

THE EFFECTIVENESS OF THE FINANCIAL INCLUSION PRODUCTS

Dr.R.Krishnakumar
Associate professor of commerce
St.Joseph's College of arts &Science,
(Autonomous),Cuddalore-1, India.

L.Vijayakumar (Phd full time)
Research Scholar
St.Joseph's College of arts &Science,
(Autonomous), Cuddalore-1,India.

ABSTRACT

This research has been undertaken to study the Financial Inclusion program in the selected bank branches within puducherry state to find out the steps taken by the banks in the area of Financial Inclusion. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling/advisory services by the formal financial system. The main objectives of the research were to identify the approaches adopted by different banks and the customer response towards the banking approaches under financial inclusion program. The study concluded that though the banks are complying with RBI norms in terms of opening branches within areas of at

Keywords: *Financial Inclusion, General Credit Card, No frills account, Biometric card, RBI.*

INTRODUCTION

Banking with the people who are not using its services is the true test of banking industry in our country at present .Due to the scarcity and inconsistency of their income, low and moderate-income households need to be especially careful in planning how to meet their daily needs, weather unexpected shocks, and save for lump sum expenditures. However, the financial tools available to the poor to manage their money are often costly, unsafe, and inefficient. Money kept at home may be subject to theft, temptation, and family demands, while moneylenders and other intermediaries charge

least 2000 population, offering no frills account, kisan credit card, General credit card, simplifying KYC norms, but still alot of effort is to be put in for financial inclusion progress. As per RBI report on Financial Inclusion and financial Literary, March 2013, total number of bank branches in India has increased from 83457 in March 2010 to 101359 in December 2012 i.e. by 17902, around 20%while rural branches have increased from 32433 in 2010 to 38127 i.e. by 5694, around 17%. Biometric cards should be introduced for security in transactions as well as saving time. Business correspondents should be employed in villages for promoting financial inclusion program. Financial inclusion requires efforts on the parts of three parties- RBI, all the banks and also the general public for its better progress.

high fees and prohibitive interest rates. Formal financial institutions are largely inaccessible to the poor as they are often costly, hard to reach, and offer products that seldom suit their needs. Constraints in the ability to make and act on sound decisions related to one's financial portfolio pose an additional barrier to the optimal use of financial tools in ways that enhance the welfare of the poor. In response, households often make costly choices, such as selling valuable assets in response to economic shocks and failing to take advantage of potentially beneficial investments in their households and

businesses. Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services. This project has been undertaken to study the Financial Inclusion program in the selected bank branches within Ludhiana district and to find out the steps taken by the banks in the areas of Financial Inclusion.

FINANCIAL INCLUSION AT GLOBAL LEVEL

Recognizing the need for better data to support the financial inclusion agenda, the World Bank's Development Research Group, with a 10-year grant from the Bill & Melinda Gates Foundation, has constructed the Global Financial Inclusion (Global Findex) database. In April 2012, the Global Financial Inclusion (Global Findex) Database analysis a new set of indicators that measure how adults in economies save, borrow, make payments, and manage risk. The data show that 50 percent of adults worldwide have an account at a formal financial institution, though account penetration varies widely across regions, income groups and individual characteristics. In addition, 22 percent of adults report having saved at a formal financial institution in the past 12 months, and 9 percent report having taken out a new loan from a bank, credit union or microfinance institution in the past year. Although half of adults around the world remain unbanked, at least 35 percent of them report barriers to account use that might be addressed by public policy. Among the most commonly reported barriers are high cost, physical distance, and lack of proper

documentation, though there are significant differences across regions and individual characteristics.

FINANCIAL INCLUSION IN INDIA

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the cooperative banks, nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society. The Reserve Bank of India has set up a high level committee on October, 2012 to ensure accessible financial services and to increase the speed of financial inclusion in India. The Committee is called Financial Inclusion Advisory Committee (FIAC), to be headed by RBI Deputy Governor. The report quoted as World Bank study in April 2012, had shown that half of the world's population held accounts with formal financial institutions. The study said only nine per cent of the population had taken new loans from a bank, credit union or microfinance institution in the past year. In India, only 35 per cent have formal accounts versus an average of 41 per cent in developing economies. India is home to the largest unbanked population in the world. As per data available from Census 2011, India is having population of around 1.22 billion. Sixty five per cent of adults across the country are excluded

from the formal financial system. Over the past eight years, RBI has mandated and worked with financial institutions to open almost 100 million so-called no-frill accounts targeting the poor.

INITIATIVES TAKEN BY RBI AND GOVERNMENT OF INDIA UNDER FINANCIAL INCLUSION PROGRAM

Opening of Bank Branches : Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts.

As per reports received from the Convener Banks of State Level Bankers Committees (SLBCs), out of 3,930 identified villages/ habitations, branches have been opened in 3,125 villages/ habitations (including 1,998 Ultra Small Branches) by end of January, 2013. However, RBI advised banks to draw up a road map to provide banking services in every unbanked village having a population of over 2,000 by March 2012.

Each household to have at least one bank account :

Banks have been advised to ensure service area bank in rural areas and banks have been assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.

No-Frills Account : In the Mid Term Review of the Policy(2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make

such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such 'no frills' account for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year, so as to ensure greater financial inclusion.

Simplification of Know Your Customer (KYC)

Norms :

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the KYC procedure for opening accounts has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts.

Ensuring reasonableness of bank charges :

As the Reserve Bank has been receiving several representations from public about unreasonable service charges being levied by banks; the existing institutional mechanism in this regard is not adequate. Accordingly, and in order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The

Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

Business Correspondent Model : With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable.

Swabhimaan Campaign : Under Swabhimaan – the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs). Over 3.16 crore accounts were opened and more than 62,000 BCAs were engaged during the campaign.

Setting up of Ultra Small Branches (USBs) : Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all

villages covered through BCAs under Financial Inclusion. A total of over 43,000 USBs have been set up in the country by December, 2012.

Banking Facilities in Unbanked Blocks : All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van.

Roll out of Direct Benefit Transfer w.e.f. 01.01.2013 : The Government of India has decided to introduce Direct Benefit Transfer in respect of benefits under 26 schemes directly into the bank accounts of beneficiaries. This is being started with effect from 1.1.2013 in a phased manner in 43 identified Districts across respective States and Union Territories. Banks are ensuring that all beneficiaries have a bank account.

Expansion of ATM network : Public Sector Banks (PSBs) have installed around 60,000 ATMs. In close consultation with the Department of Financial Services, the PSBs worked on a model of area based deployment of ATMs/Cash Dispensers, taking benefit of the power of aggregation, with all PSBs/RRBs clubbing their requirement and one of the PSB issuing a common RFP on behalf of all these banks for a Geographical Cluster.

NEED FOR THE STUDY

India's 72% of the population lives in villages. However a significant proportion of 6,50,000 villages does not have a single bank branch leading to the financial exclusion of rural population. As India's development, to a large extent, depends on this segment's economic

growth, so, it is imperative to bring the unbanked population within the ambit of banking. Invariably financially excluded people depend on money lenders even for their day to day needs, borrowing at exorbitant rates to finally get caught in a debt trap. On the other hand, these people are completely ignorant of financial products like insurance, which may protect them in adverse circumstances. Moreover, the rural poor suffer from financial impediments due to their seasonal income, irregularity of work and job related migration. In the light of such issue, the need of the hour is a financial ecosystem built to meet their living standards ensuring the growth of the economy as a whole.

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:

Roshny Unnikrishnan et. al (2012), analysed in their study “Enabling Financial Inclusion at the bottom of the Economic Pyramid”, the importance of financial inclusion in economic empowerment. This study identified the variables in enabling financial inclusion, analyzed the barriers to effective financial inclusion and the prerogative steps to be taken to overcome the barriers and enable inclusive growth. The study concluded by identifying the variables that empower the masses financially and stating the importance of social inclusion in relation to financial inclusion and also by reinforcing the importance of self sustenance at the bottom of the economic pyramid.

Hemavathy Ramasubbian and Ganesan Duraiswamy (2012) suggested, in their article

The Aid of Banking Sectors in Supporting Financial Inclusion – An Implementation Perspective from Tamil Nadu State, India, that though over the past six years the FI strategy had improved the life style of BPL, but missing focus on savings and credit improvement strategies degrades the benefits of FI. This paper surveys analyzes the issues pertaining to implementation of financial inclusion in economically down trodden districts of Tamil Nadu, India. Data collected from districts were collected and analyzed using SPSS tools (SPSS 2011).

Rama Pal and Rupayan Pal (June 2012) analyzed in their article Income Related Inequality in Financial Inclusion and Role of Banks : Evidence on Financial Exclusion in India, income related inequality in financial inclusion in India using a representative household level survey data, linked to State-level factors. This paper also provides estimates of the effects of various socio, economic and demographic characteristics of households on propensity of a household to use formal financial services, and compare that for rural and urban sectors. A notable result is that greater availability of banking services fosters financial inclusion, particularly among the poor.

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.

Reddy K. Sriharsha (2011) in his article, A Study on Extent of Financial Inclusion among Small Borrowers in Andhra Pradesh, studied the flow of credit to small borrowers with the objective to evaluate the extent of financial Inclusion based on credit to small borrowers with special reference to agricultural credit in Andhra Pradesh. This paper attempted to fill this gap by evaluating the extent of financial inclusion in Andhra Pradesh based on the penetration of credit to small borrowers.

Vijay Kelkar (2010) analysed in his article Financial Inclusion for Inclusive Growth that enhanced financial inclusion will drastically reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides. The second important benefit is that it will lead to more rapid modernization of Indian agriculture.

Satya R. Chakravarty and Rupayan Pal (March 2010), at Indira Gandhi Institute of Development Research, Mumbai conducted a study titled Measuring Financial Inclusion: An Axiomatic Approach. This paper demonstrates that the axiomatic measurement approach developed in the human development literature can be usefully applied to the measurement of financial inclusion.

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. 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.

OBJECTIVES OF THE STUDY

Objectives are the guiding lights of a study. The present study was undertaken to achieve the following objectives:

1. To find out the steps taken and different approaches adopted by the banks in the area of financial inclusion.
2. To study the current position of Financial Inclusion Program in India.

RESEARCH METHODOLOGY

1. Research Design- Descriptive Research
2. Sampling Design- Judgmental Sampling

Universe of the Study : The target population in this research was the bank branches which have implemented the financial inclusion program within the rural areas of Puducherry state.

Sample Unit : Sampling unit is the basic unit containing the elements of the universe to be sampled. The total number of the bank branches is estimated to be around 200 as per information available from the websites of various banks.

Sample Size : Sample size is the number of elements to be included in a study. Keeping in

mind all the constraints 150 respondents was selected.

Data : Data has been collected by administering structured questionnaires and Personal interviews.

LIMITATIONS OF THE STUDY

1. There is shortage of time to conduct the study. Due to the shortage of the time, smaller sample size has been taken which may not be the true representative of the whole universe.
2. Due to time constraint, it was not possible to observe every aspect of Financial Inclusion Program.
3. Due to conservative nature, it may be possible some respondents may not have given their responses in the questionnaire in fully true manner.
4. since the respondents may be busy with their hectic schedule, so many people may be reluctant to answer.
5. the study is limited to only specific rural areas and therefore, several other potential samples outside these areas have been neglected.

FINDINGS of the study

As per this study, more than 50% of the bank branches have started implementing the program in areas with population of at least 2000 i.e. rural areas, thus, majority of the banks are meeting the RBI guideline for opening branches in areas with population above 2000. But still more effort is needed to open more branches within rural areas to provide access of banking services within these areas and for having 100% financial inclusion.

1. Effective implementation of financial inclusion program in many branches lies between the year 2010 and 2012.

2. Self employed people are making the use of banking services at the most within rural areas while comparatively banks have lesser number of customers in labour class category.

3. Banks within have maximum number of customers in the middle class category. So, it can be drawn that there is significant potential of expanding banking business and having more deposits as middle class people tend to save more for their future.

4. As per RBI's guideline, majority of the banks are offering no frills account to their customers but the same is not very effective for the coverage of more population under financial inclusion program as its condition of maintaining maximum of Rs.50000 amount in the account in a year is difficult for the present customers of the banks. But it shows that still the lower income people are not using banking services.

5. Business correspondents, kisan credit card, micro credit facilities and other products such as grameen card, farmers account, etc. are offered by more than 50% of the branches and the same is getting positive response of customers.

6. Banks have adopted various measures to promote financial inclusion program such as creating financial awareness through advertising, conducting surveys to collect database, conducting financial literacy programs to provide knowledge of banking 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.

7. Majority of the customers in rural areas are using banking services to save their money and receiving government payment under NREGP schemes while banking services are used less for remittances.

8. Major challenge faced by the banks is lack of awareness among the potential customers as well as lack of ability of the customers to produce their identity proof with the bank. Though, adhaar cards are eliminating this problem to some extent even then, there are a lot of people who have not got their cards till the time.

9. Rural customers are preferably using mobile banking services, ATM facilities and demand draft facilities for making payments as it makes it easy for them to bank virtually at any convenient time.

10. Business loan is partially preferred, due to maximum self employed customers with the banks within these areas, so as to arrange for the money to be used in their business. Also, agricultural loans are strongly preferred due to large number of farmer customers within these areas but the same is offered by less number of branches.

11. Majority of the bankers feel that the financial inclusion program has reduced the money lenders to some extent.

12. Banks are definitely enjoying benefits under financial inclusion program such as creating more awareness among rural customers about banking services, coverage of more rural population under financial set up, better customer satisfaction, coverage of the untapped markets, increased growth potential for banking business leading to expansion of banking business.

13. Overall, this program is a dual benefit scheme for both customers and banks as customers get affordable and easy access to banking services within their residing area and banks get larger customer base for having more deposit mobilization.

CONCLUSION

This project has been undertaken to study the Financial Inclusion program in the selected bank branches within puducherry state and the main objectives of the research were to identify the approaches adopted by different banks and to know about the customer response towards the banking approaches under financial inclusion program. The study concluded that though the banks are complying with RBI norms in terms of opening branches within areas of at least 2000 population, offering no frills account, kisan credit card, General card, simplifying KYC norms, but still is lot of effort to be put in for financial inclusion progress. Biometric cards should be introduced for security in transactions as well as saving time. Business correspondents should be employed in villages and trained in advance for promoting financial inclusion program. Banks need to open its more branches within rural and remote areas and creating more awareness about banking services among rural people by

telling them about the benefits of the banking services. Financial inclusion requires efforts on the parts of three parties- RBI, all the banks as well as general public for its better progress.

REFERENCES

1. **Ashima Thapar (2013)** ,A Study On The Effectiveness Of The Financial Inclusion Program In India, VSRD International Journal of Business and Management Research, Vol. 3 No. 6 June 2013 / 211,e-ISSN : 2231-248X, p-ISSN : 2319-2194 © VSRDInternational Journals
 2. **Bihari, Suresh Chandra 2011**, Financial Inclusion for Indian Scenes, SCMS Journal of Indian Management, 8 (3), 5- 16.
 3. **Chattopadhyay, Sadhan Kumar 2011**: Financial Inclusion in India: A case-study of West Bengal. Published in: Reserve Bank of India Working Paper, Vol. July 2, No. WPS(DEPR): 8/2011
 4. **Hemavathy Ramasubbian, et. al**, The Aid of Banking Sectors in Supporting Financial Inclusion - An Implementation Perspective from Tamil Nadu State, India, International Institute for Science, Education and Technology, Vol 2 No 3 2012.
 5. **Kelkar Vijay 2010**, Financial Inclusion for Inclusive Growth ASCI Journal of Management 39(1): 55–68.
 6. **M., Vighneswara Swamy P 2011**, Financial Inclusion in India: An Evaluation of the Coverage, Progress and Trends, IUP Journal of Financial.
 7. **Pal Rama & Rupayan Pal, 2012**, "Income related in equality in financial inclusion and role of banks: Evidence on financial exclusion in India," Indira Gandhi Institute of Development Research, Mumbai Working Papers 2012-013.
 8. **Ramji Minakshi (January 2009)**, Financial Inclusion in Gulbarga: Finding Usage in Access, Institute for Financial Management and Research, Centre for Micro Finance, Working Paper Series No. 26.
 9. **Sarma M. 2008**, Index of Financial Inclusion, Indian Council for Research on International Economic, Relations Working Paper No. 215, ICRIER, Delhi.
 10. **Satya R. Chakravarty and Rupayan Pal**, Measuring Financial Inclusion: An Axiomatic Approach, Indira Gandhi Institute of Development Research publication, (WP–2010-003).
- Web links**
11. http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=218
<http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/ISCHF230712>
 12. [_F.pdf](#)
 13. <http://rbi.org.in/scripts/publicationsview.aspx?id=10494>
 14. <http://financialservices.gov.in/banking/ListOfCMDsOfPSBs>.
 15. [asp](#)
 16. <http://financialservices.gov.in/banking/Overviewofefforts.pdf>

Author's Profile

Author Name

Dr.R.krishnakumar,

Academic Qualification: M.com,M.phil,M.B.A, Phd.

Occupation: Associate professor of commerce.

Experience :20 Years

Institution: St.Joseph's college of arts and science(Autonomous),Cuddalore-1.

Co-Author Name

L.Vijayakumar,

Academic Qualification: M.com,M.phil,.

Studying: Research Scholar (Phd Full Time).

Institution: St.Joseph's college of arts and science(Autonomous),Cuddalore-1.

E-mail:journalofcommerceandmgt2014@gmail.com