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Role of Banks in Financial Inclusion and Rural Development

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Abstract

The objective of the paper is to understand how financial inclusion through cooperative banks can be a viable option for inclusive growth in India. The present study is based on secondary data. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in developing countries like India. Financial inclusion is a process of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream financial institutional players. In our country, Reserve Bank of India (RBI) has formulated the policy of financial inclusion with a view to provide banking services at an affordable cost to the disadvantaged and low-income groups. It is evident that banks have feasible options for inclusive growth through rural development, creating opportunities for employment and income generation.

Keywords: *Banking services, Financial inclusion, Rural development, Reserve Bank of India (RBI), Financial institutions*

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INTRODUCTION

The importance of cooperative banks has soared in recent years with the emergence of financial enclosure as a key thrust of public policy in India. Financial enclosure is generally defined as the availability of banking services at an affordable cost to disadvantaged and low-income groups. Rangarajan Committee (2008), "Financial enclosure may be defined as the process of ensuring access to financial services and timely and enough credit where needed by exposed groups such as weaker sections and low income groups at a reasonable cost" [1]. Extent of financial enclosure includes services like opening of bank accounts, immediate credit facilities, insurance facilities, financial advisory services, etc. Financial enclosure is a strategy of inclusive growth, but inclusive growth itself is a subset of a larger set of inclusive expansion means that the benefits reach all the poor in the area, mainly women and children, minority groups, the particularly poor in the rural areas. Financial enclosure can be termed as a quasi-public good [2] because there is a meek doubt that financial enclosure meets the two criteria such as non-rival and non-excludability to a large measure; to that extent, it is a semi-public good and more the scale of financial inclusion may be different from the position of a representative public good has to execute it with the help of other institutions. The demand side of financial enclosure is education, skill development, and health, irrigation, power, roads, transport, marketing arrangement, etc. Supply side of financial enclosure includes accessibility of appropriate finance at reasonable rate of interest [3]. India create a collective self-governing policy of the government to guarantee impartial development of all sections of the economy is very momentous as this directly affects the economic status need financial hold up at reasonable costs and rate. Trade and industry liberalization policies of inclusive growth connect every citizen in the monetary development to understand the magnitude of main concern sectors such as supportive banks' lending in ensuring comprehensive growth [4]. Dr. Chakrabarty, Deputy Governor, Reserve Bank of India, "Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities" [5].

- Banks play a crucial role in economic development.
- Local Community;
- Banks provide access to subsidy and financial services to both local business and citizens.
- To credit and financial services to better businesses, local governments, and in some cases global trade.
- Economic expansion and international economic development process.
- Trade and industry development involve enhanced education, sanitation, healthcare, housing, water
- Economic development by appropriate agreements decreases barriers to exports from developing countries.
- International economic development includes looking at the type of policies that may bring about a sustainable improvement in the economy.
- Developing countries are in the same stage of development and they differ greatly in terms of their land area, natural resources, population, geographical position, infrastructure, and political systems.
- Framework of international economic development: each developing country must formulate its own specific policies to achieve sustainable development.
- Rising transmission of mobile services and ATMs in rural areas of India has a new possibility to achieve financial enclosure and is a precious instrument to offer monetary services to the rural areas, with condensed operating cost for providing access to banking services in remote rural India [6].
- Comprehensive growth in technology and knowledge with the banks.
- Support of the government,
- Favorable operation of the Investment.
- NGOs.
- Post Office Saving Bank (POSB) can be used rural India.
- Increase convenience of goods and services to economic growth.
- They persuade presentation and competition.

Commercial Banks in India are categorized into foreign banks, private banks, and public sector banks. Commercial banks indulge in varied activities such as acceptance of deposits, acting as trustees, offering loans for different purposes and are even allowed to collect taxes [7].

CREDIT RATING AGENCIES IN INDIA

- CRISIL
- ICRA

Securities and Exchange Board of India

The Securities and Exchange Board of India (SEBI) was founded in the year 1992 in order to protect the interests of the investors and to facilitate the functioning of the market intermediaries. They supervise market conditions, register institutions, and indulge in risk management [8].

Insurance Companies

Insurance companies offer protection against losses. They deal in life insurance, marine insurance, vehicle insurance, and so on. The insurance companies collect the little saving of the investors and then reinvest those savings in the market. The insurance companies are collaborating with different foreign insurance companies after the liberalization process.

Specialized Financial Institutions

These are government undertakings that were set up to help different sectors, and thereby cause overall development of the Indian economy. The significant institutions falling under this category includes

- Board for Industrial & Financial Reconstruction
- Export-Import Bank of India
- Small Industries Development Bank of India
- National Housing Bank [9]
- Small Industries Development Bank of India (SIDBI)

Industrial Development Bank of India

Industrial Development Bank of India was a wholly owned subsidiary of RBI up to February 1976. It was delinked from RBI in February 1976 and was made an autonomous corporation fully owned by the Government of India. The IDBI is the apex financial institution and besides providing financial assistance on consortium basis, the major function of coordination among various institutions is looked after by the bank [10].

Industrial Finance Corporation of India

Industrial Finance Corporation of India was established on July 1, 1948, as the first development financial institution in the country to cater to the long-term finance needs of the industrial sector. This newly-established institution was provided access to low-cost funds through the central bank's statutory liquidity ratio or SLR, which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates [11].

National Bank for Agriculture and Rural Development (NABARD)

NABARD was established as a development bank, in terms of the Preamble of the Act, "for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts, and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto" [12].

1. Summit financing agency for the institutions providing investment and production
2. Credit delivery system
3. Monitoring
4. Formulation of treatment schemes
5. Reformation of credit institutions
6. Guidance of workers, etc.
7. Coordinates rural financing

ICICI Bank

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI Bank is India's second-largest bank. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital, asset management, and information technology [13].

State Bank of India

State Bank of India was constituted on 1 July 1955. More than a quarter of the resources of the Indian banking system thus passed under the direct control of the State. Later, the State Bank of India Act was passed in 1959, enabling the State Bank of India to take over eight formers state-associated banks as its subsidiaries [14].

Regional Rural Banks (RRBs)

RRBs are designed for comprehensive and sustainable monetary growth funds structure during credit and monetary services identical opportunities, enables economically and collectively better into the economy, to actively contribute to progress and defend against monetary crisis [15].

- To explain the intangible aspect of financial enclosure
- To explain need of financial enclosure particularly for the developing countries
- To illustrate financial enclosure in global perspective and in the context for India
- To observe the role of RRBs in financial inclusion

There are three types of exclusions:
(a) Regulated financial system;
(b) Limited access to banks and other financial services; and
(c) Persons who have inappropriate goods.

Major grounds for financial enclosure are
(a) Lack of banking facility in the locality
(b) Monetary illiteracy
(c) Casual approach of the personnel
(d) Unwieldy records and procedures
(e) Inappropriate goods
(f) Language
(g) Lack of awareness
(h) Low incomes
(i) Remoteness from branch and branch timing
(j) Fear of rejection

Cooperative Banks

Cooperative Banks are managed and organized by their own members who can very easily help and provide financial services in the rural areas that are not entertained by commercial banks.

Non-Banking Financial Companies (NBFCs)

NBFCs are fast emerging as an important segment of Indian financial system. NBFCs are regulated by RBI Act 1934 (Chapter III B). A 'non-banking financial company' is defined as: (i) a financial institution which is a company; (ii) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme of arrangement or in any other manner, or lending in any manner; (iii) such other non-banking institution or class of such institutions [16]. The NBFCs accepting public deposits should comply with the NBFC directed by RBI guidelines 1998. Regulations relating to acceptance of deposits by the NBFCs are following:

- Public deposits for a minimum period of 12 months and maximum period of 60 months.
- They cannot accept deposits repayable on demand.
- They cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time.
- They cannot offer gifts/incentives or any other additional benefit to the depositors.
- They should have minimum investment grade credit rating.
- Their deposits are not insured.
- The repayment of deposits by NBFCs is not guaranteed by RBI.

NBFCs Registered with the RBI

- Equipment leasing companies
- Hire-purchase companies
- Loan companies
- Investment companies [17]

Microfinance Institutions

Microfinance companies are the financial institutions that offer small-scale financial services in both forms – credit and savings – especially to the poor in rural, semi-urban, and urban areas. These financial services are meant to help them in undertaking economic activities, mitigating vulnerabilities to income shocks, smoothening consumption, increasing savings and supporting self-empowerment [18].

Post Office

Post offices are present even in the remotest areas of rural India. In view of their wide network, they can provide all kinds of small and microfinance services in rural areas by providing door-to-door services, if the government permits.

CHALLENGES OF FINANCIAL ENCLOSURE

- Lack of technology
- Non-functional hand-held devices
- Unavailability of power
- Network and limited number of technology service providers to cover the unbanked villages
- Some of the policy changes to improve Financial enclosure were hurriedly executed without setting up an appropriate regulatory authority and proper consumer education.

RESERVE BANK OF INDIA

The Reserve Bank of India was established in the year 1935 with a view to organize the financial frame work and facilitate fiscal stability in India [19]. The Reserve Bank guidelines:

- Financial enclosure plans
- Self-set targets in respect of opening of rural brick and mortar branches
- Employment of commerce correspondents
- Coverage of rural areas.
- Opening of plain accounts
- Kisan Credit Cards (KCCs) and
- Credit cards
- Opening of saving accounts
- Exercise on client norms
- Customer satisfaction.
- Use of technology
- Electronic Balance Transfer
- Credit card
- Basic local office permission
- Opening of branches in rural centers
- Commerce Correspondents

CONCLUDING REMARKS

In the end, it can be said that the goal of financial enclosure is not new for India. Every successive government has made necessary efforts to move toward better financial enclosure scenario. RBI has also been particularly instrumental in introducing initiatives in this regard. However, the key lies in efficient implementation of the current policies as well as introducing innovative schemes and methods as to increase the accessibility of the rural poor towards better financial services. Government and RBI working in concert can definitely help India in its pursuit of complete financial inclusion. India has to look upon the inclusive growth and financial enclosure is the key for inclusive growth. End of financial enclosure while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial enclosure has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

- **Financial Literacy:** It is necessary to educate the people, especially the rural population on the importance to save. Financial literacy camps must be organized from time to time in collaboration with state governments and village panchayats.
- **Information, Communication and Technology:** Technology indeed plays a crucial role in the process of inclusion. The potential of mobile banking largely remains unused.
- **License to New Banks:** There is need to increase in the number of participants in the banking industry.
- **Increased Penetration of Banks:** There are still numerous villages in India where formal financial institutions do not exist. Rural areas have no option other than borrow money from the money lenders who charge exorbitant interest rates. Branches must be opened in such remote areas.

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