

“AN EVALUATION OF STRATEGIES FOR FINANCIAL INCLUSION IN PUBLIC SECTOR BANKS “

UGC MINOR RESEARCH PROJECT

BY

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EXECUTIVE SUMMARY

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. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. 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. It will greatly transform India by preventing the poor people falling into debt-traps of unlawful money-lenders, 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. Cash is used for bribery and corruption.

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM and to ensure a closer relationship between poor people and the organized financial system. In other words, the business correspondent is

nothing but a bank-in-person, who is authorised to collect small ticket deposits and extend small credit on behalf of the banks. According to RBI mandate in 2010 banks initiated various policies for financial inclusion and appointed Bank Correspondents also called as Bank Mitras. Every bank was allotted villages according to RBI's Financial Inclusion initiative in various rural areas and banks were responsible to include every member of the rural population into the purview of banking sector

This study is an attempt to analyse the strategies for financial inclusion of major public sector banks and an evaluation of their effectiveness in the State of Karnataka. It is an endeavour to measure the success achieved by the State of Karnataka with regard to financial inclusion.

It also evaluates the BC model as a vehicle to provide banking facilities to the rural population.

The study found that only public sector Banks have been mandated by the RBI to extend banking facilities to the rural masses by classifying villages on the basis on their population. RBI has permitted the use of the services of NGO's and BCs for the provision of services. All banks under the study use the Banking Correspondents model to provide banking services and though the model has been functioning for the past five years, they have not been completely effective in providing banking services to the rural masses. It was found that the subagents in villages are the BC's and to get trained people to represent the bank is a challenge and the wrong person recruited gets the entire concept wrong and the goals of the banks cannot be achieved. More than Rs. 3,00,000 crores are given through subsidies, however savings need to be encouraged. The overdraft limit announced by PMJDY is yet to be utilized. More than 30 – 40% still depends on informal sources like money lending. Thus more impetus has to be given to Financial inclusion creating more awareness and this will automatically increase banking practices among rural population and small value credits can be obtained by banks.

Business correspondents should be remunerated appropriately so that they will work with loyalty and regular check should be made on them to check any of their corrupt practices.

Organizing financial literacy camps at regular intervals covering mainly the rural areas and mainly in the form of short play or skits or quiz will help the banks make the learning effective. Self help groups should be involved in this process by providing them credit as this will ensure more penetration in rural areas.