FINANCIAL INCLUSION INITIATIVES IN INDIA AND ITS CONTRIBUTION TOWARDS BANKING SECTOR REFORM

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ABSTRACT

Banking sector plays a vital role the development of any economy. There were LPG ushered in drastic changes in Indian economy in the year 1991. At the same time Indian banking sector was plagued with many problems. To bring Reforms in the Banking sector Narasimham committee was formulated. Narasimham committee Recommendations were far-fetched and far-ahead of their times. Financial inclusion initiatives have a history of more than fifty years. Measures towards Financial inclusion in India started before the introduction of Banking Reforms. Financial inclusion initiatives like Nationalisation of banks, Self-help group model, Kissan credit cards and General credit cards, Bankmitr, Swabimaancampaign, Pradhanmantri Jandhan yojana etc contributed tremendously not only towards financial inclusion but also towards the banking sector reforms in India. This paper tries give a bird eye view towards the contribution of Financial inclusion measures towards Banking sector Reforms.

Key words : Banking reforms, Financial inclusion, Technology, Economy, Banks.

Banking sector reforms in India

Banking sector is the backbone of any economy. An efficient banking sector can promote greater amount of savings and investment which can help to achieve faster economic growth of the country. In India, in the year 1991 saw a drastic change in the economic policy of government. Liberalization, privatization, globalization emerged as vital parameters of India’s growth and development. But at the same time Indian economy was facing macro-economic crisis like low economic growth Rate, high level of non-performing assets in banks, dissatisfaction of customers with banking services, unsound banking system, poor financial condition of commercial banks, low level of technology use in banks, poor accounting standards, capital inadequacy etc.

So government of India appointed a high level committee headed by Shri M. Narasimham, a former (13th) governor of the Reserve bank of India on August 14 1991 to look into all aspects of the financial system in India to frame comprehensive recommendations for financial sector reforms including the banking sector and capital markets. The committee submitted two reports.

2) Narasimham committee II on banking sector reform in 1998.

Recommendation of Narasimham committee on Banking sector Reform in 1991

i) Reduction in CRR and SLR: - The Narasimham committee had recommended the reduction in CRR and SLR with a view to increase credit creation capacity of banks. It recommended SLR to be reduced to 25% from 37.5% and CRR should be curtailed from 15% to 5.5% in various phases.

ii) Abolition of directed credit programs: – Narasimham committee recommended more autonomy for banks for lending and abolition of directed credit program gradually. They recommended re-examination of the present relevance of Directed credit programs, especially for those sectors which had become self-sufficient. It also called for a re-defining of the priority sector.

iii) Deregulation and lowering interest rate: – The Committee observed that the prevailing structure of administered rates was highly complex and rigid and called for deregulating it so that it reflects the emerging market conditions. The Committee also recommended phasing out Concessional Interest rates.

iv) Adoption of uniform accounting practices: – Narasimham committee recommended uniformity in maintaining accounts, complete transparency regarding bank Balance sheets and making full disclosures.

v) Establishment of special tribunal (Asset reconstruction fund):- Those days, the proportion of bad debts and non-performing assets of the public sector banks and Development financial institutes were very high. The
committee recommended the establishment of an Asset Reconstruction Fund (ARF). The ARF would take over the proportion of the bad and doubtful debts from the banks and financial institutes at discount. The committee also suggested the formation of special tribunals to recover loans granted by the bank.

vi) Reconstitution of banking system: – Narsimham committee recommended reconstitution of banking system in a pattern of
   a) Tier I- 3 or 4 large banks of international character.
   b) Tier II- 8 to 10 National banks with branches throughout country engaged in universal banking.
   c) Tier III- Local banks with operation in specified region.
   d) Tier IV-Rural banks should be confined to rural areas to provide agricultural finance.

vii) Abolition of branch licensing system: – Narsimham committee recommended abolition of branch licensing system and leaving the matter of opening and closing of branch to individual banks discretion.

viii) Computerization: – on the recommendation of Rangrajan committee the Narsinham committee favored computerization of Banks.

ix) Ending of dual control: – It suggested that dual control by RBI and Ministry of finance should be ended and Only RBI should have control over the banks.

x) Capital adequacy norms: – Narsinhim committee recommended bank of international standards in phased manner. A capital adequacy ratio of 4% to be achieved by March 1993 and 8% by March 1996.

xi) Assets classification: - The Committee recommended that the assets of bank should be classified into 4 categories:
   a) standard (b) sub-standard (c) doubtful, and (d) loss assets.

xii) Liberalisation&privitisation: - The Committee advised the Government to stop further nationalization of Banks. It also proposed that there should be no bar to start new banks in the private sector and to liberalize the process of foreign banks entering the country.

xiii) Reduction in Granting resources to banks:-the committee recommended to granting resources to development finance institutions and banks on concessional rates of interest should be abolished. The Committee also recommended that profitable banks and banks with good reputation should be permitted to raise capital from the public through the capital market or money market.

**Recommendation of Narsimham Committee II on Banking sector reform in 1998**

Setup by the Finance Ministry of the Government of India under the chairmanship of Mr M. Narasimham in 1998. The Committee submitted the report in April 1998. The aim was to review the progress of the implementation of the banking reforms since 1992 with the aim of further strengthening the financial institutions of India. The key recommendations of this report includes

i) Stronger Banking System through Mergers: The Narasimham Committee suggested merger and acquisition of strong banks to build the size and strength of operations. Committee also suggested that two or three large strong banks can become international or global through mergers.

ii) Narrow banking: - Many public sector banks were facing a problem of the Non-performing assets (NPAs). Some of them had NPAs were as high as 20 percent of their assets. For successful rehabilitation of these banks, the committee recommended Narrow Banking Concept. Weak banks will be allowed to place their funds only in short term and risk free assets.

iii) Capital adequacy norms:-To improve the inherent strength of the Indian banking system the committee recommended that the Government should raise the prescribed capital adequacy norms. This would improve their Risk absorption capacity. The committee targeted raising the capital adequacy ratio to 9% by 2000 and 10% by 2002. It recommended penal provisions for banks that fail to meet these requirements.

iv) Autonomy for banks: - Greater autonomy was proposed for the public sector banks in order for them to function with equivalent professionalism as their international counterparts. Committee recommended GOI equity in nationalized banks be reduced to 33% for increased autonomy. RBI should relinquish its seats on the board of directors of these banks.

v) Committee considered that there was an urgent need for reviewing and amending main laws governing Indian Banking Industry.RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalization Act, etc. This upgradation would bring them in line with the present needs of the banking sector in India.

vi) Autonomous status: - The committee advised to provide Autonomous status to Banks which fulfills the criteria for that.

vii) Committee encouraged securitization of loans and other assets of banks to raise funds through introduction of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
Review of Literature

Verma & Raghavendra (2016) studied about the impact of demonetization on India’s food industry. They presented the varying reception of Indian Prime Minister Narendra Modi’s announcement to demonetize some of its banknotes from circulation, the negative effect of the said directives to food sales of discretionary items particularly processed meats, and notes the positive implications of demonetization to organized food trade in the country.

Das & Guha (2015) studied about the Differences in the Banking Parameters between Pre- and Post-Financial Inclusion Periods and found that the number of bank offices of SCBS have increased in all regions except North eastern regions during financial inclusion period. The CAGR of NER was lowest compared to other regions in terms of branches , number of accounts deposits and overall.

Hee Kim (2016) studied about the relationship Between Income Inequality and Economic Growth of west and found that income inequality has a very negative effect on GDP growth and financial inclusion improves the relationship between income inequality and economic growth. The reduction in income inequality through financial inclusion changes the negative relationship between income inequality and economic growth into a positive relationship.

Ranjani & Bapat (2015) studied about deepening financial inclusion beyond account opening and road ahead for banks and found that the Respondents either did not have a bank account, or those who did have accounts did not approach banks for their credit requirement because those tried to borrow, had been rejected due to several reasons, such as hesitation in approaching banks and perceived difficulties in terms of documentation requirements, loan sanction procedure being lengthy and time consuming, and repayment terms being inflexible.

Stephen & Rose Tom (2015) made research about the role of cooperative banks in financial inclusion. The main findings of this study was that there is a significant relationship between the gender of the respondents and the level of preference of financial services, and preference of small personal loans. And there is also a significant relationship between income of the respondents and reasons for not having a bank account.

Kumar (2010) has researched about the financial inclusion across different population groups in India by studying the branch expansion of different banks. Nationalized Bank Group is the frontrunner both in terms of largest number of average functioning of branches and highest number of branches opened in comparison to RRBs private banks and foreign banks.

Financial Inclusion in India

Financial inclusion is the inclusion of financially excluded segment of the population into the formal financial system of the economy. The main objective of financial inclusion is to deliver financial services at an affordable cost to vast section of unbanked, disadvantaged and low income groups of the society so that they can improve their living standards, which leads to general economic development and growth. Financial inclusion is needed for providing banking facilities to unbanked people to inculcate the habit of savings among vast sections of the society and which also lead to capital formation of economy and to provide access to formal source of credit avenues. The majority of unbanked population depends on informal sources of credits like family, friends and money lenders. Providing them with formal and transparent sources of credits will really enhances their productivity and prosperity in country side. Financial inclusion is considered very much vital to fill the gap between subsidies and welfare programs the considerable amount of money such as subsidies, welfare measures etc.

India is the world’s largest democracy, is seventh largest country and tenth among all nations in terms of GDP. Even though India is showing all signs of growth and developments. Yet a large part of its population is below poverty line. The multidimensional poverty index (MPI developed by the Oxford Poverty and Human Development Initiative and the United Nations Development Program) pegs poverty levels in India at around 55 percent (2010). State-sponsored schemes to reduce poverty are plagued by systemic inefficiencies and corruption and tackling poverty still remains a major challenge. One of the major initiatives in poverty alleviation by the Government of India is the financial inclusion program. India with a population of around 1.2 billion had 102,343 bank branches at the end of March 2013. With 12,100 people served in a bank branch, the penetration of bank accounts stands at 58.7 percent of the population. The Reserve Bank of India (RBI) and government of India has taken several initiatives to increase the outreach of the banks to the unbanked population.
Table 1: Availability of Banking services in India

<table>
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<tr>
<th></th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Census</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Census 2001</td>
<td>30.10%</td>
<td>49.50%</td>
<td>35.50%</td>
</tr>
<tr>
<td>Census 2011</td>
<td>59.40%</td>
<td>67.80%</td>
<td>58.70%</td>
</tr>
</tbody>
</table>

Source: Adopted from PMJDY progress report .www.pmjdy.gov.in

A comparison is made between census data of banking services between 2001 and 2011. Only 35.5% of households had access to banking services in 2001 and it has increased to 58.7% in 2011.

Important initiatives towards Financial Inclusion of India and its contribution towards Banking Reforms.
The effort to include the financially excluded segment of the society in to the formal financial system in India is not new. The Reserve Bank of India and Government of India together has taken many initiatives to bring them into the main stream of financial inclusion .The important initiatives are

1969-Nationalization of Banks
In 196914 banks were nationalized and they controlled 70 percent of India’s deposits. Six more banks were nationalized in 1980.this is a major milestone of financial inclusion in India.

Nationalization of Banks led to the remarkable growth of Banking sector and mainly for its presence in Rural areas.

1987-SHG Bank Linkage Program
In the year 1987, NABARD first invested its funds to self help group (SHG) model and RBI accepted SHG strategy as an alternative credit model. In the year NABARD provided guidelines where in Banks could directly lend to SHGs. The model was supported NABARD by refinancing banks and promoting NGOs to invest more in SHGs. This was successful in creating 74 lakh SHGs covering over 10 crore households as on 31st march 2011.Government of India has created a women SHG development fund in the year 2011-12 with a corpus of 500 crores to be operated by NABARD to support women SHGs.

The SHG model was very helpful for providing loans for economically weaker section and priority sector lending.

1998- Kisan credit cards (KCC)
In order to provide a system for timely and adequate credit to farming the RBI has introduced KCC.It is a flexible and simplified procedure, adopting whole farm approach, including short-term, medium-term and long-term credit needs of borrowers for agriculture and allied activities and a reasonable component for consumption need. Under the scheme, beneficiaries are issued with a credit card and a pass book or a credit card cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder etc., which serves both as an identity card and facilitate recording of transactions on an ongoing basis. For other populations the RBI has come up with general credit cards (GCC).

Introduction of KCC and GCC are the milestones in Banking reforms of India. It was the main step taken towards Demonstration of Indian economy.

2005-No Frill accounts
In the year 2005 RBI advised all banks to open “No frill accounts” with nil or very minimum balances as well as charges for vast section of population.

2006-Bank Mitr (Bank Correspondent) model
In 2006 RBI has introduced Branchless banking model through Banking agents called Bank Mitr (Business correspondents/Business facilitator) where in the banks can make use of the services of NGOs, SHGs, MFIs and other civil society organizations and intermediaries for providing financial and banking services such as opening of bank accounts, cash deposits, and withdrawals, transfer of funds, balance enquiries, mini statements etc.

The introduction of Bank Mitr or Briefcase banking model was really helpful for most of the Indian banks who faced the problem of capital crunch to extend their banking facilities at lower cost and investment to remote places of the country.
2011-Swabhimaan campaign
In the year 2011 “swabhimaan campaign” was introduced in association with business correspondents to cover villages with population more than 2000 with banking facilities. Under this campaign the Bank mitr (Business correspondents) took a leading role and they used to visit villages on fixed days and they managed to cover 74351 villages and were successful in opening large number of accounts.

2014: PradhanManthri Jan-DhanYojana
Despite various measures taken by RBI and GOI towards financial inclusion poverty and financial exclusion continues to dominate the socio economic and political discourse in India even after six decades if independence. But the GOVT and RBI didn’t stop their efforts towards 100% financial inclusion. An important step taken towards this is PradhanManthri Jan DhanYojana. Honorable Prime Minister of India Sri.NarendraModi announced this national mission for financial inclusion on his first Independence Day speech on 15th august 2014. The scheme was formally launched on 28th august 2014.

Special Benefits under PMJDY
- Bank accounts can be opened by any bank branches or business correspondent. It’s a zero balance account and no minimum balance required to be maintained.
- The deposit holders will get interest on their deposits.
- Overdraft facility up to Rs 5000 will be provided to one account per household (preferably to lady of the household) after satisfactory operation of the account for six months.
- Providing Rupee debit card with inbuilt accidental insurance coverage up to Rs 100000.
- The scheme offers life insurance coverage of Rs 30000 payable on death of beneficiary subject to fulfillment of eligibility criteria.
- The direct transfer of funds to these accounts of beneficiaries under different government schemes.
- Account holder can easily transfer their funds across India.
- Access to pension and insurance products.

Table:2Pradhanmantri Jan dhan account Beneficiaries as on 8/11/2017
(all figures in crores)

<table>
<thead>
<tr>
<th>Bank</th>
<th>No. of Beneficiaries at Rural/Semi urban Centre branches</th>
<th>No. of Beneficiaries at Urban/ metro center branches</th>
<th>Total No. Of Beneficiaries</th>
<th>Deposits Accounts</th>
<th>No. of Rupay Debit Cards Issued to Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Bank</td>
<td>13.5</td>
<td>11.2</td>
<td>24.7</td>
<td>5371.31</td>
<td>18.44</td>
</tr>
<tr>
<td>Regional Rural Bank</td>
<td>4.16</td>
<td>0.76</td>
<td>4.92</td>
<td>11862.96</td>
<td>3.62</td>
</tr>
<tr>
<td>Private Banks</td>
<td>0.6</td>
<td>0.39</td>
<td>0.99</td>
<td>2113.46</td>
<td>0.92</td>
</tr>
<tr>
<td>Total</td>
<td>18.25</td>
<td>12.35</td>
<td>30.6</td>
<td>67687.72</td>
<td>22.98</td>
</tr>
</tbody>
</table>

The total number of Jan-dhan accounts opened as on 8th November 2017 was 30.6 crores. The total deposits accumulated in these accounts were 67687.72 crores and 22.98 Rupay debit cards were issued to the Jan-dhan account holders. Jandhan yojana had adopted latest technological innovations like e-KYC, Mobile Banking, NEFT, RTGS, IMPS, Micro ATMs, NUUD, Rupay debit cards, AEPS and APBS etc.

Discussion
Banking sector plays a vital role in the economic development of the country. In the year 1991 India made drastic change in its economy through introduction of LPG. At the same time Indian banking sector was plagued with many problems. To bring Reforms in the Banking sector Narasimham committee was formulated. Narasimham committee Recommendations were far-fetched and far-ahead of their times. Recommendations were well received and were successfully implemented. During the 2008 economic crisis, performance of Indian banking sector was far better than their international counterparts. This was credited to the successful implementation of the recommendations of the Narasimham Committee- with particular reference to the capital adequacy norms and the recapitalization of the public sector banks. Impact of the two committees has been so significant that the financial-economic sector professionals have been applauding there positive contribution.
Financial inclusion initiatives in India in not new. It has a history of more than fifty years. Measures towards Financial inclusion in India started before the introduction of Banking Reforms. The first financial inclusion initiative was Nationalisation of Banks. Through this measure Banks increased their presence in remote rural areas of India. Later NABARD encouraged banks to adopt SHGs model for financing economically weaker sections and especially women to build their livelihood. Kissan credit cards and General credit cards were introduced which was the major step towards demonitisation of India. Through Bank Mitr scheme banks were able to reach remote corners of India at lowest cost. The swabimaancompaign covered most of the villages above 2000 population with banking services. The major mile stone in the history of Financial inclusion of India happened with the introduction of Pradhan mantra Jandhan accounts. This scheme has made the India almost fully banked. The scheme has opened 30.6crore accounts by 8th November 2017. It has entered Guinnese book of records for opening maximum number of bank accounts in a week. Jandhan accounts adopted highly innovative technological products like e-KYC, Mobile banking, internet banking, NEFT, RTGS, micro ATMs etc.

BIBLIOGRAPHY