An Implication of Financial Inclusion under Indian Banks

Vaibhav Ashar

Abstract---This paper is the survey of public sector bank and private sector bank employee's responses towards financial inclusion. The object of the study is to understand the participation of public as well as private banks for creating awareness and financial literacy among the customers of the banks. The survey is done with the sample size of 100 respondents. The data is tested with mean median mode and percentage as a statistic tool. This paper also deals with giving certain suggestion and recommendation to the banks for future innovation.

Keywords--- Financial inclusion, Private Banks, Public banks

I. Introduction

THIS paper attempts to analyze the distribution of financially included households across income groups, using large scale household level survey data from Mumbai suburban area, India, and the role of the banking sector to shape this distribution. We are primarily interested to answer the following questions. What is the extent of income related inequality in financial inclusion? Does that vary across area studies? Can greater availability of banking services foster financial inclusion, particularly among the poorer households? Finance matters for both economic growth and development. There is substantial evidence that financial development, which refers to effective financial intermediation and markets that provide deep and broad access to formal financial services to economic agents (Roubini and Bilodeau 2008), promotes growth. It is also well documented that financial development plays crucial role in moving households out of poverty – indirectly by stimulating growth and directly by providing savings and credit services to the poor. Jeanneney and Kpodar (2011) find that, in case of developing countries, the direct effect of financial development on poverty reduction is stronger than its indirect effect through accelerating growth, and the benefit of financial development for the poor is greater than the associated cost.

II. Income Related Inequality In Financial Inclusion

Inequality in use of formal financial services across various consumption groups, i.e., there is income related inequality in financial inclusion in India is still a question. However, from policy point of view, it seems to be important to examine the extent of such inequality to promote financial inclusion, particularly among the poor. The reason is, required policy measure in case of uniform distribution of usage of formal financial services across various income groups likely to be different from that in case of non-uniform distribution. Further, any two non uniform distributions can be very different from each other. Therefore, it is important to quantify income related inequality in financial inclusion, which would also be useful to compare the performances of different geographical regions in terms of financial inclusion.

III. The Demand And Cost Factor

The commercial banks operating in India have been found to be reluctant in opening of branches in the rural area. The same phenomena also exist in the urban area of Mumbai. Owing to the demand and cost factor for operation of branches. There are examples where, the banks have opened branches with insufficient manpower and technology. At the same time most of the branches are found in areas with thick population density, thereby denying the facility to many people who reside in remote areas.

The number of branches that the banks have, is an indicator of the capacity of the bank to promote financial inclusion. Extreme poverty has lowered the demand for financial inclusion thereby making the commercial banks, especially the private sector banks very cautious in launching new branches.

The distribution of branches of the private sector banks are in contrast to the distribution of population in Jharkhand as well as India. However, it may be noted that with the increase in the number of bank accounts opened and operated, the incidence of cost per unit of bank account / bank transaction would automatically decrease. According to the consulting giant Boston Consulting Group's (BCG) report "The Next Billion Consumers" (Sinha & Subramanian,2007) the emergence of more and more profitable business models would lead to a reduction in the cost of manpower, usage of technology for distribution and collaboration across industry models. Financial inclusion is closely related to the development of other physical facilities and infrastructure in the city.

IV. Evaluation Study

The evaluation of the project in the city conducted found that:

92.27 per cent households in the city have a bank account but 52.39 per cent of the households had no transactions in their accounts due to various reasons like, distance of the branch (79.64%), Illiteracy (6.60%) and not being interested (10.04%). Non-availability of passbook (75.47%) was cited as the major reason.

Majority of the people contacted were not familiar with the process of opening the account and could not get their

Vaibhav Ashar, Kandivali Education Society's Shroff College of Arts and Commerce, Mumbai 400067. India. (email: Samratsrivastav20@gmail.com

http://dx.doi.org/10.15242/ICEHM.ED0314081

passbooks. However, despite these deterrents and disconnects, the accounts opened under financial inclusion project were gainfully utilized by the bank beneficiaries for effecting transactions. As per the evaluation study, these accounts would have been largely inoperative otherwise.

Note that in this paper we consider that a household is financially excluded if that household does not use any of the financial services provided by institutional agencies; otherwise that household is considered as financially included. That is, we do not distinguish between partial and complete financial inclusion of a household. In order to assess the extent of financial inclusion of a household, it is important to appropriately estimate the need of different financial services by that household, which is beyond the scope of the present paper. It might also be interesting to assess the implications of different policies on dynamics of socio-economic inequality in financial inclusion. We leave these for future research.

V. Suggestions

The following suggestion and recommendation should be take care of for the future references

- Efficient delivery of services with low cost of intermediation
- Substantial upscale of micro credit activities.
- Change attitude and aptitude of staff posted in rural branches; rejuvenation of rural branches and making the rural posting more attractive
- Exploring collaborative support from hybrid channels like NGO's / NFI's / post offices / RUDSETI's / Educational Institutes.
- Fostering real sector linkage amongst farm activities and leveraging technology to the maximum extent possible.

VI. Conclusion

This paper seems to have played a refreshing and reassuring role in leading the way for creating supply of financial services and facilitate their distribution. However the men, machinery and methodology have to be geared up for upgrading quality of services and access. Simultaneously, there is a felt need of extending the customers financial literacy and counseling. Banks might develop clients and demand through financial literacy, education community development, and business development services for clients and increasing publicity as well as developing brand recognition. Banks and local administration have to perform distinctly, but mutually reinforcing roles in achieving social transformation through financial inclusion.

References

[1] Asish Gupta, 2011, "Towards Financial inclusion in India". (SAMVAD, SIBM Pune,2011), [Online] Available at http://www.sibm.edu /FacultyResearch/pdf/samvad2.pdf, pp.68 [Access date 02/07/2012]

[2] Bimal Anjum and Rajesh Tiwari, 2012, "Role of private sector banks for financial inclusion", [Online] Available at http://www.zenithresearch.org .in/images/stories/pdf/2012/Jan/ZIJMR/19%20Bimal%20Anjum%20Role %20of%20private%20Sector%20Banks%20for%20Financial%20Inclusion. pdf[Access date 01/07/2012]

[3] Brij Raj, 2011, "Profitable models for financial inclusion". Available at http://papers.ssrn.com/ sol3/papers.cfm?abstract_id=2080845[Access date 04/10/12]

[4] C.Rangrajan, 2008, Report of the committee on Financial Inclusion – 2008. [Online] Available at http://www.nabard.org/ financial_inclusion.asp [Access date 29/03/2012]

[5]Census data 2011, Website: http://censusindia.gov.in/ 2011census/ censusinfodashboard/stock/profiles/en/IND020_(NAME OF STATE).pdf [Access date 10/07/2012]