find trend in data. The data has been analyzed using MS-Excel and some simple mathematical calculation like percentage, ratio etc. have been used.

**Limitations of the Study**

The scope for this study is limited to:

- The data collected belongs to secondary source of data only and primary data has not been included for the purpose.

**FINANCIAL INCLUSION PLANS**

The Govt. of India has taken a number of initiatives for bringing the financially excluded population within the ambit of the formal financial system. The Financial Literacy Centre's (FLC) numbering 942 have been set up in all the districts of the country for increasing financial awareness. Banks have been further advised to scale up financial literacy efforts through conducting outdoor Financial Literacy Camps, at least once a month, both by the FLCs and also by all the rural branches. In 2011 network of schedule commercial bank branches were 90850, the number of branches rose to 117200 in the
year 2014. All the banks were also directed to formulate financial inclusion plan with a view to further the cause of financial inclusion and increasing outreach and to provide financial and banking services. The RBI has directed lead banks to provide banking services through a banking outlet in unbanked/under banked village /underprivileged population either in the form of a branch or correspondent arrangements/business facilitators to achieve this objective. In turn all the lead banks drew up their Financial Inclusion Plan for three years ending FY 2013 to deliver financial services in unbanked area. The Central Bank also suggested that the following aspects ought to be incorporated in the financial inclusion plan.

- Plan for implementation of ICT & smart card based solution.
- Plans for including other villages with population less than 2000.
- Plan for seamless integration of ICT based banking with CBS solution.
- Plans for Urban Financial Inclusion.
- Plan for linkage with UIDAI for financial inclusion.
- Plan on financial literacy and awareness.
- Plans for training and capacity building.

The Financial Inclusion Plans envisages products to be offered to customers. These are:

- No-frill zero balance savings account.
- Recurring deposits.
- Overdraft facility.
- Remittance facility.
- Kisan Credit Card (KCC) / General purpose Credit Card (GCC);
- Advances towards SHG linkage.
**ANALYSIS AND INTERPRETATION**

Table 1: Financial inclusion plan coverage reflecting the progress made during 2010-2014

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year ended March 2010</th>
<th>Year ended March 2013</th>
<th>Year ended March 2014</th>
<th>Increase between 2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Outlets in Village – Branches</td>
<td>33,378</td>
<td>40,837</td>
<td>46126</td>
<td>5289</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Branchless Mode</td>
<td>34,316</td>
<td>2,27,617</td>
<td>33768</td>
<td>110061</td>
</tr>
<tr>
<td>Banking Outlets in Villages – Total</td>
<td>67,694</td>
<td>2,68,454</td>
<td>383804</td>
<td>115350</td>
</tr>
<tr>
<td>Urban Locations covered through BCs</td>
<td>447</td>
<td>27,143</td>
<td>60730</td>
<td>33587</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (No. in million)</td>
<td>60.19</td>
<td>100.80</td>
<td>126.03</td>
<td>25.23</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through branches (Amt. in Rs. billion)</td>
<td>44.33</td>
<td>164.69</td>
<td>273.29</td>
<td>108.60</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through BCs (No. in million)</td>
<td>13.27</td>
<td>81.27</td>
<td>116.93</td>
<td>35.66</td>
</tr>
<tr>
<td>Basic Savings Bank Deposit A/c through BCs (Amt. in Rs. billion)</td>
<td>10.69</td>
<td>18.22</td>
<td>38.95</td>
<td>20.73</td>
</tr>
<tr>
<td>BSBDAs Total (No. in million)</td>
<td>73.45</td>
<td>182.06</td>
<td>242.96</td>
<td>60.90</td>
</tr>
<tr>
<td>BSBDAs Total (Amt. in Rs. billion)</td>
<td>55.02</td>
<td>182.92</td>
<td>312.25</td>
<td>129.33</td>
</tr>
<tr>
<td>OD facility availed in BSBDAs (No. in million)</td>
<td>0.18</td>
<td>3.95</td>
<td>5.92</td>
<td>1.97</td>
</tr>
<tr>
<td>OD facility availed in BSBDAs (Amt. in Rs. billion)</td>
<td>0.10</td>
<td>1.55</td>
<td>16.04</td>
<td>14.49</td>
</tr>
<tr>
<td>KCCs – (No. in million)</td>
<td>24.31</td>
<td>33.79</td>
<td>39.94</td>
<td>6.15</td>
</tr>
<tr>
<td>KCCs – (Amt. in Rs. billion)</td>
<td>1240.08</td>
<td>2622.98</td>
<td>3684.49</td>
<td>1061.51</td>
</tr>
<tr>
<td>GCC- (No. in million)</td>
<td>1.39</td>
<td>3.63</td>
<td>7.43</td>
<td>3.80</td>
</tr>
<tr>
<td>GCC - (Amt. in Rs. billion)</td>
<td>35.11</td>
<td>76.34</td>
<td>1096.89</td>
<td>1020.55</td>
</tr>
<tr>
<td>ICT A/Cs-BC- Transaction - (No. in million)</td>
<td>26.52</td>
<td>250.46</td>
<td>328.57</td>
<td>328.57</td>
</tr>
<tr>
<td>(During the Year)</td>
<td>26.52</td>
<td>250.46</td>
<td>328.57</td>
<td>328.57</td>
</tr>
<tr>
<td>ICT A/Cs-BC- Transactions - (Amt. in Rs. billion) (During the Year)</td>
<td>6.92</td>
<td>233.88</td>
<td>524.37</td>
<td>524.37</td>
</tr>
</tbody>
</table>

**Source:** Reserve Bank of India
Table 2: Branch network of schedule commercial banks branches in country during 2010-14

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>Semi</th>
<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>33927</td>
<td>23079</td>
<td>17606</td>
<td>16238</td>
<td>90850</td>
</tr>
<tr>
<td>2012</td>
<td>36540</td>
<td>25816</td>
<td>18855</td>
<td>17246</td>
<td>98457</td>
</tr>
<tr>
<td>2013</td>
<td>39794</td>
<td>28511</td>
<td>19900</td>
<td>18062</td>
<td>106267</td>
</tr>
<tr>
<td>2014</td>
<td>45152</td>
<td>31433</td>
<td>21428</td>
<td>19187</td>
<td>117200</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India

Graph 1: Showing branch network of schedule commercial banks in the country during 2010-2014

Graph 2: Showing banking outlet in villages through branches and branchless mode 2010-2014

Graph 3: Showing basic savings bank deposit a/c through branches and business correspondent during 2010-2014 (in millions)
Graph 4: Showing basic savings bank deposit a/c through branches and business correspondent during 2010-2014 (amount in millions)

Graph 5: Showing status report of Kisan Credit Cards during 2010-14

Graph 6: Showing status report of General Credit Cards during 2010-14
FINDINGS:

i) In 2011 network of schedule commercial bank branches were 90850. In the year 2014 the number of branches rose to 117200. It means overall 29% braches were added during the cited period.

ii) The research shows that in terms of percentage the maximum increase is noted in the semi area (27%) whereas in semi urban area, urban area, metropolitan area stand 2nd, 3rd and 4th respectively.

iii) The number of banking outlets in villages has increased to nearly 384,000. Out of these, 115,350 banking outlets were opened during the year – 2013-14.

iv) Nearly 4,600 branches were opened in unbanked rural centre out of 5,300 rural branches opened during the last one year.

v) Nearly 33500 BC outlets were opened in urban locations during the year taking total number of BC outlets in urban locations to 60730 at the end of March 2014.

vi) 6.15 million Kisan Credit Cards were added during the last year taking the total number of Kisan Credit Card to 39.94 million.
vii) Similarly amount to the tune of Rs.1061.51 billions were given during the period taking the total amount of Kisan Credit Card to 3684.49 billion

viii) More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.

ix) With the addition of 6.2 million small farm sector credits during the year 2013-14, there are 40 million such accounts as on March 31, 2014.

x) With the addition of 3.8 million small non-farm sector credits during the year 2013-14, there are 7.4 million such accounts as on March 31, 2014.

xi) The transactions numbering 328 millions were carried out in BC-ICT accounts during the last year as compared to 250 million transactions during 2012-13.

xii) A large banking network has been created and a large number of bank accounts have also been opened under Prime Minister Jan Dhan Yojana.

xiii) As per the print media and electronic media observation the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions.

RECOMMENDATIONS

- Banks have to think and act differently and make themselves more flexible so as to meet even the smallest requirements of the rural population.
- Banks need to move from a cost centric model to a revenue generating model by offering a bouquet of deposit, credit and other products and services.
• The products and services should be designed in such a way that it suits the needs of people in unbanked rural areas.

• More and more innovative products will have to be introduced which would benefit both banks as well as the rural people and at the same time make the BC model more viable.

• While improving financial literacy is a necessary step in protecting consumer from exploitation or exclusionary practices, it is not a sufficient step.

• The active involvement of all stakeholders and the commitment from all the people is recommended for outreaching banking services in the unbanked areas.

• Banks are advised to use the literacy material as a standard curriculum to impart basic conceptual understanding of financial products and services.

CONCLUSION

The government is trying to penetrate into six lakh villages to cater to the financially excluded segment with the objective of providing banking services. The RBI directed lead banks to provide banking services in unbanked/under banked area. In turn all the lead banks drew up their Financial Inclusion Plan for three years ending FY 2013 to deliver financial services in unbanked area. Though, the number of BC-ICT transactions has shown a considerable increase during the last year the average transaction per account still remains low. The focus of monitoring should now more on usage of these accounts through issuing of more credit products. The accounts numbering 12.54 Crores were opened under PMJDY as on 31st January 2015. The print as well as electronics media reports show that only 50% of these bank accounts are active. In order to increase
transactions, implementation and monitoring of financial inclusion targets should focus on usage of bank accounts, and expand beyond transfer payouts. There should be clear communication to customers through SMS e-mail about the mission and banks should be incentivised to provide appropriate products that increase usage for maximum inclusion of unbanked citizen.

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