

Role Of Private Sector Banks In Financial Inclusion: A Case Study On West-Bengal

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ABSTRACT : The banking industry has shown tremendous growth in volume and complexity during the last few decades, the main concern is that the banks have not been able to reach and bring vast segment of the society into the fold of basic banking sector. Financial inclusion, of late has become one of the major attentions in academic research, public policy, seminars in view of its important role in aiding economic development of the resource poor developing economies. RBI has also taken up different measures to improve the financial inclusiveness of the economy of the country. Rangarajan Committee (2008) on financial inclusion stated that “Financial inclusion may be defined as 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”. West-Bengal is one of the most dispersed state in terms of financial inclusion, where only North 24 Parganas and Kolkata showed high levels of inclusiveness (RBI Working Papers).

This paper puts emphasis on the present scenario of financial inclusion in the state and outreach of private sector banks (member of SLBC, West-Bengal) in reaching out the different excluded section of the society.

Keywords : Financial Inclusion, FIP, SLBC, Private Sector Banks.

I. Introduction

Financial Inclusion (FI) is defined by RBI “as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost from mainstream financial institutions”. Financial inclusion is not a new dispensation. Since the era of Bank nationalization in 1969 efforts were made to open bank branches across the geographical boundary of the country and to include the excluded mass of the country. Despite geographical and functional outreach of the commercial banks, small and marginal firms, women, unorganized sector workers, artisans, self-employed, unemployed, pensioners etc remained excluded from the opportunities and service provided by the formal financial sector. RBI advised all public and private sector banks to devise Financial inclusion Plan (FIP) with their business strategy and to make FIPs an integral part of their corporate plans. These plans were setting up of rural brick & motor branches, deployment of Business Correspondence (BC), coverage of unbanked mileages with population above and below 2,000 through branches/ BCs / other modes , no fills accounts, including through BC-ICT, Kisan Credit Cards (KCC) and General Credit Cards (GCC).

On the basis of the above plans large number of banking outlets were opened in the rural areas and villages across the country and millions of accounts were opened. But ironically, FI is not just opening of savings bank A/C, it includes creation of awareness about financial products and offering of advice on money management and debt counseling. Newly nationally – representative data from the 2012 Global Financial Inclusion (FINDEX) data base revealed that only 35 % of all adults in India have an account at formal financial institutions (Demirgüç-kunt and Klapper, 2012). Despite different financial plan adopted by RBI, there exists a very low inclusiveness. The reason for such is due to factors from both the demand and supply sides. Lack of awareness, low incomes, poverty and illiteracy are the factors that lead to low demand for financial services and resulting into exclusions. On the other hand distance from branch, branch timing, complexities in documentation and procedures, language barriers and staff attitudes all contributes to exclusion. All these above factors leads to flourishing of so called “Unorganized Financial Institutions” in the society.

With this background the major objective of this paper is to examine the extent of financial inclusion in West-Bengal. Since financial inclusion is meant to include all the sections of the society, who are mainly excluded out of formal financial sector, we concentrate only on the role of some private sector banks (ICICI bank, HDFC bank, AXIS bank, Indusind bank) enlisted in the State Level bankers committee (SLBC), W.B. SLBC is a committee headed by a bank which conducts meeting about the proceedings and the progress of different FIPs as directed by RBI. In West-Bengal, United Bank Of India is the convener of SLBC. Initially this committee took up the task of expansion of bank branches but later on decided to give stress upon operation like agricultural lending to small and marginal farmers,

financing to share croppers and Patta-holders. With the passage of time this committee included Regional Rural banks (RRBs) to launch different programmes for the socio-economic upliftment of the rural people.

The paper will put focus on the activities of the private sector banks for financial inclusiveness and the outreach of such banks in reaching the excluded sections of the society.

II. Objective of the study

- a) **To list the various policy initiatives of RBI with respect to financial inclusion.**
- b) **To study the outreach of selected private sector banks in financial inclusion plans in W.B.**

III. Research Methodology

Research methodology is partly descriptive, partly exploratory and partly casual. For this study data and information has been collected with the help of books, magazines, newspapers, research journals, e-journals, report of RBI, SLBC report, and report of National and international institutions.

IV. Presentation of facts

a) **RBI Policy Initiatives :-**

RBI has adopted bank-led model for achieving financial inclusion. The initiatives are as follows :-

- RBI advised all banks to open **Basic Savings Bank Deposits (BSBD) accounts** with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels,. Facility of providing ATM cards.
- **Relaxed and Simplified KYC norms** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in accounts not exceeding Rs. 1,00,000 in a year. In addition banks are allowed to use AADHAR card as a proof of both identity and address.
- Compulsory requirement of **opening branches in unbanked villages**. Banks are directed to allocate at least 25% of the total no of branches to be opened during the year in unbanked rural centers.
- **Simplified Branch Authorization Policy** to address the issue of uneven spread bank branches, domestic Scheduled Commercial Banks (SCBs) are permitted to freely open branches where population is less than 1,00,000 under general permission. In North-Eastern states and Sikkim domestic SCBs can open branches without any permission from RBI.
- **Opening of inter-mediate brick and mortar structure** for effective cash management, documentation, close supervision of BC operation, banks have been advised to open inter-mediate structure between the present base branch and BC locations. These branches would be in the form of low-cost simple brick and mortar structure consisting of minimum infrastructure.
- Public & Private sector banks have been advised to submit board approved 3 year **Financial Inclusion Plan (FIPs)** starting in April'2010. These policies aim at keeping self set targets in respect of rural brick and mortar branches opened, BCs deployed, coverage of unbanked villages with population above 2,000 and as well as below 2,000, BSBD accounts opened, KCCs, GCCs issued and others.
- Banks have been advised that there **FIPs should be disaggregated and percolated down up to the branch level**. This would ensure the involvement of all stake-holders in the financial inclusion efforts.
- RBI advised that **Financial Literacy Centers (FLCs)** and all the rural branches of SCBs should scale up financial literacy efforts through conduct of outdoor literacy camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e; '**Financial Literacy**' and easy '**Financial Access**'.
- The present round of **licensing new banks** is essentially aimed at giving further fillip to financial inclusion efforts in the country. FIP would be an important criterion for procuring new bank licenses. (Dr. D. Subbarao).

b) **Outreach of Private Banks :**

Progress of financial inclusion since the launch of financial inclusions plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs, GCCs and others. Details information is furnished in the forming points and tables.

❖ **Total No. of Branches in Rural and Unbanked Village :**

A target of opening rural branches and opening branches in unbanked villages was set on four private sector banks viz, ICICI bank, HDFC bank, AXIS bank and INDUSIND bank up to March'14. ICICI bank & HDFC bank easily reached the target by Dec'13. AXIS bank's performance is quiet satisfactory. Just short of 11 branches with a quarter remaining, but INDUSIND bank almost lagged behind in every respect (Fig. 1).

Fig 1: Total No. of Branches in Rural and Unbanked Village

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March'14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13
Total No. of Branches	150	168	134	138	161	150	35	0	480	456
Out of 1 above, No. of Rural Branches	4	13	7	17	18	16	3	0	32	46
No. of Branches in unbanked villages	1	1	0	11	0	0	0	0	1	12
Total No. of CSPs deployed	11	27	7	126	132	89	0	0	150	242

Source: SLBC, West-Bengal

❖ **Banking Outlets in villages with population above 2,000 as well as below 2,000 :**

A total target of 491 banking outlets in villages above 2,000 and a target of 1266 banking outlets in villages below 2,000 was set for those four banks, but these banks failed by a massive margin in both villages (Above 2,000 as well as below 2,000), but the worse figure was observed in the villages below 2,000 population (Fig. 2).

Fig. 2: Banking Outlets in villages with population above 2,000 as well as below 2,000

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March '14	Month ended Dec'13
No. of Banking outlets in villages with population >2000										
---- Through Branches	4	13	7	15	18	16	3	0	32	44
----Through BCs										
-----Through other modes	6	8	0	31	223	0	0	0	229	139
Sub Total >2000	0	0	230	0	0	0	0	0	230	0
	10	21	237	46	241	16	0	0	491	183
No. of Banking outlets in villages with population < 2000										
---- Through Branches	0	0	0	2	0	0	0	0	0	2
----Through BCs										
-----Through other modes	10	8	10	57	1005	89	0	0	1025	154
Sub Total < 2000	0	0	241	0	0	0	0	0	241	0
	10	8	251	59	1005	89	0	0	1266	156
Total banking outlets in all villages	20	29	488	205	1,246	105	3	0	1757	339
No. of BC outlets in Urban location	2	11	0	0	0	0	0	0	2	11

Source: SLBC, West-Bengal

❖ **Basic Savings Bank Deposit Account (BSBDA) :**

RBI has advised to open BSBDA and also to provide overdraft facility (OD) on such accounts. The total target of opening BSBDA has been achieved but Indusind bank failed to open such accounts. All the four banks did not take any initiative to provide small OD facility (Fig. 3).

Fig. 3: Basic Savings Bank Deposit Account (BSBDA)

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March '14	Month ended Dec'13
Basic Savings Bank Deposit Account (BSBDA) [Through Branches]										
.... No. in Lac	0.24	0	0.72	1	0.34	0.23	0.08	0	1.29	1.23
....Amount in Crore	1.42	1.34	0	4	1.51	0.59	0.58	0	2.94	5.93
Basic Savings Bank Deposit Account (BSBDA) [Through BCs]										
.... No. in Lac	0.15	1	0.02	0	0.96	0.71	0	0	1.13	1.71
....Amount in Crore	0.05	0.05	0	0	0.98	1.83	0	0	1.02	1.88
Basic Savings Bank Deposit Account (BSBDA) [Bank as a whole]										
.... No. in Lac	0.39	1	0.74	1	1.29	0.93	0.08	0	2.5	2.94
....Amount in Crore	1.47	1.39	0	4	2.49	2.42	0.58	0	4.53	7.81
OD facilities availed in BSBDA										
....No. in Lac	0	0	0	0	282	0	0	0	282	0
....Amount in Crore	0	0	0	0	0.01	0	0	0	0.01	0

Source : SLBC, West-Bengal

❖ **Kisan Credit Cards (KCCs) issued :**

Banks has been advised to issue KCCs to small farmers for meeting their credit requirements. Against a target 0.19 lakhs issue of credit cards only 0.04 lakhs has been issued by only HDFC & AXIS bank up to Dec'2013 (Fig. 4).

Fig. 4: Kisan Credit Cards (KCCs) issued

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March '14	Month ended Dec'13
KCCs outstanding through branches										
...No in Lacs	0	0	0.13	0	0.06	0.04	0	0	0.19	0.04
...Amount in Crore	0.00	0.00	0.21	186	166	69.17	0.00	0.00	166.21	255.17
KCCs outstanding through BCs										
...No in Lacs	0	0	0	0	0	0	0	0	0	0
...Amount in Crore	0	0	0	0	0	0	0	0	0	0
KCCs total (Bank as a whole)										
....No in Lacs	0	0	0.13	0	0.06	0.04	0	0	0.19	0.04
....Amount in Crore	0.00	0.00	0.21	186	166	69.17	0.00	0.00	166.21	255.17

Source : SLBC, West-Bengal

❖ **General Credit Cards (GCCs) issued :**

Banks have been advised to issue GCC facility upto Rs. 25,000 at their rural and semi-urban branches. Upto Dec'2013, GCC outstanding through branches were .001 lakhs and GCC outstanding through BCs were nil (Fig. 5).

Fig. 5: General Credit Cards (GCCs) issued

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March'14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March '14	Month ended Dec'13
GCCs outstanding through branches										
...No in Lacs	0	0	0.01	0	0	0.001	0.15	0	0.01	0.001
...Amount in Crore	0	0	0.00	16	0	83.3	414.40	0	0	99.3
GCCs outstanding through BCs										
...No in Lacs	0	0	0	0	0	0	0	0	0	0
...Amount in Crore	0	0	0	0	0	0	0	0	0	0
GCCs total (Bank as a whole)										
....No in Lacs	0	0	0.01	0	0	0.001	0.15	0	0.01	0.001
...Amount in Crore	0	0	0.00	16	0	83.3	414.40	0	0	99.3

Source : SLBC, West-Bengal

❖ **ICT Based Accounts through BCs :**

In order to provide efficient and cost-effective banking services in the unbanked and remote corners of the country. RBI directed commercial banks to provide ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.

The no. of ICT based transactions were very low till Dec'2013 accounting for only 0.14 lakhs accounts against whom a target of 5.59 lakhs till March'2014 was set (**Fig. 6**).

Fig. 6: ICT Based Accounts through BCs

Financial Inclusion Plan Disaggregation	ICICI BANK		HDFC BANK		AXIS BANK		INDUSIND BANK		TOTAL	
	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March' 14	Month ended Dec'13	Target upto March '14	Month ended Dec'13
Savings Deposits ...No. in Lakhs ...Amount in Crore	0.00 0	0 0.08	0 0	0.00 0	0.30 0.52	0.07 0.22	0 0.00	0 0	0.3 0.52	0.07 0.03
Credit/OD ...No. in Lakhs ...Amount in Crore	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Term Deposits ...No. in Lakhs ...Amount in Crore	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Others ...No. in Lakhs ...Amount in Crore	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Total of transactions in BC-ICT A/cs ...No in Lakhs ...Amount in Crores	0 0.00	0 0.08	0 0	0.00 0	0.30 0.52	0.07 0.22	0 0.00	0 0	0.3 0.52	0.07 0.03

Source: SLBC, West-Bengal

V. Conclusions & Recommendations :

Though Private Sectors Banks are much more technologically advanced and more organized than the Public Sector Banks but in this context their effective contribution is not at all satisfactory. Large No. of accounts were opened in the rural areas and unbanked villages but majority of these accounts remain without minimum required operations. Among the four selected private sector banks of this paper The INDUSIND bank failed in every respect as compared to other three banks. The penetration through the schemes like KCC & GCC in the unbanked areas failed to have an impact on the excluded masses. In against of the target of 5.59 lakhs, only 0.14 lakhs in BC-ICT transaction had been achieved so far.

Relaxation in documentation and banking norms, Reduction of high usage of technology in banking matters in the rural areas, Reduction of transaction cost in access to savings and credit, Announcement of easy banking procedures (like Tab Banking introduced by ICICI bank), Arrangement of financial literacy camps in the regional languages, Review of actual conversion of the participants of the financial literacy camps into potential customers should be recommended.

The banks may be suggested to diverge the promotional expenditure regarding the importance of involvement in organized financial sector considering more attraction of the rural people towards them

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