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## ROLE OF SCHEDULE COMMERCIAL BANKS IN FINANCIAL INCLUSION: A CRITICAL ANALYSIS

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### ABSTRACT

*The majority of the working poor in India, especially those working in the informal sector like small and petty vendors, home-based workers, artisans, labourers, maid servants, and women desperately need financial services from formal financial institutions. The reason is that they are involved in economic activities in which they need working capital. They also need credit or term loans to buy business equipment like sewing machines or cutting machines or livestock or handlooms. There is also a need for credit for improving their huts or houses, for adding water and drainage services in their living place, or for getting electric connections. These are all their needs for running economic activities, mainly because they are self-employed or working on their own. Because of their nature of work (mostly manual labour), poor living and working conditions, and low income level, they are very vulnerable and susceptible to many types of risks, i.e., personal risks like sickness, accident, death, or natural disasters like floods, cyclone and fire. They need to be protected under these risks. They also want to build little savings for their future needs. Women want to "save for rainy days". Vulnerability during their entire working life does not allow them to build or plan for their old age.*

### INTRODUCTION

The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. Despite concerted efforts by the government, RBI and NABARD, issues related to financial inclusion need to be looked at more carefully in order to address them by taking appropriate measures. An attempt was made in this chapter to study the key issues and current state of financial inclusion in the country. Besides an attempt has also been made to study the strategies and programmes for financial inclusion of poor with special reference to women.

## CURRENT STATE OF FINANCIAL INCLUSION IN INDIA

The number of commercial Banks in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system. Larger the number of commercial banks, larger the scope for bringing people in to formal financial system provided if banks provide suitable financial products and services.

Classification of bank offices according to population groups is based on 2001 census. For the year 1969, it is based on 1961 census. The number of bank offices of scheduled commercial banks excludes administrative offices. Population per office, per capita deposits and per capita credit are based on provisional population figures as on 1st March 2011 obtained from Census of India Website.

Deposits and credit of scheduled commercial banks in India are as per return under Section 42(2) of the Reserve Bank of India Act, 1934 and relate to the last Friday of the reference period. Deposits are net of inter-bank deposits and credit is exclusive of dues from banks and bills rediscounted under the Bill Market Scheme. The ratio of bank deposits to National Income for the years 2006 to 2008 is based on the series of National Income with 1993-94 as the base year; from 2009 onwards it is based on the series with 2004-05 as base year. For the year 1969, the base year is 1970-71.

Due to change in the definition of the Priority Sectors from time to time, the data are not strictly comparable for the entire time span. Investments for the purpose of calculation of Investment-Deposit ratio pertain to investments in Government and Other Approved Securities. For working out Cash- Deposit ratio, Cash includes cash in hand and balances with Reserve Bank of India.

Table 1 presents the progress of commercial banking at a glance, based on data collected from different sources as per details given in the 'Notes on Tables'. BSR-1 return provides the identification of the district and population group of the place where the credit is utilized. In the Volume, data on credit both as per place of sanction (location of sanctioning office) and as per place of utilization are presented.

**Table 1**  
**Progress of Commercial Banking at a Glance**

No. of Commercial Banks	June	March	March	March	March	March	March	March	March	March
	1969	2006	2007	2008	2009	2010	2011	2012	2013	2014
	89	222	183	175	170	169	169	173	155	151
(a) Scheduled Commercial Banks	73	218	179	171	166	165	165	169	151	146
Of which: Regional Rural Banks	-	133	96	91	86	82	82	82	64	57
(b) Non-Scheduled Commercial Banks	16	4	4	4	4	4	4	4	4	5

Source: Basic Statistical Returns of Commercial Banks in India, 2001-2014 RBI.

Table 1 shows number of commercial banks in India in different periods. In the year 1969, there were 89 commercial banks in India of which 73 were Scheduled Commercial Banks and the rest were non-scheduled commercial banks. Regional rural banks were not started at that time. In the year 2006, number of commercial banks in India reached 222 of which 218 were scheduled commercial banks and 4 were non-scheduled commercial banks. Out of 296 scheduled commercial banks in the year 2006, Regional rural banks accounted for 133 banks. As on 31st March 2014, there were 151 commercial banks in India of which 146 banks were scheduled commercial banks and 5 were non- scheduled commercial banks. Decrease in number of commercial banks in the year 2014 as compared to 2006 may mainly be due to sharp decline in number of RRBs in India due to amalgamation.

**POPULATION PER BANK BRANCH**

The population per bank branch at national level is presented in table 2.

**Table – 2**  
**Population per Bank Branch**

S. No	End March	Population per branch
1	1969*	64000
2	2001	15000
3	2002	16000
4	2003	16000
5	2004	16000
6	2005	16000
7	2006	16000
8	2007	15000
9	2008	15000
10	2009	14500
11	2010	13800
12	2011	13400
13	2012	12300
14	2013	11900
15	2014	10800

Source: Basic Statistical Returns of Commercial Banks in India, 2001-2014 RBI.

\*As at end-June.

One of the indicators for measuring banking access is the population per branch. Following the nationalization of banks in 1969, branch network of SCBs expanded rapidly. As a result, the population per branch declined significantly between 1969 and 1991. The population per branch in the rural segment increased after 1991.

The population per branch, however, continued to decline in the urban areas (Table 2). One of the factors responsible for increase in population per branch in rural areas between 1991 and 2007 was the reclassification of 953 rural centers, classified as rural as per 1991 census, which moved to higher population centers on account of increase in population. Besides reclassification, there were also instances where certain centers, which were earlier classified as rural, were brought into the jurisdiction of the adjoining municipality / municipal corporations and, thus, classified as urban/metropolitan depending on the population of municipality / Municipal Corporation. As on 31st March 2014, population per branch was 10,800.

**OFFICES OF SCHEDULED COMMERCIAL BANKS**

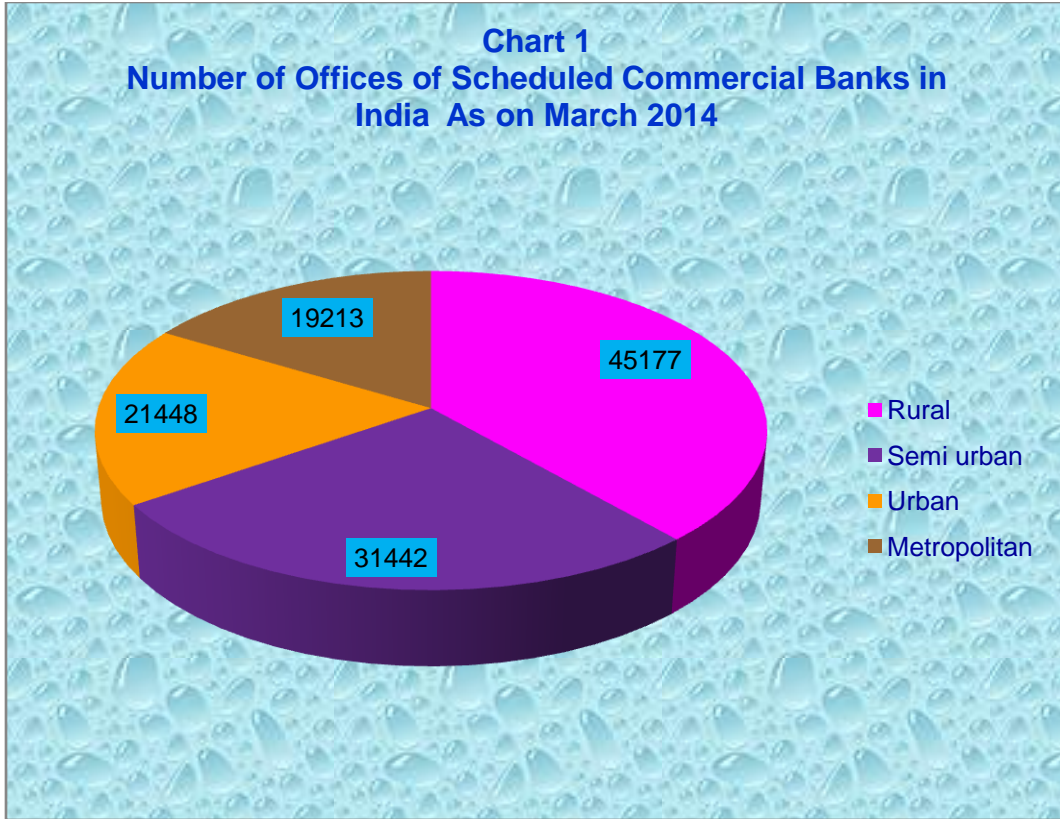
Distribution of banking system is another indicator of level of financial inclusion in a country. Banking system should not be concentrated particular area or region in a country like India which has vast geographical area and population. Table 3 gives the particulars of number of offices of scheduled commercial banks in India according to area.

**Table -3**  
**Number of Offices of Scheduled Commercial Banks in India According to Area**

Year/ Region	1969 *	1991	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Rural	1833	35206	32562	32380	32303	32121	32082	30579	30551	31076	31667	32624	33683	36356	39195	45177
Semi urban	3342	11344	14597	14747	14859	15091	15403	15556	16361	17675	18969	20740	22843	25797	28165	31442
Urban	1584	8046	10293	10477	10693	11000	11500	12032	12970	14391	15733	17003	17490	18781	19902	21448
Metrop olitan	1503	5624	8467	8586	8680	8976	9370	11304	11957	12908	14178	15026	16247	17396	18175	19213
<b>Total</b>	<b>8262</b>	<b>60220</b>	<b>65919</b>	<b>66190</b>	<b>66535</b>	<b>67188</b>	<b>68355</b>	<b>69471</b>	<b>71839</b>	<b>76050</b>	<b>80547</b>	<b>85393</b>	<b>90263</b>	<b>98330</b>	<b>105437</b>	<b>117280</b>

Source: Basic Statistical Returns of Commercial Banks in India, 2001-2014 RBI.

Table 3 indicates distribution of SCBs’ branches in different areas of India at different periods of time. In the year 1969, there were 1833 bank branches in rural areas, 3342 branches in semi urban areas, 1584 branches in urban areas and 1503 branches in metropolitan areas. Number of branches in rural areas declined between 1991 and 2001. But, number of branches in semi urban, urban and metropolitan areas increased significantly during the same period. This trend continued till the year 2007. Since the year 2008, number of branches in all kinds of areas (rural, semi urban, urban and metropolitan) has been increasing in India. But, percentage of increase in branches in rural areas is low as compared to other areas. As on 31st March 2014, there were 45, 177branches in rural areas, 31,442 branches in semi urban areas, 21, 448 branches in urban areas and 19, 213 branches in Metropolitan areas. In total, there were 117,280 branches of SCBs in India as on 31st March, 2014. Chart 1 gives the region wise number of offices of Scheduled Commercial banks as on March 2014.



**Financial Inclusion Initiatives and Plans of SCBs in Recent Years in India**

In an effort by RBI to achieve sustained, planned and structured financial inclusion, in January 2010, all public and private sector banks were advised to put in place a Board approved three year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013. These plans broadly include self-determined targets in respect of rural brick and mortar branches to be opened; business correspondents (BC) to be employed; coverage of unbanked villages with population above 2000 as also other unbanked villages with population below 2000 through branches/BCs/other modes; no-frill accounts opened including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC); and other specific products designed by them to cater to the financially excluded segments. Major attempts to provide financial access to the population have been summarized in Table 4.



**Table 4**  
**Major Milestones of Financial Inclusion in India**

<b>Year</b>	<b>Major Milestones</b>
1969-	Nationalization of Banks
1971	Establishment of priority Sector Lending Banks
1975	Establishment of Regional Rural Banks
1982	Establishment of NABARD
1992	Launching of the Self Help Groups bank Linkage Programme
1998	NABARD sets a goal for linkage one million SHGs by 2008
2000	Establishment of SIDBI foundation for Micro Credit
2005	One million SHG linkage target achieved three years ahead of date
2006	Committee on Financial Inclusion
2007	Proposed Bill on Micro Finance Regulation introduced in parliament
2008	Committee submitted its final report on Financial Inclusion to Union Finance Minister in January
2013	Unique Identification Number (AADHAR) and the Direct Benefit Transfer(DBT) Scheme

Source: Basic Statistical Returns of Commercial Banks in India, 2001-2014 RBI.

Banks were advised to integrate Board approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank. Table 5 shows financial inclusion initiatives and plans of SCBs in recent years in India.

**Table 5**  
**Financial Inclusion Initiatives and Plans of SCBs in Recent Years in India**

S.N	Particulars	Mar 2010 - Actual	Mar 2011 - Actual	June 2011 - Actual	Mar 2012- Target	Mar 2013 - Target
1	Villages Covered - Grand Total ( 2+3+4 = 5+6)	54258	100183	107604	218574	352269
2	Villages Covered - Total Branches	21475	22662	22870	24995	26440
3	Villages Covered - Total BCs	32684	77138	84274	192249	323699
4	Villages Covered - Total Other Modes	99	383	460	1330	2130
5	Villages Covered >2000	27353	54246	59640	86806	91440
6	Villages Covered <2000	26905	45937	47964	131768	260829
7	Urban Locations covered through BCs	433	3757	4524	6068	8614
8	No Frill A/Cs (No. in Lakh)	493.27	739.36	790.86	1125.06	1582.93
9	Amount in No Frill A/Cs (Amt in Crore)	4257.07	5702.94	5944.73	7449.86	8871.55
10	No Frill A/Cs with OD (No. in Lakh)	1.31	6.32	9.34	183.61	286.54
11	No Frill A/Cs with OD (Amt In Crore)	8.34	21.48	37.42	1008.04	1636.32
12	KCCs-Total-No. in Lakh	176.30	201.91	202.89	276.59	350.36
13	KCCs-Total-Amt In Crore	98749.5	132352.3	136122.3	144685.5	172775.0
14	GCC-Total-No. in Lakh	4.73	10.83	10.70	37.34	61.23
15	GCC-Total-Amt In Crore	753.49	2328.36	2356.25	4266.13	6715.07
16	ICT Based A/Cs-through BCs (No. in Lakh)	125.42	295.41	338.36	641.73	1014.74
17	EBT A/Cs-through BCs (No. in Lakh)	74.81	146.51	164.60	249.07	368.96

Source: Reserve Bank of India

## COVERAGE OF VILLAGES

Banks have, up to June 2011, opened banking outlets in 1.07 lakh villages up from just 54,258 as on March 2010. Out of these, 22,870 villages have been covered through brick & mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans, etc.

### Opening of No-frills accounts

Basic banking 'no-frills' account, with 'nil' or very low minimum balance requirement as well as no charges for not maintaining such minimum balance, were introduced as per RBI directive in 2005. As on June 2011, 7.91 crore No-frills accounts have been opened by banks with outstanding balance of Rs.5, 944.73 crore. These figures, respectively, were 4.93 crore and Rs 4257.07 crore in March 2010.

### Small Overdrafts in No-frills accounts

Banks have been advised to provide small ODs in such accounts. Up to June 2011, banks had provided 9.34 lakh ODs amounting to Rs.37.42 crore. The figures, respectively, were 1.31 lakh and Rs 8.34 crore in March 2010.

### General Credit Cards

Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on June 2011, banks had provided credit aggregating Rs.2, 356.25 crore in 10.70 lakh General Credit Card (GCC) accounts.

### Kisan Credit Cards

Kisan Credit Cards to small time farmers have been issued by banks. As on June 30, 2011, the total number of KCCs issued has been reported as 202.89 lakh with a total amount outstanding to the tune of 1, 36,122.32 crore.

## CONCLUSION

Poor people in general are financially excluded, but women in many countries are frequently more financially excluded at similar levels of income. Though micro level data regarding the extent of financial access are inadequate, further research (both market and policy) should be conducted. More women oriented policies can be introduced to sideline the existing challenges to financial inclusion. There is an existing demand for extending financial products and services for women and their attitude towards the use of financial products. The scope of the study is unlimited as it has many significant dimensions.

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