COMMERCIAL BANKS THROUGH FINANCIAL INCLUSION AMOUNG THE RURAL AREAS

Dr.R.Krishnakumar*

L.Vijayakumar**

ABSTRACT

The purposes of the study are to provide a critical review of evidence about the low-income people's financial savings & the role of commercial banks measurement, the programs used to promote their saving capability & aware their knowledge about financial product, services and the information uncovered about the programs by evaluations. Financial knowledge & saving is the most important for financial inclusion. Financial product knowledge has been proposed widely as an effective approach to preparing people to manage their finances. Financial capability includes both the ability to act (knowledge, skills, confidence, and motivation) and the opportunity to act (through access to quality financial products and services). The data required for the study have collected from the secondary sources. Banks are essential for each country's economy, since no growth can be achieved unless savings are efficiently channeled into investment. In this respect, the lack of a full-fledged banking system has often been identified as a major weakness of the centrally planned economies. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent etc. As a financial inclusion strategy, developing inclusive financial systems should give priority, which is financially and socially sustainable.

Keywords: ***Financial Inclusion , role of commercial bank, poverty Alleviation***

* Associate professor of commerce,St.Joseph College of Arts and Science (Autonomous), Cuddalore-1.

** Research Scholar (PhD),St.Joseph College of Arts and Science(Autonomous), Cuddalore-1.

INTRODUCTION

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system. Not only have the government and the Reserve Bank of India become very keen to promote inclusion, successful business models have at last emerged to serve the poor in a profitable manner. Financial inclusion is the delivery of financial services at an affordable cost to low-income households. It is estimated that nearly 500 millions Indians are not served well (or even at all) by the current financial system. The RBI has taken many initiatives to spread banking services such as expanding the number of rural bank branches as well as allowing the banking correspondent model. Nearly half of the population and a majority in rural Indians do not have bank accounts. Less than 15% of India's 600,000 villages have a bank branch. Nearly 80% of the Indian population is without life insurance. Penetration of mortgages, mutual funds and pension products is also very low. Lack of knowledge on how to obtain efficient poverty reduction is one. Inaccurate use, or misuse of knowledge is another. The underlying assumption is that if knowledge, resources and administrative expertise increase, then poverty reduction would also increase. The aim for donors and others is to work towards improving such technical defaults. It is important that they continue to do so. At the same time, we know that other and much stronger forces intervene to prevent poverty reduction. On the one hand we have forces that have a direct interest in neglecting poverty reduction or even trying to stop it from being implemented and carried out in an efficient manner. It may be the dislike of poor people, the dislike of sharing resources or the fear of changing a social structure in favor of the poor. Some of those poverty producing forces are intended because vested interests are linked to continued poverty. Other poverty producing forces are unintentional, but still powerful. As a matter of fact, it can be argued that unintentional poverty production has a larger impact on poverty formation than direct poverty production. The relevance of the argument is here that poverty reducing strategies cannot be understood unless one takes into account also the forces that work against poverty reduction. The negative forces built into a counter-strategy can be political, cultural, economic or symbolic. The latter might be as important in terms of resistance to a poverty reducing strategy as the other three. If this argument is correct poverty reducing strategies need to be analyzed and understood not only in terms of intended positive effects. It is just as necessary to analyze and understand the likely counter forces that come into play when a new poverty reducing strategy is introduced. Otherwise the poverty reducing strategy is doomed to fail. The measures that need to be taken to bring the counter-strategies under control, or neutralize their effect on the intended poverty reduction, are not part of the ordinary curriculum of poverty reduction. It is taken for granted that “everybody” wants poverty reduction. A model of conflict is more adequate. However, to work within a model of conflict calls for a reorientation of those responsible for poverty reduction. It means among other things to identify the counteractive forces and to develop ways of dealing with actors who are often among the powerful people. So far poverty reducing measures have not been developed within such a context. The time ate goal is to learn how to protect poverty reducing strategies from counterstrategies and carry them through to greater efficiency. This may be asking too much since this is a infield hat politicians and administrators have so far been reluctant to enter, and perhaps with good reason.

LITERATURE REVIEW

Finance Minister Pranab Mukherjee (2010) said financial inclusion was a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential of savings consumption and investment propensities of the poorer sections of society.

Transact the national forum for financial inclusion, (2007) Financial inclusion is a state in which all people have access to appropriate, defined financial products and services in order to manage their money effetely. It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and advice suppliers.

Farhat Husain (1986) has made a detailed analysis of the development of Commercial banks in India in the light of reorientation of banking policy, credit planning and resource mobilization for the regional development.

Choubey, B.N. (1983) has evaluated that Commercial Banks have failed to fill the serious gap and deficiencies in farm credit, which the RRBs could manage to do. Choubey emphasized that the NABARD would be required to pay special attention to the depoliticisation of the agricultural credit and government credit agencies. He suggested that NABARD might help the agricultural and rural sector in raising their productivity at reasonable faster rate.

Shetty (1997) in his studies that the 'social banking' policies being followed by the country resulted in widening the 'geographical spread and functional reach' of commercial banks in rural area in the period that followed the nationalization of banks.

NABARD (1999) remarked that the despite having a wide network of rural bank branches in India which implemented specific poverty alleviation programmes that sought creation of self employment opportunities through bank credit, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking systems.

Gundannavar, V.R. (1992) has highlighted the role of banks in implementing social banking schemes to keep pace with changing social needs. He has strongly opposed any move to reduce resources allocation to priority sectors, which will have an adverse impact on the agricultural credit. He has suggested to increase higher interest rate on commercial lending and to continue concessional rate of lending to priority sectors.

Barman, K.K. (1994) has made an analytical study on the implications of financial sector reforms on rural credit delivery system. He has found that implications are of wide spread; on interest rate of agricultural loans, lending rates, priority sector lending, reserve requirements and institutional restructuring.

Rangarajan, C. (1996) has identified three to four major factors which would have impact over the future banking operation including progressive de-regulation of interest rates, a diversified competitive market place, market determined exchange rate mechanism and technological progress. He suggested the banks to provide credit to agriculture and allied sector as provision of credit to hightech agriculture which is almost equal to providing credit to industry. Vaidya, B.V. (2002) has made a comprehensive effort to highlight some of the aspects of rural development of the country under the policy of liberalisation and globalisation, including economic aspect, agricultural aspect, industrial aspect, infrastructural aspect and management aspect. From his analysis, he has drawn the conclusion that a comprehensive methodology will be necessary for rural development which is the bed-rock of development for the whole country.

Ansari (2007) in her study reveals that reaching the poorest and whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. to the poor to meet their simple requirements. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest.

Shylendra, (1998) spoke of SHGs as meaning small informal associations created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity, and joint responsibility. The benefits include mobilization of savings and credit facilities and pursuit of group enterprise activities. The group-based approach not only enables the poor to accumulate capital by way of small savings but also helps them to get access to formal credit facilities.

To Beck & De la Torre, (2006) financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services.

Karmarkar, K.G.(1997) has highlighted the role of Micro financing (SHGs) on the rural credit delivery system in the state of Orissa with example of successful projects in the different parts of the state. He has suggested for active participation of banks and other development agencies to promote micro financing in large scale to accelerate the pace of rural development.

World Bank (2008) financial inclusion is also influenced by specific credit needs of various segment people arises for a number activities such as housing, microenterprises, agriculture difficulties in accessing formal sources of credit, the poor individuals and small savings or internal resources to invest in housing, health and education, and opportunities.

OBJECTIVES OF THE STUDY

This study has the main objectives:

1. To determine the level of awareness of people in various financial products and services.
2. To study the impact of SHG bank linkage program & low income people on promotion of financial inclusion in rural and urban areas.

STATEMENT OF THE PROBLEM

Financial inclusion is excluding people without of affordable credit, savings, insurance assets and money and bank advices. The financial included section largely comprises marginal framers, landless laborers, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior sector and women. This study helps us to know the financial inclusion position, awareness level, towards no frills account and saving and credit behavior of the low income groups.

METHODOLOGY

The research shall focus on the problems they face with regard to basic banking needs and identify a range of particular difficulties likely to be faced relating to the use of bank accounts, products and services. The study is analytical and exploratory in nature and makes use of Secondary data. The data of the study has been collected mostly from the secondary sources. The secondary data have been collected from various publications and different government and non-governmental sources. The data collected from secondary sources have been suitably edited, analyzed and interpreted according to requirement of the study. The purposes of the study are to provide a critical review of evidence about low-income and at-risk people on how their financial capability is measured, what programs are used to promote their financial literacy, and what evaluations of the programs uncover about them.

THE ROLE OF COMMERCIAL BANKS IN FINANCIAL INCLUSION

The economy is presently in a phase of rapidly rising income, rural and urban, arising from an expansion of extant economic activities as well as the creation of new activities including corporate profitability which has exhibited sustainable trends and increasing consumer incomes thereby riding on the growth momentum. For our own country where almost 70 percent of population lives in the rural areas and engages in agriculture and allied activities, financial inclusion assumes paramount importance indeed, and is an utmost necessity for a country where a large number of the world's highest poverty stricken population resides.

The bank provides a no frills Savings Bank Account to all members of the lower income groups. As a next step, small overdraft facilities are allowed in the Savings Bank Accounts in order to cater to the account holder's general purpose or consumption needs. Those who are engaged in income generation activities were provided with general credit card facility with a flexibility of roll over facility. Opening no frills account with a small overdraft or GCC is only the first step in building the relationship which would require sustained efforts to ensure that the banking relationship with the customer is fashioned to meet his needs. The technology should have a clear focus on relatively unbanked and under reserved areas rather than competing aggressively in already well served areas. There is a clear need to vastly increase the numbers served by existing branches for saving, loan and remittances. With the gradual mushrooming of SHG programmes in the rural areas, there is a need for scaling up to cover productive loans while ensuring that the process of group formation and capacity building is given sufficient time to allow social capital and democratic processes to take root.

CONCLUSION

Financial inclusion becomes a major pre-requisite to poverty alleviation. Reserve Bank of Indias vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. However, improper repayment need for additional workforce, time consumption, high cost and illiteracy are continued to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting full fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote area. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the Inclusive Growth.

SUGGESTION

India needs to develop a low-cost bank branch model, possibly attached to village post office.The RBI should mandate that commercial banks have a certain percent of their portfolio in small loans. In addition, important social considerations should be factored into loan decisions. The children have to be attending a school before they are eligible for a loan. Similar conditions should be imposed for eligibility of loans in India. The government could also add extra incentives to lend in Rural areas .The banks should step up to over whelm all these problems and to disseminate its service to remote area. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the Inclusive Growth. We must promote the financial inclusion aggressively to serve our own low-income families but also to show ways to improve the life of poor people around the world.

REFERENCES

- Prof. Chitta ranjan mishra (2012) Financial inclusion for sustainable development: a critical literature review-the role of commercial banks & low-income peoples. ww.theinternationaljournal.org > RJCBS: Volume: 01, Number: 08, June-2012
- Ghorude, K.N. (2009). "Micro Finance for Financial Inclusion and Sustainable Rural Development", Southern Economist, Vol. 48, No.1, PP.47 – 50.
- Manoharan, B. "A study on commercial banks in India – An overview", Indian Journal of Marketing, Vol. 45, No.1
- Muthiah Manoharan, P., and Krishnaveni Muthiah. (2010). "Financial Inclusion in the Indian Rural Area Context – A Micro level Study" Research Highlights, Vol. 20, No.2, PP.71 – 74.
- Narendra. M (2011). **"**Financial Inclusion Gains Urgency", The Hindu Survey of Indian Industry.
- Beck, T., Demirguc - Kunt, A. & Levine, R. (2007) ''Finance, Inequality and the Poor'', Journal of Banking and Finance, 28, 423-442.
- Raj Kapila, and Uma Kapila, (Eds.) (2008). "Inclusive Growth: The Role of Banksin Emerging Economies", Economic Developments in India, Academia Foundation.
- Sendhilvelan, M., and Karthikeyan, K., (2006) „No Frills Account: A Basic Drive for Financial Inclusion", Southern Economist, Vol. 45, PP.13 – 14.
- Subhash Narayan, (2011). "Fund to Boost Financial Inclusion in the Works", http://news.in.msn.com/business/article.aspx?cp-documentid=4833211
- Usha Thorat (2007). Financial Inclusion - the Indian Experience. Financial Inclusion Conference. London. BIS Review.
- Chandan Kumar Goyal, (2008), "Financial inclusion in the North Eastern Region of India with Special Reference to Assam", The ICFAI Journal of Applied Finance, Vol. 14, No. 12.
- Dr.Rakesh Mohan, (2006), "Economic Growth, Financial Deepening and Financial Inclusion", Deputy Governor of the RBI at the Annual Bankers' Conference, Hyderabad, November, 3.
- Dweep, I., Rakesh Mohan Annual Bankers' Conference, (2006), "Economic Growth, Financial Deepening and Financial Inclusion", Hyderabad, November.
- Mitra Rona, (2006), "Financial Inclusion: Meeting the Challenge", People's Democracy, April 22 and 29, available at 222.pd.cpim.org.18.