ROLE OF COMMERCIAL BANKS TOWARDS FINANCIAL INCLUSION IN INDIA – A STUDY WITH SPECIAL REFERENCE TO MADURAI DISTRICT

SYNOPSIS

1.1 Introduction

The concept of financial inclusion has emerged as the most widely debated topic among the policy makers and economists' all over world. It is believed that financial inclusion will enable people to build better lives. It can help individuals to start businesses, and help small businesses grow into larger ones. Financial services can help small farmers tap into the formal economic system for two-way flow of information and income. Entire economies can grow more quickly and in ways more favorable to poor people.

The government of India and RBI are initiating sustained efforts towards financial inclusion since a large section of Indian population still remains unbanked even after 67 years of independence. This condition has led generation of financial instability 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.

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades including - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the previously financially excluded Indian population.

1.2 Statement of the Research Problem

Financial Inclusion is necessary for India mainly due to agricultural nature of Indian economy and her huge population. People belonging to this sector suffer a lot due to high interest rates, uncertain nature of agriculture, absence of sufficient agricultural insurance services, rising production costs and excessive amount of interest paid by them to traditional moneylenders. And these are the primary reasons that banking sector is also look upon with suspicion by agriculturists as they have been looking at moneylenders through ages. It was, therefore, important to put a better picture of banking industry before them to break their wrong beliefs about this sector. Financial inclusion, therefore, was formulated with the main objective of providing basic hassle free financial services such as bank account. Bank accounts are perceived as first important step in providing financial empowerment to the downtrodden and policies of financial inclusion were envisaged keeping in mind the target of brining more and more people under mainstream banking and financial services. Initiatives under financial inclusion have been pressed upon as they are perceived as major tools in achieving sustainable growth.

It is widely known that there are pockets of poverty and financial exclusion in both urban and rural areas, particularly among slum-dwellers. As per the Census of India 2011, India had a slum population of 4.26 crore, which constituted 15 per cent of the total urban population. In the rural areas, the common reasons of financial exclusion include non-existence of bank branches in an area, physical distance of the bank from the people, fixed and limited timings of the banks, lack of awareness of advantages of having a bank account, and above all, low income that made it difficult to save.

In the case of the urban poor, the reasons are different. There are lots of banks in the urban areas which are not very far away from the slums. Hence, the distance of the bank from the slums cannot be a factor for financial exclusion but financial illiteracy is a reason for that.

Against this background, it was felt that a study on financial inclusion in India would give important clues to understand the nature, causes and determinants of financial inclusion. The objective of the study is primarily to study the causes of financial exclusion in India.

1.3 Objectives of the Study

Present study is taken up to achieve the following research objectives:

- To study the concept of Financial Inclusion.
- To review the nature of financial exclusion in India.
- To examine the measures taken by the Government of India and Reserve Bank of India towards financial inclusion in India.
- Financial inclusion initiatives by the State Bank of India in Madurai District.
- Perception the beneficiaries towards Financial Inclusion in Madurai District.
- To present the summary of findings and suggestions of the study.

1.4 Importance or Significance of the Study

A purpose of financial inclusion is to help people and communities meet basic needs such as nutritious food, clean water, housing, education, and healthcare and more by supporting the businesses that provide these services, and enabling clients to have more reliable and affordable access to them. An inclusive financial system is essential infrastructure in every country.

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

- Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

- Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.
- Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is, therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government‘s subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

1.5 Scope of the Study

The present study covers the initiatives only taken by the State bank of India towards financial inclusion in India in general and in Madurai district in particular.

1.6 Period of the Study

The present study is an attempt to find out regional disparity, indebtedness and status of financial inclusion in India. The present study covers the period from 2003 to 2014.

1.7 Research Methodology

The present study is an empirical study based on primary and secondary data. The financial inclusion measures initiated by the Central / State Governments, the Reserve Bank of India and Commercial Banks are studied from secondary sources of data. The perception of the beneficiaries of financial inclusion measures are studied based on primary data.

1.8 Framework Analysis

The data collected are to be analyzed by applying suitable statistical tools such as Arithmetic Mean, Standard deviation and Chi – Square Test.

1.9 Chapter Scheme

The present study is structured around seven chapters. A brief description of each chapter is as follows:

Chapter 1: Introduction

The present chapter deals with introduction and design of the study. It includes statement of the problem, objectives of the study, importance of the study, scope of the study, period of the study, frame work analysis and the chapter scheme.

Chapter 2: Theoretical framework of financial inclusion in India

Second chapter studies theoretical framework of financial inclusion in India.

Chapter 3: Review the nature of financial exclusion in India

The chapter traces the causes and extent of financial exclusion in India.

Chapter 4: Measures taken by the Government of India and Reserve Bank of India towards Financial Inclusion in India

This chapter examine the measures taken by the Government of India and Reserve Bank of India towards financial inclusion in India.

Chapter 5: Financial inclusion initiatives by the State bank of India towards in Madurai district

The fifth chapter studies the initiatives taken by State bank of India towards financial inclusion in the Madurai district.

Chapter 6: Perception the beneficiaries towards financial inclusion in Madurai district

This chapter deals with the perception of the respondents towards the impact of financial inclusion measures in Madurai district.

Chapter 7: Conclusion and Suggestions

This chapter devotes to present the summary of findings, suggestions and conclusion of the studies.