"A Comparative Analysis of Financial Inclusion strategies in Banks with Special reference to SBI and ICICI"

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1. Financial Inclusion
2. MFI s (Micro Finance Institutions)
3. Self Help Group (SHG) linkages
4. Prime Minister's Jan Dhan Yojana (PMJDY)

ABSTRACT

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. Less than half the

population in India has access to any formal financial instrument. Previous work and initiatives in promoting financial inclusion have mostly focused on the process, that is, how to make banking costs lower. However, such efforts have seldom yielded much. The institutions relied upon have their own problems.

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. Reserve Bank of India has planned Aadhaar-linked bank accounts for all adults of India by January 2016 to meet its commitment on financial inclusion.

This study is an attempt to analyse and compare the strategies for financial inclusion of State Bank of India and ICICI Bank. The role of Bank Linkage schemes with SHG s and the role of MFI s in financial inclusion strategies of SBI and ICICI Bank are evaluated.

I INTRODUCTION The traditional image of Micro Finance is one of charitable activity conducted mostly by nonprofit organizations and separate from the mainstream financial system. However, this image has been changing in India in the last few years as Commercial Banks have been widely entering the sector. Banks in India have begun to enter the Micro finance lending Market, and many are partnering with regional Micro Finance Institutions. Increasingly, loans as small as Rs. 4600 are being offered by mainstream Indian Banks such as ICICI, SBI, HDFC and UTI, and often contain unconventional covenants typical of Micro Finance transactions.

India has one of the largest networks of bank branches in the world, but the hundreds of million of poor in the country are largely out of it. Banks were nationalized three and a half decades ago with the hopes and promise that their products and services would reach the poor. But that goal is not even close to being met today. With 52000 Commercial banks branches, 14522 branches of Regional Rural Banks and 100000 Cooperative Banks branches, the country is teeming with institutions that should be able to meet the credit needs of the people. But if you are poor, you are also probably out of luck with the banks; it is tough persuading them to even let you open a bank account. The consequences have been devastating. 75 million households in India depend on money lenders to meet financial needs; almost 90% of people in rural India have no access to insurance; 50 million households are landless and need small credit to start some economic activities. And even families earning Rs. 4000 – Rs. 5000 a month in urban areas spend huge portions of their earnings to service their ever continuous debt.

But out of necessities and enterprise, these locked out of the banking system would have found a way out. It is called Micro Finance – the extension of small loans to individuals who are too poor to qualify for traditional bank loan as they have no assets to be offered as guarantee. In India Micro Finance has worked largely through SHGs. Predominated by women, these are formed with simple rules – save, accumulate and give loans to each other.

The negative one is that India's demand for Micro Finance is Rs. 500 billions, and only Rs. 18 billion of this amount has been generated so far; there is still a long way to go. The poor need banking services more than credit, as they need to safely secure their little saving or remittances coming from their men folk who have migrated in search of work.

Even the few banks in India who now belatedly recognize the potential in rural banking lack capability to serve. This market, which has been neglected for so long, needs intermediaries to help build their capacity to do business with small borrowers. Today's banks are flush with money. If Micro Finances are strong, banks will readily lend to them. That there are significant opportunities for banks in Micro Finance is now unquestioned.

II REVIEW OF RESEARCH LITERATURE

Devaraja, T.S., 2011. "Microfinance in India - A Tool for Poverty Reduction". Devraja T.S. has studied the India's achievement of the Millennium Development Goals of having the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope.

Saundariya Borbora and Ratul Mahanta (2001) assessed the role of SHGs in inculcating saving habits among the poor and the contributions of the program in the social and economic empowerment of the poor. 80 percent of the beneficiaries could also expand their income generating activities.

Sridhar Seetaraman (2005) assessed the socio-economic impact of SHGs through field level data. Study revealed that creation of income-generating activities through loans availed of from banks has made a significant impact on the overall economic status of the group members. Additional employment generated through the groups' collective functioning has provided scope for increase in the household income.

III STATEMENT OF THE PROBLEM

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led the generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India have been pushing the concept and idea of financial inclusion. Reserve Bank of India has planned Aadhaar-linked bank accounts for all adults of India by January 2016 to meet its commitment on financial inclusion. It will greatly transform India by preventing the poor falling into debt-traps of unlawful money-lenders, promote cashless transactions, elimination of poverty and corruption. Once bankcards become common in rural areas, India will become a nation of cashless transactions, like the USA, with higher transparency and accountability.

The Reserve Bank of India (RBI) had set up the 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 (2005–06). In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.

This study is an attempt to analyse and compare the strategies for financial inclusion of State Bank of India and ICICI Bank. The role of Bank Linkage schemes with SHG s and the role of MFI s in financial inclusion strategies of SBI and ICICI Bank are evaluated.

IV METHODOLOGY

The data and information collected for this study is acquired from secondary sources. The secondary sources mainly consisted of ICICI banks of India published and unpublished records and SBI published and unpublished records, RBI annual reports, NABARD reports, journals, books, magazines and related websites.

4.1 OBJECTIVES OF THE STUDY

1. To study the effectiveness of Bank linkage schemes of SHG offered by SBI and ICICI banks.
2. To evaluate the schemes of Micro Finance offered by SBI bank and ICICI bank.
3. To compare the effectiveness of performance of private and public sector banks with regard to SHG-bank linkage schemes.

4.2 HYPOTHESES

The service quantum of SBI in the area of micro finance through bank linkage schemes is far greater when compared to ICICI.

V ANALYSIS AND INTERPRETATION OF DATA

ICICI BANK

The Indian Banking system has three distinct tiers. The first tier, where ICICI competes consists of commercial banks, of which there are approximately 80. In the next tier are Regional Rural Banks, which operate in approximately 200 rural command areas. The last tier consists of Cooperative and special Purpose Rural Banks. There are more than 350 Central Cooperative Banks, 20 Land Development Banks and the number of Primary Agricultural Credit Societies. India certainly has an extensive and wide reaching banking system. Yet despite fairly broad banking coverage nationwide, the financial system remains inaccessible to the poorest people in India.

Banking with the poor is a challenging task as the nature of demand requires doorstep services, flexibility in timings, and timely availability of services, low value and high volume transactions requiring simple processes with minimum documentation. The nature of supply however involves high cost of service delivery, rigid, inflexible timings and procedures and high transaction costs for the customers. With these features on the supply side, traditional banking is not poised to meet the requirements of the demand side. The reach of the banking sector in the rural areas was as low as 15% in terms of credit potential, and 18% in terms of population with physical access to a bank branch.

ICICI Bank chose to pursue the unreached rural markets as part of its strategy of being a universal bank. However, instead of taking the conventional branch banking model for increasing its outreach, the Bank decided to work with models which would combine the strengths of intermediary forms of organization with the financial bandwidth of a banking institution.

Initiation to Microfinance – The SHG Bank Linkage Model

To enable its foray into the rural markets, ICICI Bank merged with the Bank of Madura (est.1943), which had a substantial network of 77 branches in the rural areas of a South Indian state – Tamil Nadu. The Bank of Madura had expertise in catering to the needs of the small and medium sector and had a strong network of SHGs. At the time of the merger the Bank of Madura had 1200 SHGs. However, the program was not yet sustainable. To reach profitability ICICI Bank devised a three- tiered structure. The highest level was to be a project manager, who would be an employee of the bank. Six coordinators would report to each project manager and would in turn oversee the work of 6 promoters. The target for promotion of groups was 20 groups within 12 months, upon which the promoter would receive financial compensation from the Bank. The coordinator would usually be an SHG member who would coordinate the activities of the promoters.

The women who had finished a year of promoting the requisite 20 groups were given the designation of Social Service Consultant. These would travel within a radius of 15 kilometers, in order to promote as many groups within their area as possible. Strict guidelines were set for selection of SHG members and SHGs would be homogeneity in the socio economic background as well. The SHGs followed the normal pattern of saving until they had internally collected an amount of Rs.6000 in a bank account by each member of the group. After this, the amount collected would be lent internally at 24% p.a. This rate of interest was much less than was available from the informal lenders, and the entire group stood to gain as the interest was churned back into the group.

ICICI Bank achieved a high rate of growth, reaching 8000 SHGs in March 2003, with its team of 20 project managers. Within three years of the merger with Bank of Madura, ICICI Bank had extended its reach to 12000 SHGs. However, the pace of outreach was still slow, and the Bank began to experiment with other models of reaching the unreached. This was because existing branches could be leveraged for outreach, but in areas where there were no ICICI Bank branches, it would not be viable to set up branches solely for the purpose of rural outreach, as such branches would have a very long gestation period and would costly in terms of overheads. ATMs were also costly proposition and the infrastructure required was not in place in most of the remote areas.

It was felt that in the case of the SHG formation, there was no risk sharing or financial stake/performance stake of the social intermediary (NGO) in the process of group formation.

Once the groups were formed and linked to Bank credit, there was no more responsibility on the part of the NGO. The SHGs had been repaying at very good rates, above 95%, yet there was a need to control the quality of group formation and link it to credit discipline. ICICI Bank also worked with Self Help Promotion Institutions to outsource the work of group formation institutions whose core competence was in social intermediation.

Microfinance Institutions (MFI) Intermediation Model

ICICI Bank began to experiment with the micro finance institutions (MFI) as a substitute for the more regular Self Help Group. The MFIs were willing to take on the risk of the financial performance of the groups/individuals that were being lent to. Therefore the stake in good quality group formation was also built in. Also, this channel was better for leveraging large amounts of funds without necessarily having a grassroots level presence of the bank staff. The MFI would undertake the processes and operationalization in terms of group formation, cash management, disbursal and recovery, and also record keeping. The Bank would lend to the MFI which would then repay the bank.

The MFI-Bank linkage model paved the way for taking a wider range of services to the financially underserved populace. These financial services include provision of micro insurance tailored to the cash flows and insurance needs of the low-income clients. The intermediation model at first looked scalable, but there seemed to be constraints in this model as well. For instance there was a double charge on capital created, once at the level of the Bank lending to the MFI on lending to the client. This seemed to be a sub optimal lending structure due to the double counting that also, because the small balance sheet size, unduly affected the risk perceived about the MFI, even if it had very robust systems and processes. Other key challenges to performance were that the MFIs could not grow and scale as fast as their capabilities would permit, because of severe capital constraints. MFIs were exposed to the entire risk of lending to the end clients, despite their constrained risk appetite. Most MFIs were operating in a single geography, and the systematic risk that they were exposed to was large. This put undue risk bearing on these organizations, especially in the light of their limited geographical risk diversification capabilities. Banks, which were lending ostensibly to the end-clients, could not get access to any information regarding the repayment capacity, or repayment behavior of the end clients, as the MFI not only acted as an operating and servicing agent, but also assumed the entire risk. If the MFI collapsed due to any internal organizational issues as opposed to client default, the entire client segment which had demonstrated creditworthiness would be deprived of a service provider. On the one hand were the competencies of the Bank (Which had a large amount of finances waiting to be channeled into the sector) and on the other, the social intermediation expertise of the MFI (which had a grassroots presence customer outreach and contact, and could also achieve better economies of scale if it scaled up and extended outreach faster). There was a need to combine the strengths of both players, while also building in the correct incentives and using capital parsimoniously to leverage the maximum value and client outreach from it. There was also a need for close supervision and information tracking so that at no stage would rapid expansion lead to undetected default due to slackness in monitoring. Costs would have to be recovered to ensure sustainability. The model would also have to incentivize growth and preserve the incentives of the originator (of the portfolio) to maintain portfolio performance.

ICICI Bank is India’s second – largest bank with total assets of over Rs.100000 Crore (about US$ 20 billion) and a network of 450 branches and offices and over 1700 ATMs. The bank has an approximate 30 percent market share in the retail segment, and was one of the first commercial banks in India to realize the potential of the microfinance sector. The Reserve Bank of India (RBI) requires all private sector banks in India to allocate at least 18 percent of their net bank credit to the agricultural sector. ICICI Bank is aggressively focusing on microfinance to expand its portfolio size.

Direct Lending to Self – Help Groups (SHGs)

ICICI Bank has a portfolio in excess of Rs 60 Crores (about US$ 12 million) in direct lending to SHGs. The direct lending portfolio is currently concentrated in the state of Tamil Nadu. ICICI Bank devised and implemented a low cost structure consisting of locally recruited promoters and coordinators. The SHG programme has grown to scale under the new structure and presently 9,500 SHGs have been promoted and linked with the Bank for their credit and saving requirements.

STATE BANK OF INDIA

SBI -SHG-BANK CREDIT LINKAGE :

SBI has actively participated in SHG-Bank Credit Linkage programme since its inception in 1992 as a pilot project of NABARD. Since then, the Bank has made a steady progress in financing SHGs. SBI is maintaining its position as a leader among Commercial Banks in credit linking of SHGs and is a prime driver for the movement. As at the end of March 2013, SBI, with a share of approximately 22% of total SHGs financed by Commercial Banks, is the leader among banks. As on 31st March 2014, Bank's exposure under the scheme is Rs. 5,134 Crore to 4.47 lakh SHGs, 92% of these SHGs are women SHGs.

Table - 4.1 Comparative Analysis of Micro Finance Services Offered to the Poor:

PARAMETER	MONEY LENDER	COMMERCIAL BANKS	GOVERNMENT SPONSORED PROGRAMS	FINANCIAL PRODUCTS OF MICRO FINANCE INSTITUTIONS
Ease of Access	High	Low	Low	High
Transaction Cost of Access	Low	Very High	Very High	Low – Medium
Lead time For Loans	Very short	Extremely Long	Extremely Long	Short
Repayment Terms	Fixed and Rigid	Fixed and Easy	Fixed and Easy	Flexible
Interest Rates	Exorbitantly	Low and very Affordable	Low, Affordable and Subsidized	Reasonable and Affordable
Incentives	None	None	None	Repeat and Larger Loans, interest Rebates
Repeat Borrowing	Possible	Possible but not Likely	Possible but not Likely	Stream of Credit Is Assured
Loan Access Procedures	Very Quick	Extremely time consuming and complicated	Extremely time Consuming and Complicated	Simple and Quick
Loan Application Procedures	Informal and Exploitative	Exhaustive And complex	Exhaustive And complex	Simple and Informal

Collateral and Demand Promissory Note	Mandatory	Required but hypothecation of asset may suffice	Not required although a charge on the asset becomes automatic	Not required, social collateral is used for physical collateral.

Interpretations:

The above table clearly depicts the fact that the poor in India generally have access to Micro Finance institutions like Money lenders, Commercial banks, Government Sponsored Programs and Financial Products of MFIs. Though the core purpose of these institutions is to provide finance to the unmet needs of the poor, they have certain drawbacks and advantages.

TABLE - 4.2 The Overall Progress under A- SHG - Bank Linkage models is given as under (Status

particulars		2007-08		2008-09		2009-10		2010-11		2011-12		2012-13		% growth 2012-13
		No.of SHGS	Amt.	No.of SHGS	Amt.	No.of SHGS	Amt.	No.of SHGS	Amt.	No.of SHGS	Amt.	No.of SHGS	Amt.	No.of SHGS
A. SHG - Bank Linkage Model														
Saving of SHGs with Banks as on 31st March	Total SHGs	50.09	3785.39	61.21	5545.6	69.53	6198.71	74.62	7016.3	79.6	6551.41	73.18	8217.25	8.10%
	Out of which SGSY	12.03	809.51	15.05	1563.4	16.94	1292.62	20.23	1817.12	21.23	1395.25	20.47	1821.65	3.60%
Bank loans Disbursed to SHGs during the year	Total SHGs	12.27	8849.26	16.1	12254	15.87	14453.3	11.96	14547.7	11.48	16534.8	12.2	20585.4	6.30%
	Out of which SGSY	2.46	1857.74	2.65	2015.2	2.67	2198	2.41	2480.37	2.1	2643.56	1.81	2207.47	13.80%
Bank loans Outstanding with SHGS as on 31st March	Total SHGs	36.26	16999.91	42.24	22680	48.51	28038.3	47.87	31221.2	43.54	36340	44.51	39375.3	2.20%
	Out of which SGSY	9.17	4816.87	9.77	5861.7	12.45	6251.08	12.86	7829.39	12.16	8054.83	11.93	8597	1.90%

In the above table it is seen that the SHG –Bank linkage schemes have been performing well in order to reach the unmet needs of the poor.

It is clear that over the years savings of SHGs schemes have increased and also the bank loans disbursed. It also shows that the bank loans outstanding are reducing gradually. This denotes favorable recoveries by the banks to a greater extent.

Table 4.3 Showing overall progress of SBI and ICICI SHG - Bank linked programme

Amt. in crores

	Particulars	2009-10 Amt.	2010-11 Amt.	2011-12 Amt.	2012-13 Amt.	2013-14 Amt.
	Bank loans Disbursed to SHGs during the year	2821.19	3063	3249.65	3526.66	3866.13
SBI						
	Bank loans Outstanding with SHGS as on 31st March	5892.89	5470.99	5658.05	5600.28	5133.57
	Bank loans Disbursed to SHGs during the year	2145.82	1689.89	1104	1901.45	2863.6
ICICI						
	Bank loans Outstanding with SHGS as on 31st March	2809.1	2793	2379.14	3217.6	3496.22

Over the years it has been noted on the whole, that the Banks have been performing really good. It is noted that the quantity of the SBI bank been greater than of the ICICI bank, as ICICI concentrates on quality. It is clear that the SBI been performing well by disbursing large amount of loan, which is favorable to the bank.

The table also denotes that the loans outstanding of SBI been decreasing. This shows that banks have succeeded in recovering the loans outstanding to a greater extent. Thus the bank is performing well.

H0: There is no difference between the loans disbursed and loans outstanding of SBI and ICICI banks to SHG – Bank linked schemes

H1: There is difference between the loans disbursed and loans outstanding of SBI and ICICI banks to SHG - Bank linked schemes.

Table 4.4 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	loan disbursed ICICI - loan disbursed SBI	-1364.37400	566.60425	253.39313	-2067.90610	-660.84190	-5.384	4	.006
Pair 2	loan outstanding of ICICI - loan outstanding of SBI	-2609.55600	646.65862	289.19453	-3412.48873	-1806.62327	-9.024	4	.001

Interpretation:

The t test attributes the P value less than 0.05 at the 95% confidence by that it has been rejected the null hypothesis and says that there is difference between loans disbursed and loans outstanding by the banks to SHG bank linked schemes. By this it is clear that SBI is been performing well over the years by offering good amount of loan to the poor as compare to ICICI.

Table 4.5 Showing comparative statement of SBI and ICICI SHG Bank linkage programmes for the year 2012-13

Amt. in Crores

Banks	Particulars	2011-12 Amt.	2012-13 Amt.	Increase or decrease Amt.	Increase or decrease in%
	Bank loans Disbursed				

SBI	to SHGs during the year	3249.65	3526.66	277.01	8.7
	Bank loans Outstanding with SHGS as on 31st March	5658.05	5600.28	-57.77	-1.02
ICICI	Bank loans Disbursed to SHGs during the year	1104	1901.45	797.45	72.23
	Bank loans Outstanding with SHGS as on 31st March	2379.14	3217.6	838.46	35.24

Table 4.6 Showing comparative statement of SBI and ICICI SHG Bank linkage programmes for the year 2013-14

Amt. in Crores

Banks	Particulars	2012-13 Amt.	2013-14 Amt.	inc.or dec Amt.	inc. or dec in%
SBI	Bank loans Disbursed to SHGs during the year	3526.66	3866.13	339.47	9.6
	Bank loans Outstanding with SHGS as on 31st March	5600.28	5133.57	-466.71	-8.33

ICICI	Bank loans Disbursed to SHGs during the year	1901.45	2863.6	962.15	50.6
	Bank loans Outstanding with SHGS as on 31st March	3217.6	3496.22	278.62	8.65

The table shows that o/s loans to SHGs by the banks. SBI has loans o/s of-1.02% in the year 2012-13 and -8.3% in 2013-14. This shows favourable result to the bank as it has succeeded in recovering the loan to a greater extent. This shows that the SBI bank is concentrating more on recovering the loan, where it feels that it has been generous in disbursing loan in the past years.

Even the ICICI bank have succeeded in recovering the loan o/s. i.e 35.24% in the year 2012-13 and in 2013-14 it is – 8.65% this is clear sign that bank has recovered the loan and performing well.

Table 4.7 showing Cumulative progress of SBI - SHG - Bank linkage programme for the year 2013-14

No and amount in Lakhs

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
NO.of SHGs	1216891	1270604	1351792	1716898	1898832
No of					
Beneficiaries	15453057	16198891	17156300	18388417	19206635
Amount in					
Savings Account	84650	87926	93406	95951	97763
Amount disbursed	282119	306300	324965	352666	386613
Amount Outstanding	589289	547099	565805	560028	513357

The above table is an Analysis of State Bank of India, SHG – Bank Linkage Program for the years 2010-11, 2011-12, 2012-13, 2013-14

- Firstly the table shows an increase trend in the SHG Linked for the year 2010-11, 2011-12, 2012-13, 2013-14, i.e, 104.4%,111%, 141.5%, 156%. This Shows that, the bank has involved in many SHG schemes and has kept progressing year after year

- Secondly it can be seen that the number of beneficiaries of SHGs schemes have also increased year after years by 104.8%, 111% , 118%, and 124% . This increase in the No. of beneficiaries has contributed much to the growth of the bank each year. Banks on the other hand have concentrated on its objective of gaining more No. of beneficiaries every year.

- Thirdly the table and chart shows an increasing trend in the amount disbursed by SBI to SHGs. Every year the bank has been able to disburse an enormous amount of loans which constitute the following increase in the percentage for the year 2009-13 i.e. 108.7%, 115%, 125% and 137.03%. This increasing trend in the loans disbursed to SHGs clearly states that bank has been efficient in providing the loans required to Its SHGs. Though the demand for the loans has been large, the bank was able to cope with its increased demand for loans by its SHGs.

- Fourthly the table also shows the amount o/s by the SHGs in repayment of its bank loans. The amount o/s also shows the decreasing trend i.e. 92.84%, 96.01%, 95.03% and 87.11% for the years 2009-2013. Here the banks have made effort to recover the loan amount.

- Finally, it can be seen in the table that there is a tremendous increase in the No of SHGs maintaining savings a/c in the bank. All the years' bank has increased the SHGs that have maintained savings a/c. The increasing trend for the years 2009-13 are 103%, 110.34%, 113.25% and 115.49%. This clearly shows that all the SHG believe in the savings a/c that is provided by the bank and they take most benefit of these facilities given by the bank. Hence there is an increase in the growth of savings a/c maintained by many SHGs.

VI. SCOPE & LIMITATIONS OF THE STUDY

This study is restricted to State Bank of India, the leading Public sector Bank which is a pioneer in Micro finance and ICICI Bank which is the Pioneer in Private Sector banks.

The data collected under the current study was basically from the secondary sources as such the limitations of secondary sources apply to this study. Banks are unwilling to disclose any information other than those that is published on their websites. Hence this study is based on analysis of published reports only.

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