

IMPACT OF COMMERCIAL BANKS IN FINANCIAL INCLUSION IN INDIA

N.Chithra¹

Ph.D. Research scholar, Part Time (Ext), Department of Business Administration, Annamalai University, Annamalai Nagar-608002

Dr.K.K.Sabarirajan²

Associate Professor, Department of Business Administration, Annamalai University, Annamalai Nagar-608002

Abstract

In India commercial banks plays an important role in the economic development of the country. The term financial inclusion means ensuring access to financial services and credit by vulnerable, marginalized group in the society. Access to financial services to all citizens, particularly to low income and poor people is a key to promote inclusive growth. India's Twelfth five-year plan (2012-17) which it's focus mainly to achieve an Accelerated, Innovative and Inclusive Growth. Financial Inclusion growth is possible only through proper mechanism which channelizes all the resources to all the directions of the customers. It is an innovative concept which makes alternative techniques to promote the banking habits of the rural people. This paper made an attempt to review the status of financial inclusion in India and also to study the impact of commercial banks on Financial Inclusion and Indian Economy.

Keywords: Financial Inclusion, Indian Economy, Commercial Banks, Inclusive Growth

¹ Research Scholar, Department of Business Administration, Annamalai University, Chidambaram, Tamil Nadu

² Associate Professor, Department of Business Administration, Annamalai University, Chidambaram, Tamil Nadu

Introduction

Financial Inclusion is the delivery of basic financial services at an affordable cost to the vast sections of disadvantaged and low-income groups. It is the *“process of ensuring access to financial services and timely and adequate credit where needed, by vulnerable groups such as weaker sections and low income groups at an affordable cost”*. It is the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (Ashotsh Kuma 2019).

According to **Rangarajan Committee’s’ (2008) and the Government of India’s Committee on Financial Inclusion** in India defines “Financial inclusion as the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost”.

In most of the developing countries of the world including India, the financial sector is composed of the banking sector, the post office, and non-banking financial intermediaries , Micro Finance Intermediaries are taking more initiatives to the include the unbanked into the banking services. However, relatively, a greater volume of financial transactions are made through the formal network of banking institutions in the event of extension of banking facilities to rural regions.

National Strategy for Financial Inclusion in India

Financial inclusion is increasingly being recognized world over as a key driver of economic growth and poverty alleviation. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all.

The National Strategy for Financial Inclusion for India 2019-24 has been prepared by the Reserve Bank under the aegis of the Financial Inclusion Advisory Committee (FIAC) and is based on the inputs and suggestions from the Government of India, other financial sector regulators viz., Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). This document also reflects various outcomes from wide-ranging consultations held with a range of stakeholders and market players, including National Bank for Agriculture and Rural Development (NABARD), National Payments Corporation of India (NPCI), Commercial Banks, Non-Governmental Organizations (NGOs), and Self-Regulatory Organization’s (SROs), etc.

The document includes an analysis of the status and constraints in financial inclusion in India, specific financial inclusion goals, action plan to reach the goals and the mechanism to measure progress. The strategy envisages making formal financial services **available, accessible, and affordable** to all the citizens in a **safe and transparent** manner to support **inclusive and resilient** multi-stakeholder led growth. It proposes forward looking recommendations to help achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model, access to livelihood and skills

development, financial literacy and education, customer protection and grievance redressal with effective co-ordination. While the various initiatives have helped in extending financial services to the hitherto excluded sections of society, the strategy aims to focus on deepening the reach, usage and sustainability of financial inclusion. The document was approved by the Financial Stability and Development Council Sub-Committee on March 14, 2019.

Objectives of the Study

The present study made an attempt

- i) To analyze the Role of Commercial Banks in India.
- ii) To study the various steps taken by Government of India and R.B.I. to promote financial Inclusion.
- iii) Impact of Commercial banks on financial Inclusion in India.

Review of Literature

Financial Inclusion: Issues and Challenges, by **S. Mahendra Dev (2006)**, pointed out the importance of Financial Inclusion in improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. The author has mentioned in his study that Financial Exclusion in terms of access to credit from formal institutions was high for small and marginal farmers and some social groups.

An Analytical Study: Relevance of Financial Inclusion For Developing Nations, **Dr. Anupama Sharma, Ms. Sumita Kukreja (2013)** revealed that the study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

"The impact of financial inclusion on monetary policy in Nigeria", **Mbutor O. Mbutor* and Ibrahim A. Uba (2013)** found in this paper presents a simple model showing the impact of financial inclusion on monetary policy in Nigeria between 1980 and 2012. The result of the study supports the notion that growing financial inclusion would improve the effectiveness of monetary policy.

"Role of Commercial Banks in the Financial Inclusion Programme", by **Raihanath. MP, Dr. K.B. Pavithran (2014)**, the author has noted for the success of the financial inclusion initiative what is important is to provide banking services at an affordable cost to the disadvantaged and low income group. Commercial banks have to perform a vital role in this regard.

Ashutosh Kumar (2019), "Impact of Commercial Banks on Financial Inclusion and Indian Economy" 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. 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.

Methodology adopted for this Study

The study is partly descriptive and analytical .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.

Role of Commercial Banks in India

Role of Commercial banking activities provides an opportunity for the people of our country to participate in the formal financial system and to utilize financial services of financial system. 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 banking services.

Table 1. Number of Commercial Banks in India

Banks/Years	2014	2015	2016	2017	2018
No. of Commercial Banks	151	152	152	152	151
❖ SCBS	146	148	149	150	149
❖ RRBs	-	57	56	56	56
Non Scheduled Commercial banks	5	4	3	2	2

Source: Inclusive Report 2018, RBI

From the above **Table** shows that the number of commercial banks in India between March 2014 to 2018.It clearly shows that in the year 2014 it was 151 and in year 2015 shows a decreasing trend (152) remains constant for the subsequent year which is followed by the year 2018 it shows that 151 commercial banks were in India. The same increasing and 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 down trend from the period of 2014-2018.

Table 2 Number of Bank Offices in India

Areas/ Years	2014	2015	2016	2017	2018
Rural	45,177	48,198	46,577	48,232	49,848
Semi – Urban	31,442	33,703	36,464	37,880	39,476
Urban	21,448	22,997	23,867	24,877	27,213
Metropolitan	19,213	20,474	25,679	26,871	29,745
Total Bank offices	1,17,280	1,25,672	1,32,587	1,37,770	1,46,282
Trend percentage	100%	107.15%	113.05%	117.47%	124.72%
Actual Increase Percentage	Base	7.15%	13.05%	17.47%	24.72%

Source: Inclusive Report 2018, RBI Annual Report.

It is evident from 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 +38.64%, +26.9% in Semi- urban Areas, +18.60% in Urban and +20.33% in Metropolitan area from 2014 to 2018. It indicates that banks are opening more branches in rural and Semi Urban areas to include rural and unbanked people into the formal financial system.

Table 3 Population per Branch Offices

Years	2014	2015	2016	2017	2018
Population per Offices	11,000	10,000	9,400	9,050	9,610

Source: Progress of Commercial bank at a Glance, RBI Annual report

Table -3- shows that the populations per office is decreasing trends year after year continuously from 2014 – 2018, It was 11,000 population per office in the year 2014, but in the year 2018, it shows that only 9,610 populations per office.

The below Table 4 Aggregate Deposit and Credit Level of Schedule Commercial Banks reveals that deposits in SCBs banking habits of people is having increasing trend and on the other side credit are also increased by 61,390 – 86,826 in the year 2014 – 2018.

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

Deposits & Credits	2014	2015	2016	2017	2018
Deposits of SCBs					
Demand	8,272	7,801	35,190	44,144	52,898
Time	70,862	81,118	61,409	63,370	67,570
Credits of SCBs	61,390	64,998	75,209	79,270	86,826
Aggregate %	86	80	102.84	98.83	103.15

Source: Progress of Commercial bank at a Glance, RBI Annual report

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

Number of ATMs P	2014	2015	2016	2017	2018
ATMs (Including Public, Private, Foreign Banks)	18.07	19.37	19.97	21.45	20.52

Source: RBI, Annual Report on Inclusive 2018

The above Table states that the number of ATMs is increasing from the year 2014 to 2017 and in the year 2018 it shows decreasing trend by 20.52 ATMs per 1, 00, 000 Adults. It is clearly indicates that banks are providing more financial assistance to the people who can access to fulfill their need and use of ATMs are increasing year by year.

Recent Initiatives taken by RBI & Government of India

There are varieties of initiatives through which financial inclusion can be achieved in India. There are some initiatives taken by the financial regulators, government, and banking officials in India. They are:

- No frills account
- BSBDA – Basic savings bank deposit account
- LBS – Lead banking scheme
- PMJDY – Pradhan Mantri Jan Dhan Yojana
- Business correspondent system

Conclusion

The role of Commercial banks in India plays very important 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 people towards banking and financial system. The aggregate of Deposit and Credit level of scheduled commercial banks shows increasing trend year by year i.e 2014 to 2018. In the recent days, there are varieties of initiatives taken by government of India & RBI together mixed has a great impact on Indian economy. Major advantages of bank role in meeting the scheme investments are transparency, timely flow of credit and good governance. Apart from this, finances are routed through the banks for implementation of anti-poverty programmes, i.e all people can fold into the banking and financial services.

References

1. **Ashutosh Kumar (2019)**, “Impact of Commercial Banks on Financial Inclusion and Indian Economy” *International Journal of Management and Humanities (IJMH)* ISSN: 2394-0913, Volume-3 Issue-10, June 2019.
2. **Alok Misra Ajay Tankha (2018)**, “ Inclusive Finance India Report 2018”, ISBN: 978-81-939075-0-4, <https://www.inclusivefinanceindia.org/>
3. **S. Mahendra Dev (2006)**, “Financial Inclusion: Issues and Challenges” *Economic and political weekly* 41(41):4310-4313, 2006.
4. **Dr. Anupama Sharma, Ms. Sumita Kukreja (2013)**, “An Analytical Study:Relevance of Financial Inclusion For Developing Nations” *Research Inventy: International Journal Of Engineering And Science* Issn: 2278-4721, Vol.2, Issue 6 (March 2013), Pp 15-20.
5. **Mbutor O. Mbutor* and Ibrahim A. Uba (2013)**, “The impact of financial inclusion on monetary policy in Nigeria”, *Journal of Economics and International Finance*, Vol. 5(8), pp. 318-326, November, 2013.
6. **Raihanath. MP, Dr. K.B. Pavithran (2014)**, “Role of Commercial Banks in the Financial Inclusion Programme”, by, *Journal of Business Management & Social Sciences Research (JBM&SSR)* ISSN No: 2319-5614 Volume 3, No.5, May 2014.
7. **Radhika Dixit, Munmun Ghosh (2013)**, “Financial Inclusion for Inclusive Growth of India - A Study of Indian States”, *International Journal of Business Management & Research*, vol.3 Issue. 1 , March 2013, 147-15