Impact of Commercial Banks on Financial Inclusion and Indian Economy

Ashutosh Kumar

***Abstract:** The term financial inclusion means a comprehensive and holistic process of ensuring access to financial services and credit by vulnerable and marginalized group in the society. Inclusive growth means broad- based benefits to all section of people. The eleventh five year plan (2007-12) envisioned inclusive growth as a key objective. India's Twelfth five year plan (2012-17) which its focus on faster inclusive and sustainable growth has put the growth debate in right perspective. Financial Inclusion growth is possible only through proper mechanism which channelizes all the resources to all the direction of the customers. it is an innovative concept which makes alternative techniques to promote the banking habits of the rural people. Because India is considered as largest rural populations in the world and belongs to agriculture activities, financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of financial inclusion in India.*

***Keywords:** Financial Inclusion, Reserve Bank of India, Financial Institutions. Indian Economy.*

I. INTRODUCTION

Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan, 2008). The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, and builds self-confidence and empowerment. In an address Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth. The Economic Development of a nation is highly depends upon a sound banking system which can facilitate mobilization of financial resources and channel them towards productive purpose which will results to high degree of capital formation.

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The effective banking system of nation plays a vital role in executing productive planning. This planning can be optimizing by involvement of unbanked and deprived people in the system and avail the credit and financial services to them. It would ultimately results into a economic growth and overall development of a nation. The process of economic growth, especially when it is on high growth trajectory, must strive to encompass participation from all sections of society.

II. FINANCIAL INCLUSION IN INDIA:

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the mid- term review of the policy (2005-2006). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that too from a pilot project in UT of Pondicherry, by Dr. C.K.Chakarborty, The chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. The commercial banks start a 100% Financial Inclusion Campaign by getting inspired by it. As the result of this campaign States and UT like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision 2020 is to open nearly 600 million new customer's account and service them through a variety of channels by leveraging on it. However there are number of problems which create hurdles in success path. There is a lack of banking habits especially in rural areas of India. Illiteracy, increasing population is continued to be a road block to financial inclusion in many states. RBI, Government of India and NABARD are working continually to achieve the objective of financial inclusion. Government of India and RBI introduced many schemes like Pradhan mantra jhandhan yogna , Atal bima Yojna Sarv siksha abhiyan to promote financial education. Many financial Education centers are providing education about banking and financial services. All such efforts will results into the positive effect on living standard of people and economic growth of the nation (Dr.A.Tamilarasu, February 2014).

III. OBJECTIVE OF PRESENT STUDY:

1. To analyze the Role of Commercial Banks in India.
2. To study the various steps taken by Government of India and R.B.I. to promote financial Inclusion.
3. Impact of Commercial banks on financial Inclusion in India.

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IV. REVIEW OF LITERATURE:

Chibba (2009) in his study reported that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

According to **Massey (2010)** the role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro activeness on the part of capital market player including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion.

Ardic et al (2011) emphasized that using the financial access data base by CGAP and the World Bank group the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

Nalini (2012) studied the measures taken by the banks for financial inclusion in her study on Role of Banks in Financial Inclusion. She further reported that the banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign, business correspondent, advertisement and awareness programme etc. to achieve the aim of 11th plan of Inclusive Growth.

Dixit & Ghosh (2013) focused on the understanding of inclusive growth phenomenon and its need, in their study they emphasized that financial inclusion as an instrument to attain it with reference to its extent in Indian states. The paper explains the meaning and need for inclusive growth, the role of financial inclusion in inclusive growth and to the extent of diversity in Indian states with regard to financial inclusion.

TAMILARASU (2014) said that financial inclusion is the key for inclusive growth. In his study he talked about role of banking sectors on financial inclusion. He stated that India is considered as largest rural populations in the world and belongs to agriculture activities so he argued that financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost .He said that Financial Inclusion growth is possible only through proper mechanism which channelizes all the resources to all the direction of the customers.

Sachdeva (2015) explained the role of public sector banks in financial inclusion. In this report she discussed about the "Pradhan Mantri Jan Dhan Yojna" which aims to provide financial services to each and every part of country. Moreover she argued that financial inclusion is possible only through proper mechanism and governance of banking sector.

Birla (2016) in her study on Role of commercial Banks in financial Inclusion: A study in respect to Indian Economy reveled that financial inclusion is core tool for economic growth of a developing nation like India. In this context government of India is implementing multiple schemes for the purpose of inclusion of unbanked sector of society to achieve the objective of inclusive growth. Commercial banks play significant role by opening new branches especially in rural areas, introducing attractive schemes of investments avail financial education centers and increasing the number of ATMs to attract more and more people towards banking and financial system.

V. RESEARCH METHODOLOGY ADOPTED IN PRESENT STUDY:

The study is partly descriptive, partly analytical .For this study data and information has been collected from secondary sources, with the help of Newspapers, Research Articles, Research Journals, E-Journals, RBI Publication World bank publication and Government of India, Ministry of Statistics and Programme etc.

A. Conceptual Framework

Role of Commercial Banks in India

The number of commercial bank 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 financial system. The role of Commercial Banks of a country is very crucial. The larger number of commercial banks creates larger scope of inclusion of all levels of people-pyramid of economy. It provides a platform which facilitates related financial products and services.

Table 1. **Number of Commercial Banks in India**

Banks/Years	2010	2011	2012	2013	2014	2015
No. of Commercial Banks	**169**	**169**	**173**	**155**	**151**	**152**
Schedule Commercial Bank	**165**	**165**	**169**	**151**	**146**	**148**
Of which RRB's	**82**	**82**	**82**	**64**	**57**	**56**
Non-Schedule Commercial Bank	**4**	**4**	**4**	**4**	**5**	**4**

Source: Progress of Commercial Banks at a glance: RBI Data bank

The study of Table 1 shows that the number of commercial banks in India between March 2010 and 2015 it clearly shows that in the year 2010 it was 169 and remain constant for coming years and in year 2013 shows a decreasing trend (155) which is followed by the year 2014 it shows that 151 commercial banks were in India. The same decreasing trend patterns can be seen in the case of schedule commercial banks and RRB's but the trend of non – schedule commercial bank shows a steady trend from the period of 2010-2015.

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Table 2. Number of Bank Offices in India

Areas/ Years	2010	2011	2012	2013	2014	2015
(A) Rural	32624	33683	36356	39195	45177	48498
(B) Semi-Urban	20740	22843	25797	28165	31442	33703
(C) Urban	17003	17490	18781	19902	21448	22997
(D) Metropolitan	15026	16247	17396	18175	19213	20474
Total Bank Offices in India	85393	90263	98330	105437	117280	125672
Trend Percentage	100%	105.70%	115.14%	123.47%	137.34%	147.16%
Actual increasing percentage	Base	5.70%	15.14%	23.47%	37.34%	47.16%

Source: Progress of Commercial Banks at a glance: RBI Data bank

By interpreting the above table we can see that numbers of bank offices are increasing year by year. In rural area the number of offices of commercial banks are increased by +48.65%, +62.5% in Semi- urban Areas, +35.25% in Urban and +36.25%in Metropolitan area from 2010 to 2015. It symbolize that banks are opening more branches in rural and Semi Urban areas to include rural and unbanked people into the financial system

Table 3. Population per Offices:

Years	2010	2011	2012	2013	2014	2015
Population per offices	13800	13400	12300	11900	10800	10300

Source: Statistics relating to commercial banks at a glance RBI

The interpretation of above **table -3-** shows that the populations per office is decreasing trends year after year Continuously since 2010 – 2015, It was 13800 population per office in the year 2010, but in the year 2015, it shows that only 10300 populations per office.

Table No.4. Aggregate Deposit and Credit Level of Schedule Commercial Banks (Rs. Billion)

Deposits and Credits / Years	2010	2011	2012	2013	2014	2015
(A) Demand Deposits	6456.10	6417.05	6253.30	7671.61	8272.11	7800.53
***(B)*Time Deposits**	38472.16	45662.64	52837.52	61671.19	70862.32	81188.48
Aggregate Deposits	44928.26	52079.69	59090.82	69342.80	79134.43	88989.01
Bank Credit	32447.88	39420.82	46118.52	53931.58	61390.45	64998.29
Percent of Credit allowed	**72.21%**	**75.69%**	**78.04%**	**77.77%**	**77.57%**	**73.04%**

Source: Source: Statistics relating to commercial banks at a glance RBI

Note: Aggregate deposits, bank credit of Scheduled Commercial Banks in India are as per
"Form-A" return under Section 42(2) of the Reserve Bank of India Act, 1934

From the interpretation of the above table we come to a conclusion that deposit level and credit level are showing a increasing trend for all the years. It shows that banking habits of people is having increasing trend. On the other hand credits of commercial banks are also increased by 32550.41 billion which indicates high credit facility is being availed by the commercial banks to make people willing to get included into the system.

Table No.5: Total no. of ATMs (Per100000 adults) :

Number of ATMs / Year	2011	2012	2013	2014	2015
	8.95	11.13	13.05	18.07	19.37

Source: RBI Data base on ATM's

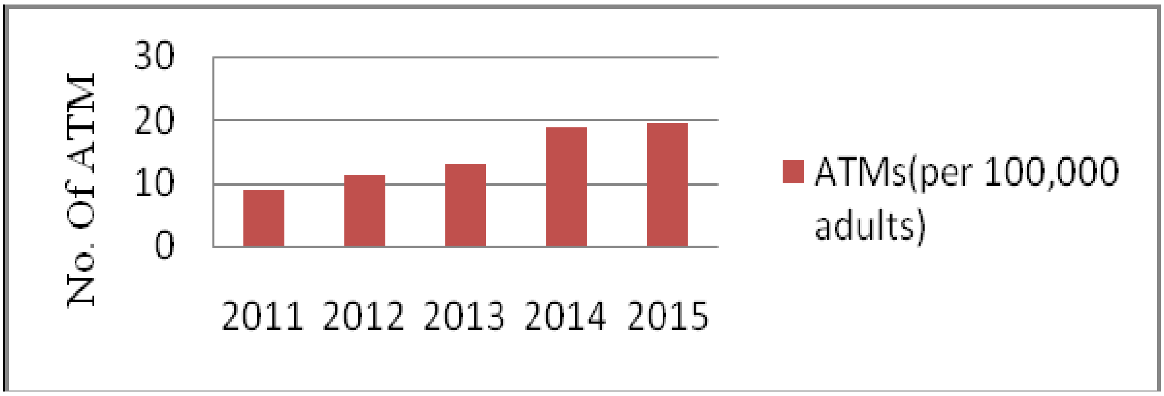

Figure1.

By analysis of the above Table 5 and Figure1 into consideration it can be said that the number of ATMs is increasing from the year2011 to the year 2015 by 10.42 ATMs per 1, 00,000 adults. Which shows that banks are providing more financial services to the people and people can access more ATMs to fulfill their requirements as numbers of ATMs are increasing year by year.

B. Schemes Initiatives taken by RBI, Central Government and NABARD:

Prioritized activities / institutions for support from Financial Inclusion Fund (FIF)

- Training and Capacity Building of the staff of cooperatives including Primary Agricultural Cooperative Society (PACS)
- Training and Capacity Building of the staff of RRBs / Business Correspondents (BC) / Business Facilitators (BF)
- Financial Literacy Centers by Cooperative Banks and RRBs.
- Financial Literacy Campaign/Programmes.
- Projects involving awareness at field level and support in opening of accounts for micro insurance / pension.

VI. FINDINGS

From the above analysis the following findings have been identified:

✓ Number of commercial bank, scheduled commercial bank, RRBs and non scheduled commercial banks number are reduced during the period between 2010 and 2015.

✓ Total number of the bank offices have been increased in almost all the areas (urban, semi-urban, suburban, rural and metropolitan) the increasing trend also shows that banks are opening their branches at high rate during the study period of 2010-2015.

✓ Population per office is showing all the years from 2010 to 2015 steadily the decreasing trends only.

✓ Aggregate deposits and credits granted are all the years increasing, the granting credit by the banking sectors shows the increasing trend forever , the per cent rate also very high year to year, which indicates high credit facility is being availed by the commercial banks to make people willing to get included into the system.

✓ Numbers of ATMs machine installations are showing that the banking sectors are installing the ATMs in almost all the places on campus and off campus,

VII. CONCLUSION

Financial inclusion is core tool for economic growth of a developing nation like India. India is country where level of poverty is high .there are lots of section of society including vulnerable ,deprived, low income group, illiterate household are still suffering from lack of availability of financial services. The cause of such unavailability can be lack of awareness, absence of financial literacy, lack of interest, absence of banking and saving habits etc. In this context government of India is implementing multiple schemes for the purpose of inclusion of unbanked sector of society to achieve the objective of inclusive growth. Commercial banks play significant role by opening new branches especially in rural areas, introducing attractive schemes of investments avail financial education centers and increasing the number of ATMs to attract more and more people towards banking and financial system. The initiatives taken by government of India have mixed impact on Indian economy. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth.

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