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THE ROLE OF FINANCIAL INCLUSION IN THE DEVELOPMENT OF ECONOMY - WITH REFERENCE TO BANKING SECTOR

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ABSTRACT
The liberalization of the economy in the 1990s has brought in new players into the field which has not only brought in some much needed fresh air to the stagnant financial sector but also competition for the same market space which was relatively unknown in the financial sector till then. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries. Financial inclusion can be a great weapon to overcome the financial backwardness as well as the establishment of good governance. Keeping in view the study has been undertaken to identify and analyze the role of blanking sector for the development of poor and to improve financial inclusion.
Key Words: Financial inclusion, economic growth, liberalization, banking sector, Vijayawada, India

INTRODUCTION

The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries.

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities.

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. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. Financial inclusion can be a great weapon to overcome the financial backwardness as well as the establishment of good governance.

The market has responded to this soaring demand with making attractive offers and services for the customers at affordable rates. The liberalization of the economy in the 1990s has brought in new players into the field which has not only brought in some much needed fresh air to the stagnant financial sector but also competition for the same market space which was relatively unknown in the financial sector till then. Since then, there have been progressive reforms in the financial sector allowing for better and easier facilities and options to the consumer. An increasing financially aware middle class have realized the importance of financial services. Banks have streamlined and rationalized themselves to meet with the changing demands of the people. Banks have become partners in growth for many offering them a safer and secure future.

This study has been undertaken to study the Financial Inclusion program in the selected bank branches within Guntur district and to find out the steps taken by the banks in the areas of Financial Inclusion.

REVIEW OF LITERATURE

Many researchers have conducted the study on Financial Inclusion from different perspectives. To conduct the research, I have gone through the following past studies:

Swamy and Vijayalakshmi studied about the role of financial inclusion for growth in India as well as issues and challenges related with financial inclusion in India. The study suggested for financial inclusion plan progress through coordination between banks, government and people.

Band, Naidu and Mehadia (2012) argued about opportunities and problems in the path of success of financial inclusion plan. This study is based upon the human index, RRBs and SHG role in financial inclusion progress. Authors suggested better coordination in between different banks, NGOs, etc for better improvement of financial inclusion plans.

Bihari(2011) analyzed financial inclusion plans in the light of global practices, eleventh five year Indian plan and banks performance as well as no frill account. This study suggested financial literacy and quality improvement in no frill account can achieve financial inclusion plans growth.

Alam et al (2010) refers that mobile banking has a great potential to extend the financial services distribution to poor people as it lowers the delivery cost, encompassing costs both to banks for maintaining, building channels, for delivery and to users who access services.

An empirical study of Sendhilvelan .M and Karthikeyan .K (2006) revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of “no frills” account. Further efforts must be made to move from the concept of ”anytime, anywhere banking. To anytime, anywhere and to everyone banking.

Usha Thorat (2007) reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy centre and credit counseling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently under way for furthering financial inclusion.

Tejani Rachana (2010) in the article titled “Financial inclusion and performance of rural co-operative banks in Gujarat” evaluated that in the group 23 states for which a 3-dimensional index of financial inclusion has been estimated that led to Kerala with highest value of IFI followed by Maharashtra and Karnataka. Gujarat was lagged behind at 11th place. There is significance impact of occupation on having the bank account. But those who are land labours and are doing lower level jobs don’t have account.

The researcher finally concluded that through RRBs and PACCs have good coverage but most of them are running into losses. The instrument like KCC issued under it, has shown declining trends. The wide penetration of PACCs across the nation as well as villages would act like a catalyst while pursuing the objective of 100% financial inclusion.

Chattopadhyay, Sadhan Kumar (2011) conducted a study titled Financial Inclusion in India: A case-study of West Bengal**.** An index of financial inclusion (IFI) has been developed in the study using data on three dimensions of financial inclusion. It is revealed from the index that Kolkata district leads with the highest value of IFI, while rest of the districts show a very low level of financial inclusion. A survey was also conducted in the state in order to gauge the financial inclusion in rural Bengal and the results reveal that around 38 per cent of the respondents do not have sufficient income to open a savings account in the bank.

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The work of Ghorude .K.N (2009) indicated that attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion. Developing micro entrepreneurship with organizational and community based support is a way of strengthening inclusive growth.

Muthiah Manoharan .P and Krishnaveni Muthiah (2010) found limited access to affordable financial services such as savings, loans, remittance and insurance services to the vast majority of the population in the rural area and unorganized sector is believed to be a constraint to the growth impetus in these sectors.

Dr. Vigneswara Swamy and Dr. Vijayalakshmi (2009) conducted the study on Role of Financial Inclusion for Inclusive Growth in India - Issues & Challenges and concluded that Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance.

An empirical study of Sendhilvelan .M and Karthikeyan .K (2006) revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of "no frills" account. Further efforts must be made to move from the concept of anytime, anywhere banking. To anytime, anywhere and to every one banking.

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Literature review on finance and economic development reveals that the earlier economic theories for sustained development concentrated on labour, capital, institutions, etc., as the factors for inclusive growth and sustained development. There have been numerous researches analyzing how a extensive financial system helps in developing an economy. A great deal of uniformity exists among economists regarding financial development prompting economic growth.

This study also establishes a positive relationship between financial development and growth in the banking industry through financial inclusion.

Statement of the problem

Financial inclusion is a policy measure to address the issue of poverty which would ensure avenues for people. It is estimated that globally over two billion people are excluded from access to financial services, of which one third is in India. Access to various financial services enables the poor people to participate in the growth of the economy. Many banks are forced to adopt financial inclusion rather than their own interest. Only few banks are actively involved in financial inclusion to promote economic development. The banks have encountered various problems while adopting financial inclusion Viz. Improper repayment, the need for additional workforce, more time consumption, heavy work load, high cost etc. Hence, many banks are not fostering full-fledged financial inclusion plan to accelerate the growth of the country. This study attempts to address the problems involved in the adoption of the financial inclusion plan and to widespread the financial inclusion & Apart from the above problems this study wants to look into various issues relating to adoption of financial inclusion by banks.

Scope of the study

There are various types of banks which operate in our country to meet the financial requirements of different categories of people. On the basis of function, the banks can be classified into five categories Viz. central bank, commercial bank, development bank, co-operative bank and specialized bank. This study had focused only the public sector banks located in Guntur district.

Objectives of the study

The main objectives of this study were:

1. To study the measures & new development programs taken by the banks for financial inclusion.
2. To analyze the difficulties involved in the adoption of financial inclusion.
3. To analyze the bank-wise progress for financial inclusion in Guntur District.
4. To study the banker's perception on Financial Inclusion.

Methodology

The data required for the study was collected from both primary and secondary sources.

Primary data: This method includes the data collected from personal interaction with authorized members of the banks & data was collected from the banks.

Secondary data: The secondary data was collected from the published journals, books and various websites.

Sampling unit: Public sector banks under the geographical area of Guntur district.

Banking system is like a team, which constitutes from various entities which are different in nature, form, structure and its working but together they makes system in which they efficiently work for a common motive.

SHG BANK LINKAGE PROGRAM

The SHG-Bank Linkage program can be regarded as the most powerful initiative since independence for providing financial services to the poor in a sustainable manner. The program has been growing rapidly YOY basis. Currently, 10 million SHG's are working across the country with a credit base of Rs. 100000 Crore. But this is not enough to reach the entire mass. This number needs to be increased substantially.

However, the spread of the SHG- Bank linkage program in different regions has been uneven with southern states accounting for the major chunk of credit linkage. Many states with high incidence of poverty have shown poor performance under the program. NABARD has identified 13 states with large population of the poor, but exhibiting low performance in implementation of the program. The ongoing efforts of NABARD to upscale the program need to be given a fresh impetus. NGOs have played a commendable role in promoting SHGs and linking them with banks.

As of now, SHGs are operating as thrift and credit groups. They may evolve to a higher level of commercial enterprise in future. Hence, it becomes critical to examine the prospect of providing a simplified legal status to the SHG.

MICRO FINANCE INSTITUTIONS (MFIs)

From the late 1980s, the emergence of the Grameen Bank in Bangladesh drew attention to the role of micro- credit as a source of finance for micro-entrepreneurs. Lack of access to credit was seen as a binding constraint on the economic activities of the poor.

Microfinance Institutions (MFIs) are those, which provide thrift, credit, and other financial services and products of very small amounts mainly to the poor in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards. Lately, the potential of MFIs as promising institutions to meet the demands of the poor has been realized. The closer proximity with the people at grassroots level and the mix of offering right products at right price based on the actual needs of the masses makes their role very important in deepening financial inclusion.

However, there is exigency to upscale their outreach. In India, out of some 400 million poor workers, less than 20 per cent have been linked with financial services provided by MFIs.

COOPERATIVE CREDIT INSTITUTIONS

Rural credit cooperatives in India were originally envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. It has served as an effective institution for increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable sections.

Despite the phenomenal outreach and volume of operations, the health of a very large proportion of these credit cooperatives has deteriorated significantly. Various problems faced by these institutions are:

- Low resource base
- High dependence on external source of funding
- Excessive government control
- Huge accumulated losses and imbalances
- Poor business diversification

Taking all these facts in mind, there is an urgent need to address the structural deficiencies of these institutions in order to make them play an effective role in meeting the financial inclusion goal.

RRBs

RRBs, post-merger, represent a powerful instrument for financial inclusion. RRBs account for 37% of total rural offices of all scheduled commercial banks and 91% of their workforce is posted in rural and semi-urban areas. They account for 31% of deposit accounts and 37% of loan accounts in rural areas. RRBs have a large presence in regions marked by financial exclusion of high order.

RRBs are, thus, the best suited vehicles to widen and deepen the process of financial inclusion. However, they need to be oriented suitably to serve the rural population with a specific mandate to achieve financial inclusion.

THE BUSINESS CORRESPONDENT MODEL

In January 2006, the Reserve bank permitted banks to utilize the services of non-government organizations (NGOs/SHGs), micro-finance institutions and other rural organizations as intermediaries in providing financial and banking services through the use of business facilitator (BF) and business correspondent models (BC). The BC model allows banks to do 'cash in cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

Banks are also entering into agreement with Indian Postal Authority for using the enormous network of post offices as business correspondents for increasing their outreach and leveraging the postman's intimate knowledge of the local population and trust reposed in him. The intention behind the model is to promote the business of banking with low capital cost by enabling outsourcing of rural business to agents on a commission basis.

Recent guidelines issued by RBI to ensure adequate supervision over operations of BCs:

- Every BC to be attached to a certain bank to be designated as the base branch
- The distance between the area of operation of a BC and the base branch should not exceed 30 km in rural, semi-urban and urban areas.

RBI reports and other economic related information given below .This information is analysed and progress of banks from the past few year in financial inclusion is shown in detailed manner.

Table 1: progress of banks under financial inclusion in Andhra Pradesh.

NO	VARIABLE	MAR-12	MAR-13	MAR-14	MAR-15
1	Bank outlets in villages>2000	1360	1750	2100	3900
2	Bank outlets in villages-Branches	91	129	141	178
3	Bank outlets in villages-BCs	1964	2310	2990	3673
4	Bank outlets in villages-others	11	16	27	49
5	Bank outlets in villages-total	7272	8815	10223	14634

Source: Report on progress of banks from SLBC report.

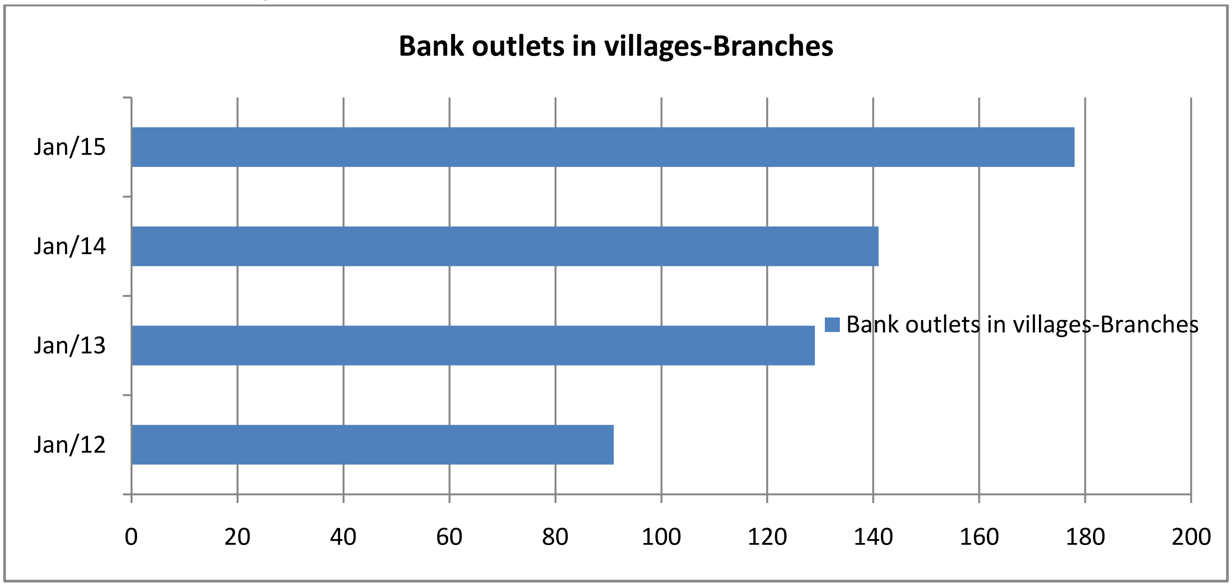

Figure 1: Bank outlets details of all public sector banks.

From the analysis it is seen that there should be the gradual increase in branches from the year 2012 to 2015.

It can be proved that branches in village level have increased year by year. From year 2012 to 2013, 28 branches increased, in 2013-2014 there is a increment of 12, In 2014-15 there is an increment of 37 branches. In every year banks are increasing their branches in villages. So we can say that village level people are also showing interest to use banking services. In recent year i.e from 2014-15 there should be the long growth in establishment of branches. This happen due to the government's initiation in financial inclusion.

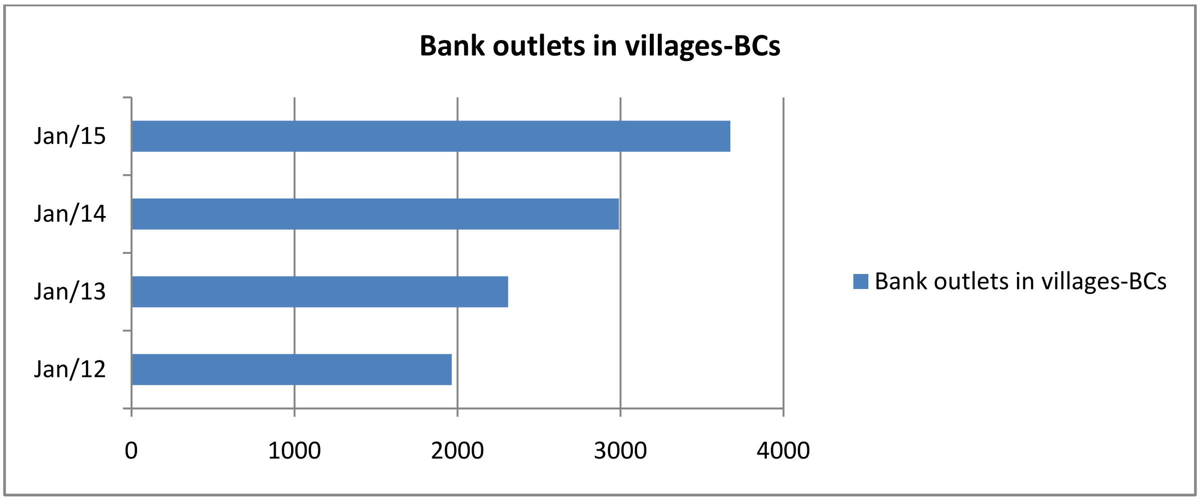

Figure 2: progress of state wide bank outlets in form of BC's.

From the above analysis it is shown that through Business correspondent model the outlets are increased from year to year.

If we observe above table, there should be major increase from 2014-15. Till 2012 the total outlets are nearly 2000 and from 2012 to 2015 there should be double increase in outlets in villages.

From 2014-15 there is a increase of 2000 outlets. This has happened due to the changes in Government policy and the new government concentration on financial inclusion.

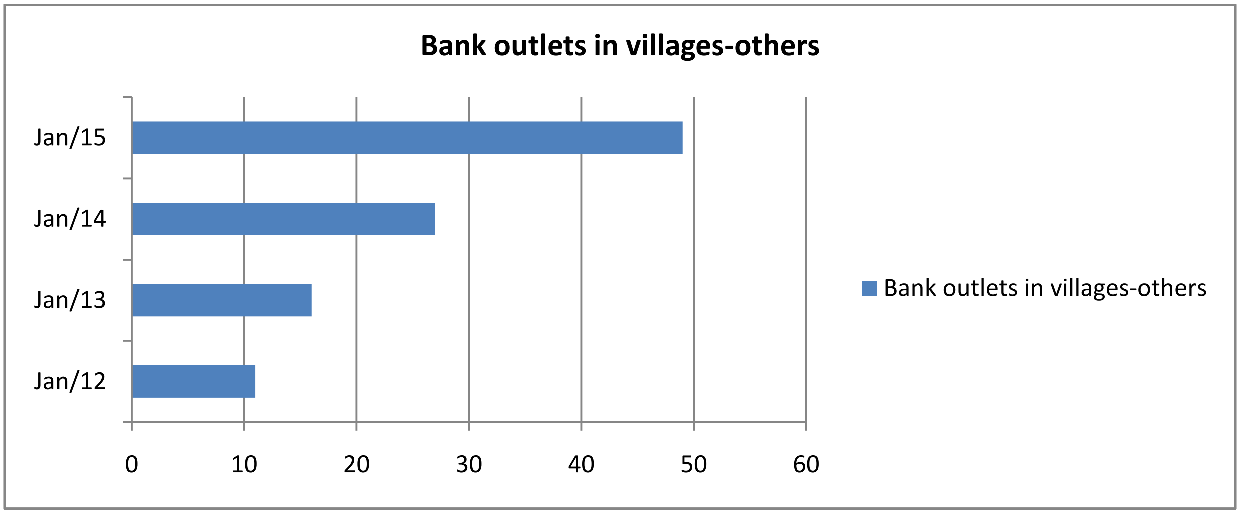

Figure 3: progress of state wide bank outlets in other forms.

From the above analysis, it is proved that bank outlets in villages, increased from 2012 to 2015(not including of BC,s and branches) . It can be proved that from2 014-015 there is a big increase.

Table 2: PMJDY progress report of all public sector banks in A.P.

S.NO	BANK NAME	ACCOUNTS RURAL	ACCOUNTS URBAN	TOTAL ACCOUNTS	RUPAY-CARD ISSUED	RUPAY CARD-%	DEPOSITS IN LACS
1	Allahabad Bank	2975	12468	15443	14996	97.11%	55.92
2	Andhra Bank	527724	175334	703058	702822	99.97%	2811.22
3	Andhra Bank	126183	9477	135660	131953	97.27%	569.52
4	Bank of Baroda	20689	94798	115487	114029	98.74%	1179.91
5	Bank of India	30146	149254	179400	174677	97.37%	553.62
6	Bank of Maharashtra	3424	4852	8276	8225	99.38%	128.65
7	Bhartiya Mahila Bank	0	360	360	349	96.94%	2.54
8	Canara Bank	152740	77898	230638	230638	100%	1696.36
9	Central Bank of India	65749	39152	104901	96726	92.21%	383.25
10	Corporation Bank	80694	41230	121924	115637	94.84%	1734.9
11	Dena Bank	8838	13959	22797	21773	95.51%	162.16
12	IDBI Bank Ltd.	10053	14600	24653	24239	98.32%	82.98
13	Indian Bank	225194	77976	303170	278408	91.83%	1087.3
14	Indian Bank	125709	21327	147036	113837	77.42%	760.97
15	Indian Overseas Bank	49534	67990	117524	113627	96.68%	699.67
16	Oriental Bank of Commerce	13194	25924	39118	38694	98.92%	1346.32
17	Punjab & Sind Bank	2	4259	4261	3447	80.90%	56.45
18	Punjab National Bank	13398	13535	26933	25105	93.21%	242.62
19	State Bank of Bikaner & Jaipur	0	1135	1135	1016	89.52%	93.84
20	State Bank of Hyderabad	82724	229310	312034	302747	97.02%	2029.33
21	State Bank of India	410248	793125	1203373	1059527	88.05%	4358.31
22	State Bank of India	451920	48329	500249	0	0%	130.81
23	State Bank of Mysore	3911	13411	17322	16158	93.28%	48.73
24	State Bank of Patiala	0	1571	1571	1459	92.87%	16.03
25	State Bank of Travancore	555	1803	2358	2018	85.58%	33.35
26	Syndicate Bank	332704	117426	450130	418629	93.00%	2961.15
27	Syndicate Bank	271561	162462	434023	418164	96.35%	5281.53
28	UCO Bank	9547	24023	33570	31730	94.52%	312.42
29	Union Bank of India	109918	44354	154272	145603	94.38%	685.1
30	United Bank of India	0	11198	11198	9388	83.84%	442.23
31	Vijaya Bank	28197	1126	29323	29323	100%	224.88
	Total	**3157531**	**2293666**	**5451197**	**4644944**	**90.81%**	**30172.07**

Source: state wise-bank wise progress report from PMJDY website.

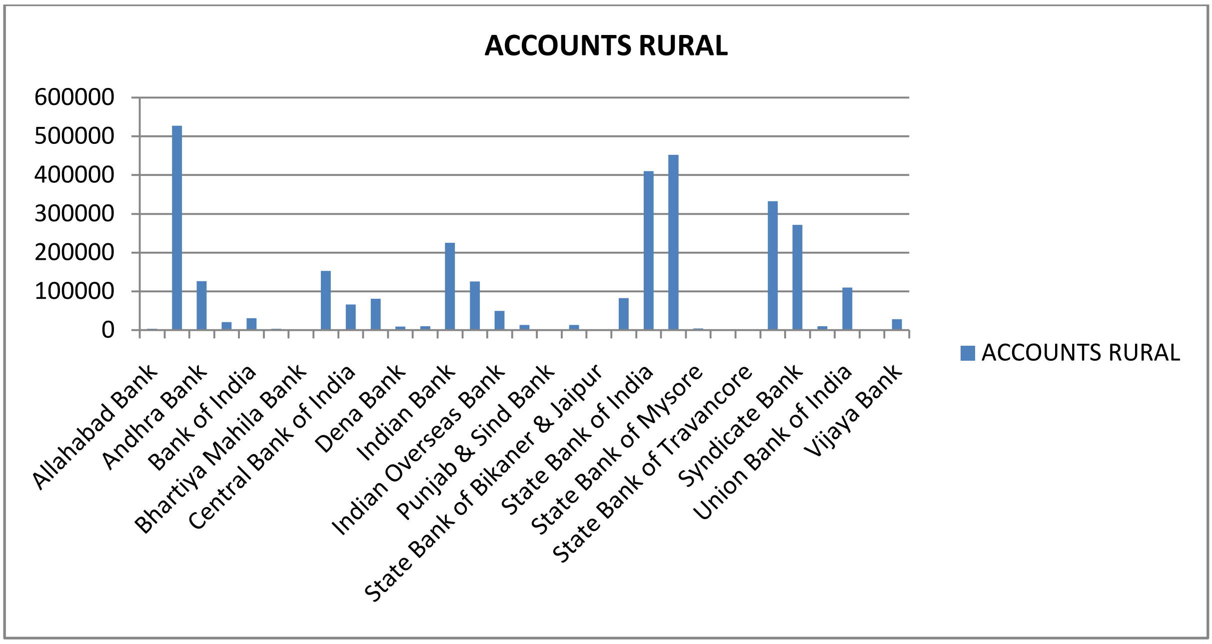

Figure 4: No of accounts opened in rural area under PMJDY.

From the above analysis, it is shown that the accounts have been opened in different types of banks in Rural areas under PMJDY scheme.

The majority coverage of Accounts in Allahabad bank, State bank of Mysore, State bank of Travancor etc and the least position for Stat e bank of Bikaner & jaipur, Indian overseas bank etc.

So it is proved that major public sector banks are showing much interest in opening Accounts, and also it is prove that People in rural areas are showing much interest in opening Accounts in rural places. Especially it happened due to much concentration of PMJDY scheme in India.

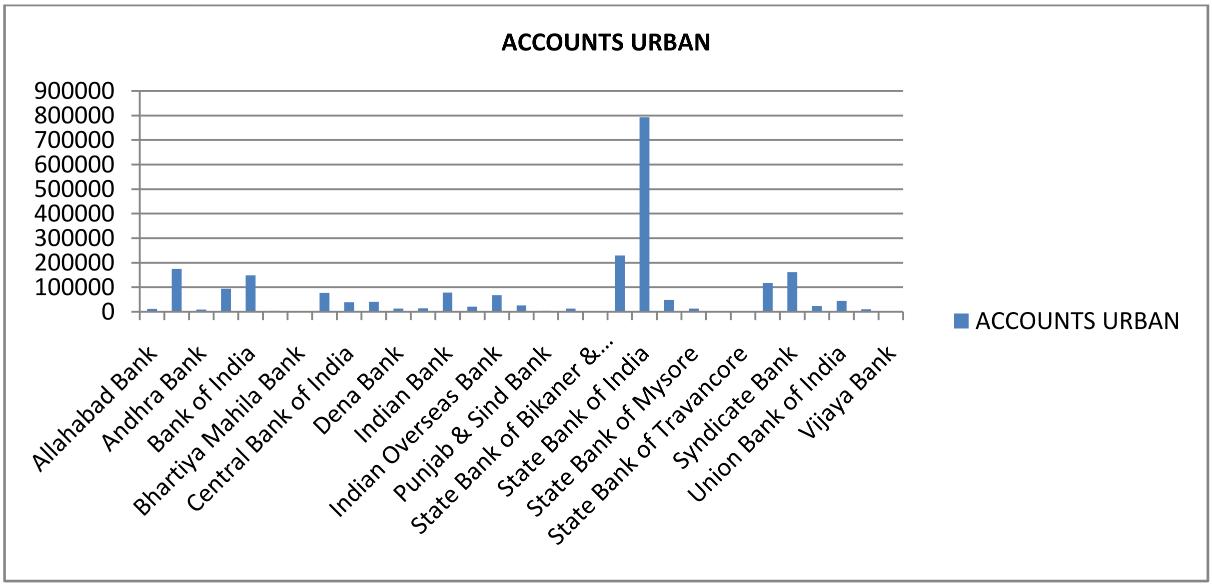

Figure 5 : No of accounts opened in urban area under PMJDY.

From the above diagram it is shown that Major public sector banks are showing interest to open Accounts in Urban areas. State bank of India, State bank of Mysore, Allahabad Bank are taking major Share. Vijaya bank, Punjab & sindh bank &Dena bank..etc are taking minimal role in Accounts opening.

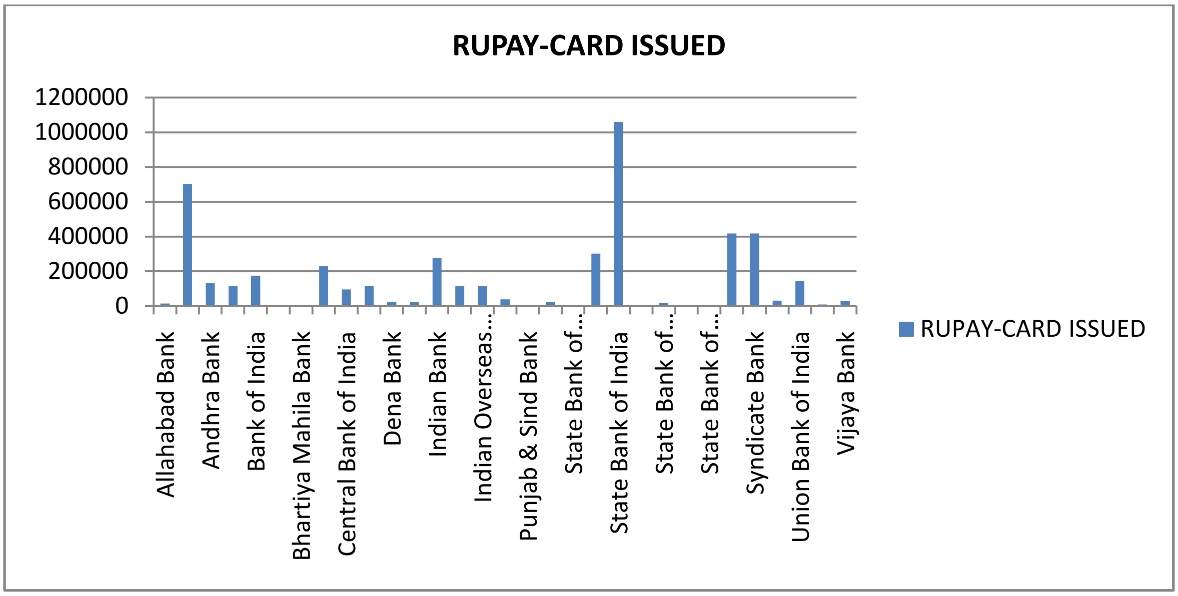

Figure 6: No of rupee cards issued by banks under PMJDY.

In above Diagram, it is shown that State Bank of India, Allahabad Bank, State bank of Mysore are taking Major part in issuing Rupay-Card .Vijaya bank, Oriental bank of Commerce are taking least role.

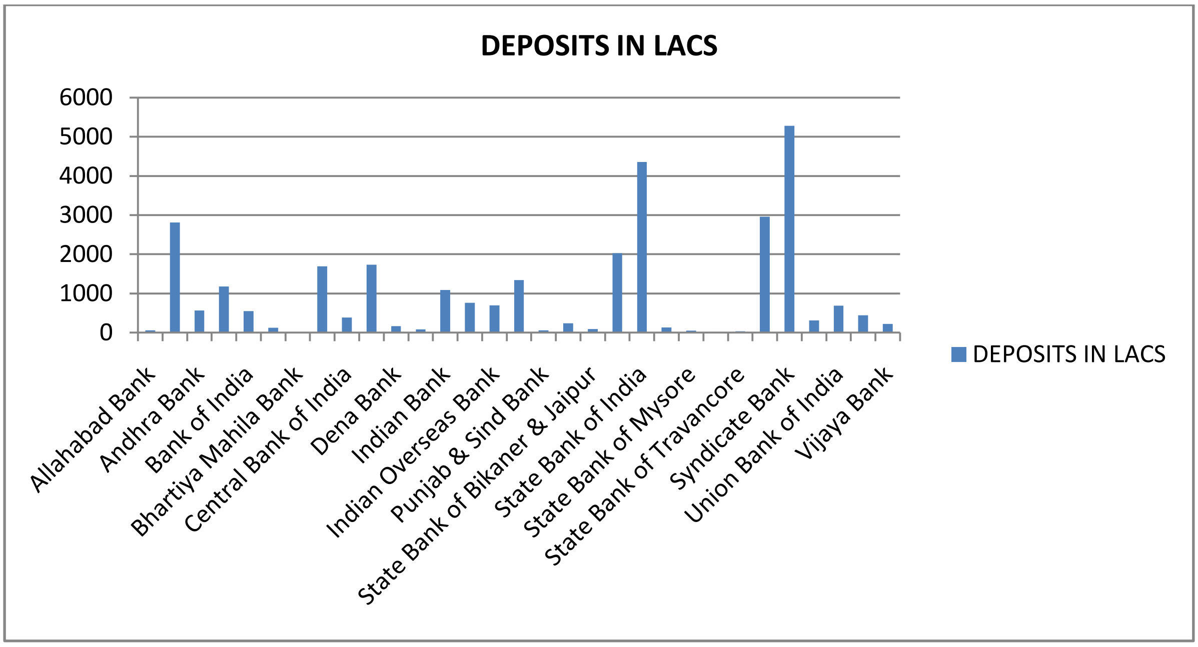

Figure 7: The deposits of all public sector banks under PMJDY scheme. (in lakhs)

Under PMJDY Scheme, The deposit levels are in sufficient stage. From the above analysis, it is shown that all most all banks are maintaining sufficient Deposits under PMJDY Scheme.

It is shown that Syndicate bank, State bank of India, Allahabad bank are taking major part in gathering deposits percentage under PMJDY Scheme.

And also it is clear that Dena bank, State bank of Mysore, Bharatiya Mahila Banks are in last stage in Deposit collection. However there is a hope of increasing of Deposits.

Table 3: Public sector banks progress of Guntur district

S.NO	NAME OF BANK	NO OF GPS	NO OF SSAS	Bank branches	Existing BCAs	Existing CSCs
1	Allahabad Bank	6	7	2	6	0
2	Andhra Bank	226	205	108	251	0
3	Bank of Baroda	13	17	6	20	2
4	Bank of India	13	16	6	17	6
5	Canara Bank	47	40	22	43	0
6	central Bank of India	30	30	18	29	0
7	CGGB	202	180	90	188	0
8	Corporation Bank	10	12	6	11	0
9	Indian Bank	34	35	9	54	0
10	Indian overseas Bank	34	36	15	45	0
11	ING vysya Bank	14	17	13	7	2
12	State Bank of Hyd	38	40	25	39	2
13	State Bank of India	297	275	92	439	32
14	Syndicate Bank	15	18	8	10	0
15	Union Bank of India	28	28	10	28	2
16	Vijaya Bank	15	18	0	22	0
	All Banks	1022	974	430	1209	46

Source: Guntur district lead bank report under financial inclusion programme.

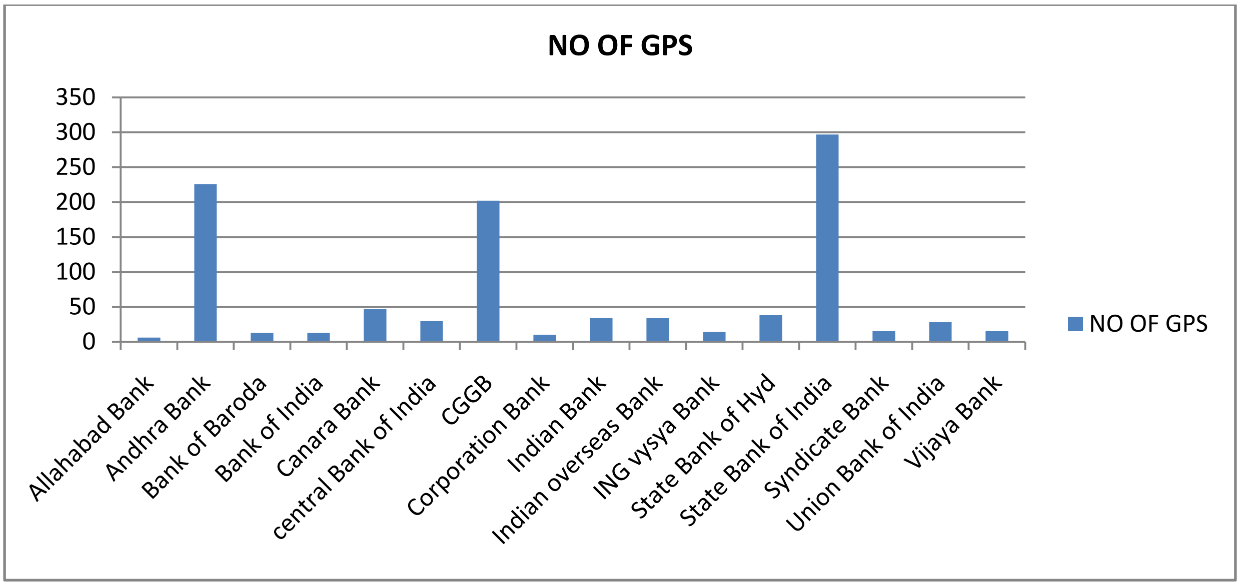

Figure 8: No of GP's covered by banks in Guntur district.

From the above diagram, it is shown that SBI, Andhra bank, GGGB are covering more GPs . Allahabad bank, Vijaya bank, bank of India , bank of baroda are taking less coverage in GPs.

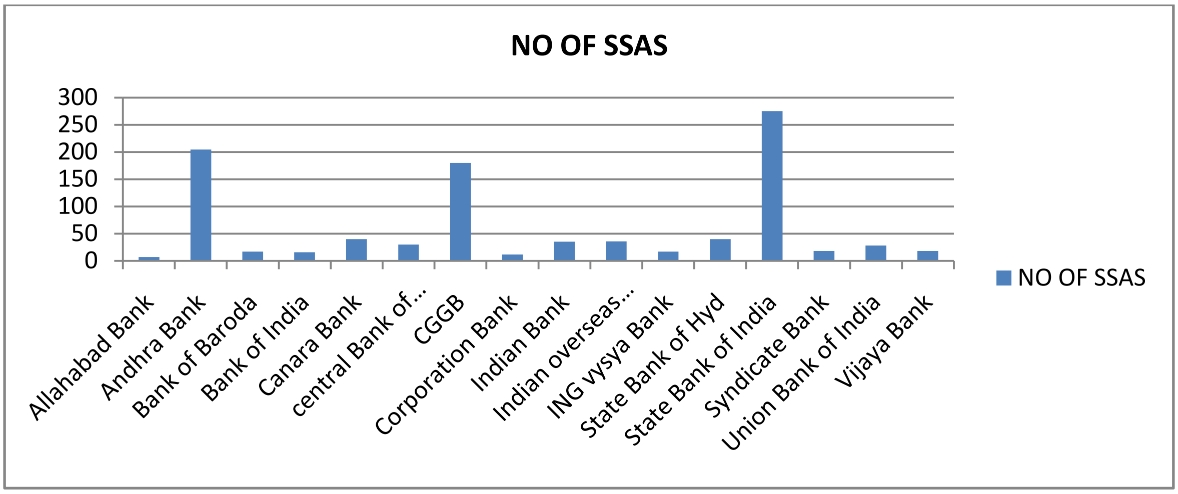

Figure 9: No of SSA's covered by public sector banks in Guntur district.

From the above diagram, it is shown that SBI, Andhra bank, GGGB are covering more SSAs Allahabad bank, Vijaya bank, bank of India, bank of baroda are taking less coverage in SSAs.

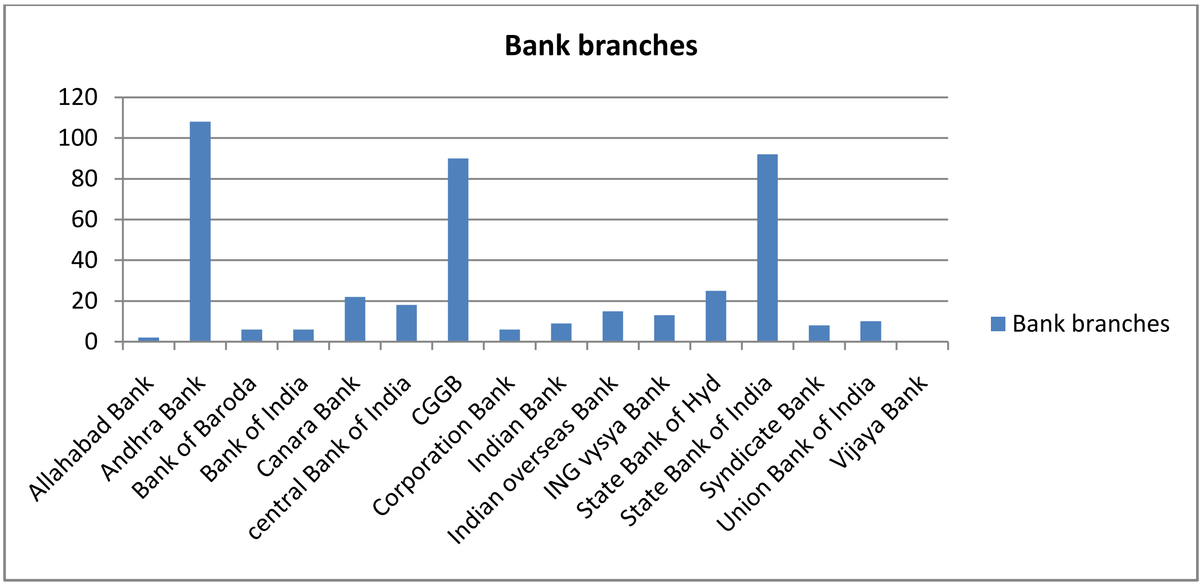

Figure 10: No of branches opened by all public sector banks in Guntur district.

From the above diagram, it is shown that SBI, Andhra bank, GGGB are covering more bank branches. llahabad bank, Vijaya bank, bank of India ,bank of baroda are taking less branches.

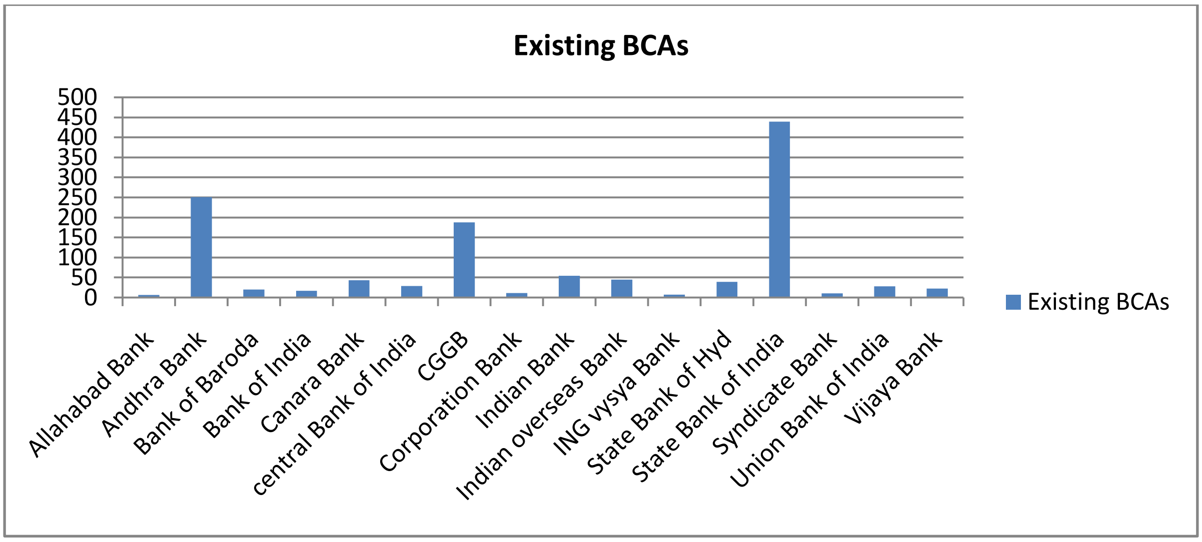

Figure 11: Existing no of BC's in Guntur district.

From the above diagram , it is shown that SBI, Andhra bank, GGGB are having more no of BCs. Allahabad bank, Vijaya bank, bank of India ,bank of baroda are having less BCs.

CONCLUSION

Financial inclusion becomes a major prerequisite to poverty alleviation.

From this study, it is very clear about villages' data with regarding to several parameters that there should be gradual increase of inclusive growth from 2012-2015. In case of villages >2000 population , Bank outlets in villages (others) have gradual increase from year to year i.e from 2012-2014, but in the year 2014-15 there should be higher growth in both the cases. And this project reveals that Bank outlets –Bc`s and Branches also had a gradual increase from 2012-15. PMJDY is the main reason for this sudden improvement in financial inclusion.

And also we can observe that The improper repayment need for additional workforce, time consumption, high cost and illiteracy are continuing to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting fully fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote areas. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the aim of Inclusive Growth.

This Study reveals that In Guntur District also the growth taken place gradually. Major banks like State Bank of India, Allahabad Bank, Syndicate banks are participating in increasing of financial inclusion in Guntur District. They are facing some problems like less staff, much cost, lot of work, less timings etc and also the Government support is not up to the mark.

Findings

1. Major challenge faced by the banks is lack of awareness among the potential customers as well as lack of ability of the customers.
2. The banks had stated that the reason for financial exclusion was illiteracy.
3. The banks are facing some problems like less staff, much cost, lot of work, less timings etc.
4. Majority of the banks had not received refinance for financial inclusion.

The banks were expecting assistance (advertisement) from the government for financial inclusion.

5. financial inclusion program such as creating financial awareness through advertising, conducting services to the people within their rural areas, offering loans at comparatively lower interest rates, offering banking services through business correspondents, simplification of KYC norms, procedural changes with regard to mortgage requirements so as to make the process easy and regularly conducting painting activities or other programs within the banking area to collect the database. To some extent, these measures were able to get the positive response of the rural customers.

Suggestions

1. The banks should offer all forms in the regional language of the customers.
2. The government should include financial literacy in the curriculum of schools and colleges. The banks must create awareness among the people concerning the significance of banking services by advertisement and financial inclusion campaign.
3. Technology can play a major role in reducing the cost of availing financial services.
4. The government should also raise the Financial Inclusion Fund and a Financial Inclusion Technology Fund to reach banking services to the unbanked areas.
5. The banks should adopt advanced technology to open up new avenues for service delivery.

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