CHAPTER IV

EXTENT OF FINANCIAL INCLUSION AND BANKING SECTOR

EXTENT OF FINANCIAL INCLUSION AND BANKING SECTOR

In this chapter, under section I, an effort has been made to sketch the initiatives undertaken by the Government of India and the Reserve Bank of India since independence. Under section II, the researcher has reviewed and assessed the extent of financial inclusion/exclusion in rural areas of Tamilnadu and banking sector development in India and Tamilnadu in particular.

Section – I

4.1 Financial Inclusion Initiatives in India:

Phase I (The Post-Independence period till 1991):

The Government of India and Reserve Bank of India intensified the efforts to raise banking penetration since independence in the following manner.

- A wide network of rural cooperative banks was established in 1950's with an objective of leveraging nationwide deposits and savings in the direction of agriculture, small-scale and cottage industries.
- The State Bank of India was formed in 1955 by following the recommendations of All India Rural Survey Committee (AIRSC) to form a state sponsored bank.
- Fourteen major commercial banks were nationalized in 1969, subsequently another six banks in 1980 with the aim of extending the reach of organized banking services to rural. It marked a paradigm shift in banking sector specifically from class banking to mass banking, facilitated the speedy expansion of the banking system to hitherto unbanked areas.
- Lead Bank Scheme (LBS) was introduced in December 1969.
- The priority sector guiding principles were issued to the banks by the Reserve Bank of India to raise the flow of bank credit to the abandoned sectors.

- Differential Rate of Interest (DRI) Scheme was initiated in 1972 to afford credit at concessional rate to low income groups of people.
- Branch licensing policy was introduced during 1970s and 1980s.
- Regional Rural Banks (RRBs) were established in 1975 to provide credit to the segments of the rural area, which necessitate simple, flexible and small-sized financial products in very huge numbers.
- In the year 1977, 1:4 license rule was established which dictated that a bank could open a branch in a banked locality only after opening four branches in unbanked localities to enhance the number of bank branches in unbanked areas.
- National Bank for Agriculture and Rural Development (NABARD) was established in 1982, as an apex-level organization to deal by means of all issues associated to agriculture and rural development.
- The Service Area Approach scheme was announced to provide new approach to rural lending.

The above initiatives resulted in a rapid development of formal financial system in India from 1969 to 1991. The importance of the informal sector also declined with the spread of the banking system to rural areas.

Phase II (Post-Reform Period 1991-2005):

The focal point of banking policy during the 1990s and till the middle of the first decade of twenty-first century was more on creating a strong and efficient banking system. Financial inclusion in this stage was encouraged mostly by introducing a Self-help Groups (SHGs) - Bank Linkage Programmes (BLPs) in the year 1992 and originating the Kisan Credit Cards (KCCs) scheme in 2001 for providing credit to farmers. The following are the important initiatives during this stage:

- To bring financially excluded people within the fold of formal financial sector, a special focus was given to Micro Finance Institutions.

- During 1992, NABARD, with policy support from the Reserve Bank of India, commenced the SHG-Bank Linkage Programmes to facilitate combined decision making by the poor and to make available 'door step' banking.

- In 1998, banks were directed to open savings bank accounts of the SHGs that were occupied in promoting the savings habits among their members.

- During the year 1998-99, NABARD introduced the Kisan Credit Card (KCC) scheme by combining with Co-operative Banks, Commercial Banks and RRBs to smoothen and strengthen the credit delivery system to the farmers.

- The Swarozgar Credit Card (SCC) scheme was also introduced by NABARD in 2003 for facilitating hassle free credit to meet investment and working capital requirements of small borrowers and rural micro-entrepreneurs such as small artisans, handloom weavers, fishermen, self employed persons, rickshaw owners and SHGs.

Phase III (Recent Initiatives - 2005 onwards):

The Reserve Bank of India in its Annual Policy Statement for 2005-06 clearly used the term 'financial inclusion' for the first time in India and new emphasis on the objective of bringing financially excluded people within the fold of the banking sector.

4.1.1 The Government of India:

i. Committee on Financial Inclusion:

The government has constituted two funds viz., Financial Inclusion Fund (FIF) to meet the cost of developmental and promotional interventions of financial inclusion and Financial Inclusion Technology Fund (FITF) to meet the cost of technology adoption.

ii. High Level Committee on Financial Sector Reforms:

In 2007, the Planning Commission constituted a High Level Committee on Financial Sector Reforms under the Chairmanship of Dr. Raghuram G. Rajan with a focus on identifying future challenges in meeting financial needs of the Indian economy as a whole and also emphasised the strategies for achieving financial inclusion.

iii. Revival of Rural Co-operative Credit Institutions:

As per the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions under the Chairmanship of Shri A. Vaidyanathan, the Government of India approved a package for revival of the short-term rural co-operative credit structure to reinforce the rural credit delivery system.

iv. Implementation of Electronic Benefit Transfer (EBT):

Transfer of government benefits electronically (Electronic Benefit Transfer) all the way through banks directly to the bank account of the beneficiary by leveraging Information and Communication Technology based solution and reduced dependence on cash with low transaction costs.

v. Banking Services in Unbanked Villages:

Banks were advised to draw up a road map to provide banking services in each unbanked village having a population of more than 2000 by March 2012.

vi. Unique Identity Number (UID) / Aadhaar:

In 2009, the Government of India constituted Unique Identification Authority of India (UIDAI) to provide a unique identity number of each and every resident of the country. The UID is to leverage existing technological links to reach out to the unbanked residents.

vii. Direct Cash Transfer (DBT):

The government introduced 'Direct Cash Transfer Scheme', from January 1, 2013 to transfer 29 welfare programmes. This was largely related to scholarships and pensions for the old and disabled which is operated by different ministries.

4.1.2 The Reserve Bank of India:

i. Financial inclusion measures in India:

Financial inclusion measures on a mission mode were started since the establishment of no-frills account by the RBI in 2005. Later on 2010, it was replaced by Basic Savings Bank Deposit Account (BSBDA). It is one type of bank account with a minimum bouquet of services which includes savings and payments given to the financially excluded residents.

ii. Relaxation on know-your-customer (KYC) norms:

KYC requirements for opening bank accounts were relaxed for small accounts in August 2005.

iii. Liberalized policy towards ATMs and White label ATMs:

To expand the ATM network, RBI has permitted non-bank entities to start ATMs known as ‘White Label ATMs’.

iv. 100 per cent Financial Inclusion Drive:

State Level Bankers’ Committee (SLBC) conveners in all the states have been assigned the task of reaching 100 per cent financial inclusion in any case one district in their region.

v. Adoption of Business Correspondents (BCs)/ Business Facilitators (BFs) Model:

The BC model allows banks to provide doorstep delivery of services, particularly cash in-cash out transactions, as a result addressing the last-mile problem. With the effect from September 2010, for-profit organizations have also been allowed to be engaged as BCs.

vi. Promotion of Technology-based instruments for spreading banking services:

Technology based solutions initiated by RBI to promote financial inclusion consist of incentivizing banks to issue smart cards, ATM cards, etc., supporting internet banking and mobile banking with regulatory measures. For this purpose, BCs have to use ICT at the same time delivering banking products in remote areas.

vii. Mobile Banking:

The Reserve Bank of India issued the plan for Mobile Banking transactions in October 2008. The RBI itself has National Electronic Fund Transfer (NEFT) and Real Time Gross Settlement (RTGS) which allows individuals, companies and firms to transfer funds from one bank to another.

viii. RuPay Debit cards:

RuPay debit cards were introduced in 2012 by National Payments Corporation of India (NPCI). The word “RuPay” is the coinage of two terms namely Rupee and Payment. The RuPay cards have extensively increased its market share to 38 per cent (250 million) of the total 645 million debit cards in India so far.

ix. Financial Literacy Programmes:

Financial literacy and financial inclusion are twin pillars, financial inclusion operates as supply side for providing financial services and financial literacy works as demand side making people of what they should buy. Financial Literacy Centres were started by Commercial Banks.

x. Simplified branch authorization/ATM Expansion:

To deal with the issue of uneven spread of bank branches, Commercial Banks can currently open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting, banks are also liberated from prior authorization for location of ATMs.

xi. Opening of branches in unbanked rural centres:

To further accelerate the opening of branches in rural areas in order to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, as well the use of BCs, was felt.

xii. Financial Inclusion Plan (FIP) for the expansion of branchless banking:

Financial Inclusion Plan is designed by the RBI for the expansion of branch as well as branchless banking. It is implemented by the Commercial Banks to afford banking services to remote areas.

xiii. Liberalized branch license scheme:

The RBI has launched this scheme in December 2009 and Domestic Scheduled Commercial Banks were permitted to liberally open branches.

Section – II

4.2 The Extent of Financial Inclusion/Exclusion and Development of Banking Sector:

As per the financial inclusion report released by CRISIL, Tamilnadu has the maximum district wise representation in accessing banking services with its 17 districts finding place in the top 50 districts. To prepare this report CRISIL has included district wise data covering 652 districts in 35 States and Union Territories for the fiscal year 2013. Tamilnadu got 7th rank among all the States in the country in the financial inclusion index. The ultimate goal of the Government is to make the State the number one in the Country in terms of financial inclusion.

The banking sector is a subset of the financial sector. It plays a dominant role in the financial intermediation process. The Indian banking sector has witnessed a wide range of changes, under the influence of the financial sector reforms initiated during the early 1990s.

4.2.1 Indicators of Banking Development:

As the banking development is the key for economic growth the following are the indicators which helps to measure the level of banking sector development in India and in Tamilnadu for the every fiscal year.

1. Number of Bank Offices
2. Population served per Bank Office
3. Aggregate Bank Deposits
4. Gross Bank Credit and
5. Credit Deposit Ratio

4.1: Banking Development in Tamilnadu and India – Key Indicators

Indicators	Unit	2011-12		2012-13		2013-14		2014-15		2015-16		2016-17	
		TN	India	TN	India	TN	India	TN	India	TN	India	TN	India
Bank Offices	Nos.	7757	103190	8404	111315	9249	122948	9936	131722	9939	132587	10405	137770
Population served per Bank Office*	Nos.	9446.95	11731.46	8841.02	10900.32	8152.23	9952.01	7709.33	9405.33	7827.74	9458.09	7667.46	9316.97
Aggregate Bank Deposits	Rs. in Cr.	401182.2	6174147.1	446577.2	7051331.8	510694.2	8028220.2	545350.2	8890982.2	604539.5	9659968.2	671756.4	10751438.7
Gross Bank Credit	Rs. in Cr.	4658972	47,827,752	5492447	55,064,958	6080063	62,642,898	6516199	68,808,493	682309.9	7520928.6	715725.3	7927002.8
Credit Deposit Ratio	Percentage	116.13%	77.46%	122.99%	78.09%	119.05%	78.03%	119.49%	77.39%	112.86%	77.86%	106.55%	73.73%

*Based on 2011 Census Population, Govt. of India.

Source: Compiled from Quarterly Statistics on Deposit and Credit of Scheduled Commercial Banks as of March 2016 and March 2017 and Handbook of Statistics on Indian States.

Interpretation:

Table 4.1 and Chart 4.1 shows that the various indicators of banking development in Tamilnadu and all India during the years 2011-12 to 2016-17. There was a steady increase in the number of Bank Offices in Tamilnadu from 7757 in 2011-12 to 10405 in 2016-17 (34 per cent). In case of All India level, it has been increased from 1,03,190 in 2011-12 to 1,37,770 in 2016-17 i.e., 34 per cent.

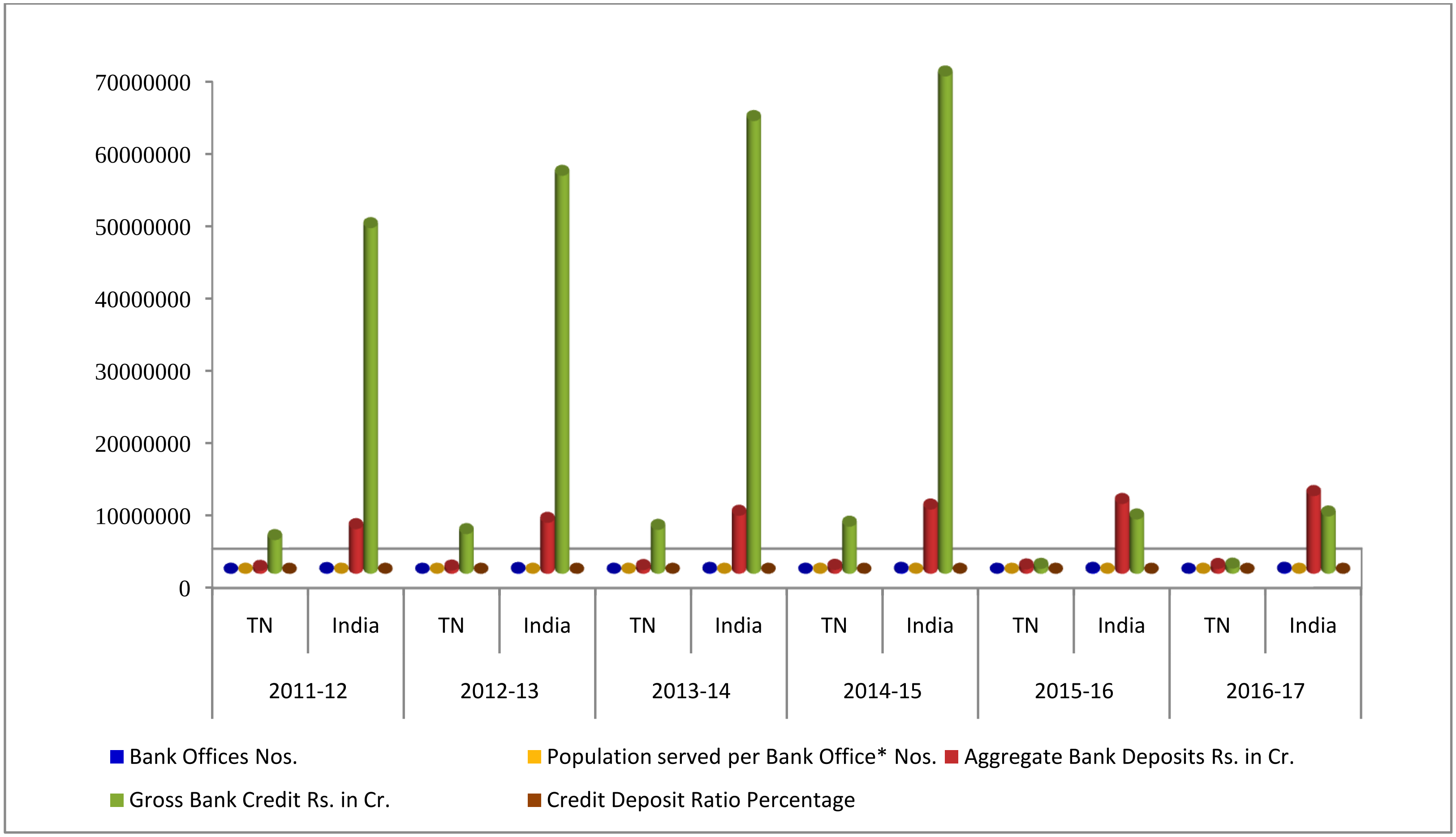
The population served per bank office has been decreased steadily from 9446.95 in 2011-12 to 7667.46 in 2016-17 in the State and from 11731.46 in 2011-12 to 9316.97 in 2016-17 in India.

Tamilnadu contributed 6 per cent of the total Aggregate Bank Deposit in the country. Similarly, the State housed 9 per cent of the total Gross Bank Credit in India. The Credit Deposit Ratio of Tamilnadu is higher than national level in all the subsequent years from 2011-12 to 2016-17.

Inference

It is inferred that there was a steady increase in number of bank offices and steady decrease in population served per bank office. Tamilnadu contributed 6 per cent of the total Aggregate Bank Deposit and 9 per cent of the total Gross Bank Credit in the country. The Credit Deposit Ratio of Tamilnadu is higher than all India level in all the subsequent years. Hence, the key indicators of banking development reveal that there is a positive indication for banking sector development in Tamilnadu and India from 2011-12 to 2016-17.

Chart 4.1: Banking Development in Tamil Nadu and India – Key Indicators



4.2.2 Extent of Financial Inclusion in Rural Areas of Tamilnadu: District Level Evidence:

In India, rural areas play an important role in country's economic development and growth through various services, agriculture and self employment. The rural people find difficult to get timely credit to meet their emergency and basic needs. Financial inclusion is a policy of involving a wider section of population, deposit mobilization and credit intermediation. The bank branch penetration and the availability of banking services were successfully implemented in the region of semi urban and metropolitan areas. On the contrary, rural areas are still lacking in awareness of financial services and accessibility. Reserve Bank of India stated that entry of more bank branches in the rural and semi urban areas will cultivate the saving habits of rural people indirectly which will help to improve the status of financial inclusion in the society. The extent of financial inclusion in a region or state or country can be measured by measuring the level of financial inclusion for a particular year with various parameters.

4.2.2.1 Dimensions that measures the level of financial inclusion in rural areas of the districts of Tamilnadu:

CRISIL Inclusix is an index to measure India's progress on financial inclusion. It defines financial inclusion as "the extent of access by all sections of society to formal financial services, such as credit, deposit, insurance and pension services". It has taken three very critical parameters of basic financial services such as branch penetration (BP), deposit penetration (DP), and credit penetration (CP) to measure the index of financial inclusion at national level, State, Regional and District levels for the fiscal year 2013. Demand and Supply side parameters have to be considered to measure the level of financial inclusion. The demand side factors includes bank branch penetration, availing banking facilities and services and usage of banking services such as deposit and credit accounts. The supply side factors are access to insurance, savings and credit by the households.

This study has also taken three different parameters to measure the level of financial inclusion such as Branch Penetration, Deposit Penetration and Credit Penetration of the rural areas in the districts of Tamilnadu for the year 2015 as displayed in Chart 4.2 and Table 4.2. The researcher has calculated the index scores of Financial Inclusion as per CRISIL Inclusix presented in Appendix IV.

Chart 4.2: Dimensions that measures Financial Inclusion

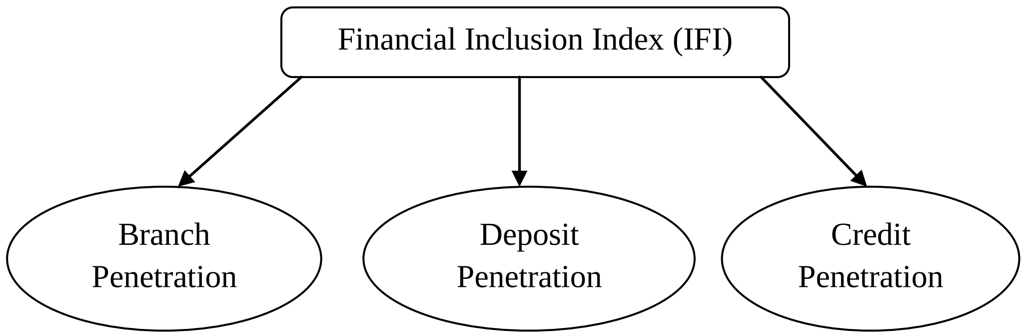


Table 4.2: Dimensions that measures Financial Inclusion

Dimensions	Parameters	Significance
Branch Penetration	Number of Bank Branches per 1 Lakh Population in Rural Areas	Measures the facilities of Banking Services in the rural areas of Tamilnadu.
Deposit Penetration	Number of Savings Accounts per 1 Lakh Population in Rural Areas	Measures the access of Banks saving products and services by the rural people.
Credit Penetration	Number of Loan Accounts per 1 Lakh Population in Rural Areas	Measure the access of credit facilities given to the rural people including Agricultural loans and Small loans, etc.

Source: CRISIL Inclusix June 2015.

Dimension 1: Branch Penetration:

To reduce the level of inequality and poverty, the banking industries acts as drivers for improving the latent of economic condition of the state or country by facilitating financial services in an indirect way. The demand of brick and mortar branches has been increased in rural areas. This shows that the increase of bank branches i.e., bank branch penetration in each and every district which leads to financial inclusion gets increased automatically in rural areas. Therefore the savings habits will be mobilized among the weaker sections in the society.

Dimension 2: Deposit Penetration

No-Frill Accounts has been labelled as Basic Saving Deposit Accounts (BSBDAs) by the Reserve Bank of India (RBI). The RBI has advised all the Scheduled Commercial Banks to open such accounts to the rural people. This will facilitate rural poor to maintain minimum amount or zero balance in their savings account which leads to increase the saving habits of low income group. Banks have also developed their banking products like deposit accounts with the overdraft facilities to meet the basic needs of the people in rural areas.

Dimension 3: Credit Penetration

One of the main objectives of financial inclusion is to facilitate financial and banking services to the rural segment and offering them timely credit facilities in order to improve their welfare measures in an economy. The commercial Banks are also issuing Kisan Credit Cards (KCCs) and General purpose Credit Cards (GCCs) to the rural farmers to meet their emergency and timely credit to purchase the agricultural related products. To achieve full financial inclusion in rural region banks have adopted the strategy of making massive involvement in increasing the credit facilities to the rural people. Inadequacy of resources and indecisiveness are said to be the conditions of rural people in the society. To meet their credit requirements and reduce the scarcity of resources to acquire loans the banks are providing credit facilities in the form of agricultural credits and small loans.

Table 4.3: Index of financial inclusion in rural areas of all the districts of Tamil nadu in the year 2015

District Name	Rural Population in the District	Dimension 1: Branch Penetration	Dimension 2: Credit Penetration	Dimension 3: Deposit Penetration	Index of Financial Inclusion (IFI)	Rank
Ariyalur	754894	33.57	76.68	100.02	59.35	1
Perambalur	565223	77.49	100.00	27.94	56.41	2
Sivaganga	1339101	100.04	54.86	19.79	46.86	3
Pudukottai	1618345	67.52	55.62	17.80	42.90	4
Karur	1064493	59.78	24.59	39.38	39.50	5
Nagapattinam	1616450	40.03	32.04	36.40	36.07	6
Tiruvarur	1264277	48.66	27.63	19.91	30.99	7
Dharmapuri	1506843	16.12	34.59	35.38	28.14	8
Krishnagiri	1879809	23.09	32.29	28.17	27.75	9
Ramanathapurm	1353445	35.71	32.24	10.11	25.16	10
Namakkal	1726601	40.67	22.97	11.98	24.28	11
Kanyakumari	1870374	17.43	34.18	19.46	23.33	12
Erode	2251744	35.22	16.83	19.20	23.31	13
Tirucvhirappalli	2479052	24.52	44.84	4.64	22.90	14
Thanjavur	2405890	30.50	31.99	8.39	22.86	15
Dindigul	2159775	33.84	22.00	13.52	22.67	16
Cuddalore	2605914	17.17	27.98	15.28	19.94	17
Tuticorin	1750176	36.42	25.80	0.46	19.47	18
Virudhunagar	1942288	33.32	16.88	3.16	16.87	19
Theni	1245899	13.00	8.77	29.97	16.74	20
Nilgiris	735394	7.02	2.54	43.79	15.73	21
Coimbatore	3458045	16.36	5.58	25.00	15.27	22
Villupuram	3458873	20.38	26.45	0.00	14.85	23
Madurai	3038252	7.87	15.29	18.24	13.69	24
Kancheepuram	3998252	21.51	4.83	12.24	12.59	25
Tirunelveli	3728104	12.39	18.42	6.50	12.30	26
Salem	3482056	4.36	12.61	15.77	10.79	27
Tiruvallur	2464875	11.30	11.19	6.28	9.56	28
Thiruvanamalai	2722290	6.08	14.93	6.93	9.22	29
Vellore	3936331	10.76	11.41	1.77	7.87	30
Tiruppur	3077233	0.03	0.00	18.37	5.73	31

Source: Compiled from Quarterly Statistics on Deposit and Credit of Scheduled Commercial Banks as of March 2015 and March 2016.

Interpretation:

Table 4.3 indicates the Index Scores of Financial Inclusion in the rural areas of various districts in Tamil Nadu for the year 2015. From the Scores secured from the various districts it is highlighted that Ariyalur District have achieved 59.35 that is, the maximum score of financial inclusion in the rural areas by the year 2015. The district Perambalur has higher (>55) level of financial inclusion. The Districts Sivaganga and

Pudukottai have above average (between 40.0 to 55) level of financial inclusion. The districts Nagapattinam, Tiruvarur, Karur, Krishnagiri, Ramanathapuram and Dharmapuri have financial inclusion in rural areas with below average level. And the rest of the districts have very low level of financial inclusion. Tiruppur has secured only 5.73 Index Score of Financial Inclusion. In Tiruppur out of the rural population 30,77,233 the branch penetration is very less (0.030) in rural areas, this increases the penetration level of deposits in rural areas.

Inference:

It is inferred that among the rural areas of all districts of Tamilnadu for the year 2015, Ariyalur district have achieved the maximum score of financial inclusion. The district Perambalur has higher level of financial inclusion. The districts Sivaganga and Pudukottai have above average level of financial inclusion. The districts Nagapattinam, Tiruvarur, Karur, Krishnagiri, Ramanathapuram and Dharmapuri have financial inclusion in rural areas with below average level. And all the other districts particularly Tirupur district have very low level of financial inclusion. It is found that no one district is financially excluded in the year 2015.

In this context, an investigation into financial inclusion among the rural households of the district assumes added importance as it would provide more insights into the overall status of financial inclusion/exclusion at household level and give direction to feasible strategies to enhance the outreach of formal financial services in rural areas of Tamilnadu.