

3. Assessment of the Implications of Financial Inclusion Initiatives of Government on the Indian Financial Environment

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Abstract:

The Government of India and the Reserve Bank of India have devised many schemes for developing low-income groups through Financial Inclusion. Nationalization of banks, expansion of co-operative banks, lead bank schemes, self-help groups, and much more were introduced so that each Indian could benefit from the financial system. On 15th August 2014, the Government developed a very good project titled “Pradhan Mantri Jan Dhan Yojana (PMJDY)”. It has been almost six years since the project was introduced and it has received a good response from the Indian population. All these initiatives have significance for various constituents of the Indian financial system. The present paper analyses the impact of these initiatives on commercial banks, regional rural banks and India Post.

Keywords:

Financial Inclusion, Commercial Banks, Regional Rural Banks, India Post.

3.1 Introduction:

Financial inclusion helps the country's financial system initiate a chain reaction for the country's economic progress. Most importantly, it strengthens the saving habit among poor people living in urban and rural areas and channelises this saving into a productive channel. Traditional moneylenders and rich landlords cheat poor people by misguiding them and charging exorbitant rates of interest on loans. In addition to that, they indulge in several malpractices. Financial inclusion can help change the situation and reduce poor people's dependence on traditional exploitative sources of credit. Financial inclusion helps the poor by including them in the formal financial mainstream. There are many poor farmers, artisans, small businessmen, and labourers who want to save money, but due to a lack of bank accounts, they are not in a position to park their hard earnings safely. Thus, financial inclusion is necessary to bring these poor people into the financial mainstream and stop them from exploitation (**Karmar K.G., Banerjee G.D. and Mohapatra N.P., 2011**).

Financial Inclusion

One of the major concerns for most of the stakeholders is to create sufficient awareness about financial inclusion in society. As most people have different notions about the formal financial system, they do not often show enough interest in it. Access to credit and other financial products a dreams for them because they lack financial literacy and penetration of bank branches. Thus, along with financial literacy, financial access is must for the success of financial inclusion initiatives. The rural and semi-urban regions will start experiencing changes once the micro finance institutions (MFIs), Small Finance Banks (SFBs), and Payments Banks start their operations with customised products or services in such areas. The Government has realised the importance of financial inclusion and started introducing various projects to provide financial security and benefits to the masses, to make them partners in the nation's economic prosperity.

Conceptual Framework of the Study:

- (a) **Financial Inclusion:** Financial inclusion delivers affordable financial services to the disadvantaged and low-income segments of society.
- (b) **Commercial Banks:** A commercial bank is a financial institution that accepts deposits, offers checking and savings account services, and makes loans.
- (c) **Regional Rural Banks (RRBs):** RRBs are Government commercial banks of India that operate at regional level in different states of India.

Statement of Problem:

A nation can grow economically and socially only if its population is financially independent. The Government of India has initiated several Schemes for financial inclusion, the most recent being PMJDY. Against this background, the proposed study tries to study growth and development in the banking sector in India concerning commercial banks, regional rural banks and India Post during the last six years from 2014 to 2019, which marks the period post-launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) under the title:

Assessment of the Implications of Financial Inclusion Initiatives of Government on the Indian Financial Environment:

3.2 Objectives of the Study:

The present research study seeks to measure the growth in the number of commercial banks, regional rural banks and India Post.

Statements of Hypotheses:

H1_N: The launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 does not have significant impact on the number of commercial banks, regional rural banks and India Post.

H1_A: The launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 has a significant impact on the number of commercial banks, regional rural banks and India Post.

3.3 Research Methodology:

Research methodology is the blueprint of a research study and encompasses the various aspects of a research study, which have been discussed below:

Research Design:

The research design for the present study lays down the framework for obtaining, processing and analysing data to attain the research objectives and establish research hypotheses. The research design used for the present study is exploratory in nature.

Research Variables:

The present research study mainly deals with the impact of Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 on the number of commercial banks, regional rural banks and India Post

Sources of Data:

The researcher has made use of secondary data for the achievement of objectives and establishment of hypotheses. Secondary data sources for the study included national and international journals, research articles, books, newspapers, research reports by reputed agencies, and online data sources related to financial inclusion.

In addition, online reports published by many popular newspapers and online news journals were used for the study as per the attached list.

3.4 Financial Inclusion Initiatives:

Some of the major initiatives of the Government of India in the direction of financial inclusion have been analysed below during the last five years:

3.4.1 Nationalisation of Major Banks:

Banking network is the pre-requisite for financial inclusion. It is the bank through which masses access various financial products and services. Keeping this in mind, the government of India nationalised 14 major banks in 1969, followed by 6 more banks in 1980. These nationalised banks, the State Bank of India (SBI), and its associate banks accounted for about 84% of the total deposit and advances of commercial banks in India. These banks have played an important role in the country's financial sector development.

Entry of Private Sector Banks:

To boost banking activities further, the RBI proclaimed the policy guidelines for the entry of private sector banks in January 1993. UTI Bank Limited was the first private-sector bank to be established in India in April 1994. It was later renamed Axis Bank. There were a number of small private sector banks in India which were in operation and were referred to as Old Private Sector Banks, while banks founded post-1993 were termed as the New Private Sector Banks. At present, there are nine New Private Sector Banks in India.

3.4.3 Establishment of Regional Rural Banks (RRBs):

As per the recommendations of the Working Group on Rural Banks, the regional rural banks were established in 1975 to supplement the operations of commercial banks and co-operatives in supplying rural credit. The main objective of RRBs is to advance credit and other facilities, especially to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs to develop agriculture, trade, commerce, industry and other usual productive activities in rural segments of the economy. As of 31st Dec. 2019, 56 operational RRBs had 21398 branches in rural parts of the country.

Network of Co-operative Banks:

Co-operative credit banks operate on the principle of cooperation. These banks owe their origin to the Cooperative Credit Societies Act of 1904. Co-operative banks in India are categorised into urban co-operative banks and rural co-operative banks. Urban co-operative banks are divided into scheduled and non-scheduled, sub-divided into single and multi-state banks. Majority of urban co-operative banks are non-scheduled and single-state. As of March 2019, there were 1,544 urban co-operative banks and 96,248 rural co-operative banks in the country.

Proliferation of ‘The India Post’:

The first post office in India was established in 1688 in Bombay. It was named as ‘Company Mail’. The present type of post office came in to being in 1854. India Post has the most widely distributed postal system in the world. Apart from providing regular postal services, the post offices in India also provide financial services to the public through Post Office Savings Bank. It started Postal Life Insurance in 1984. Today, post offices offer many financial services such as post office savings schemes, postal life insurance, mutual fund, money remittance, forex services, etc.

3.4.2 Impact on Financial Environment in India:

The progressive changes in some quantitative parameters reflecting financial inclusion in India during the last five years, i.e. 2015-2019, the period post-launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014, have been analysed below:

Branch Network of Nationalised Banks:

India has a robust network of bank branches in all parts of the country. The number of branches of nationalised banks has shown substantial increase recently. The following figure shows the number of functioning commercial bank branches of nationalised at the end of March each year from 2014 to 2019:

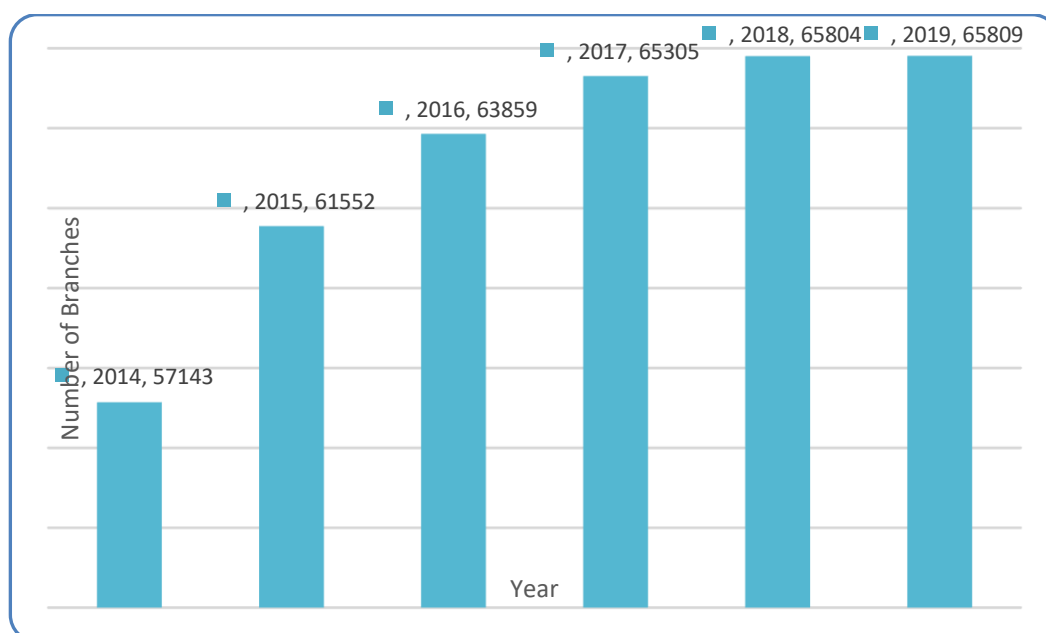


Figure No. 3.1: Number of Functioning Branches of Nationalised Banks

It can be seen in the above table that at the end of March 2014, there were a total of 57143 operating branches of nationalised banks in India, which increased to 65809 branches by the end of March, 2019, registering a humble increase of 15% during the span of six years from 2014 to 2019.

Branch Network of Private Sector Banks:

The RBI granted Private banks permission to operate in India in 1993. The number of private sector banks' branches showed a rapid increase in the post-2000 period. The following figure shows the number of functioning branches of private sector banks at the end of March each year from 2014 to 2019:

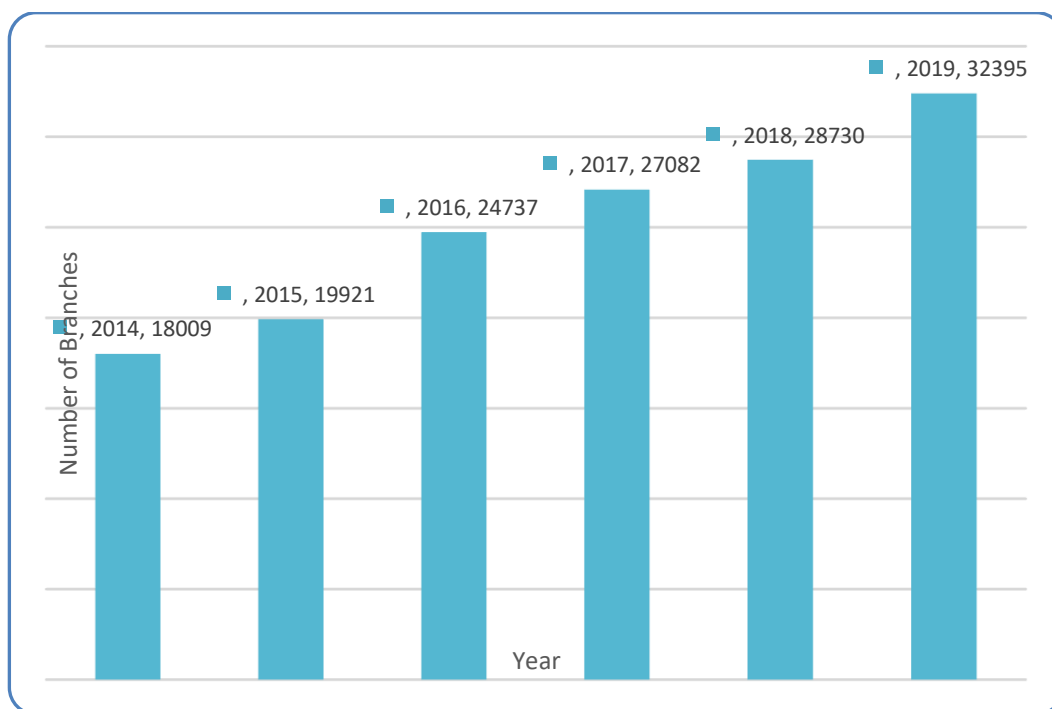


Figure No. 3.2: Number of Functioning Branches of Private Sector Banks

It can be seen in the above table that there has been rapid increase in the number of branches of private sector banks during the last six years. At the end of March, 2014, there were 18009 operating branches of private sector banks in India, which increased to 32395 branches by the end of March, 2019, registering an increase of 80% during the span of six years from 2014 to 2019.

Branch Network of Regional Rural Banks (RRBS):

Regional Rural Banks (RRBs) were established in the rural segments of India in the late 70s to cater to the banking needs of the excluded masses in rural areas and elevate their economic conditions. The following figure shows the number of functioning branches of regional rural banks at the end of March each year from 2014 to 2019:

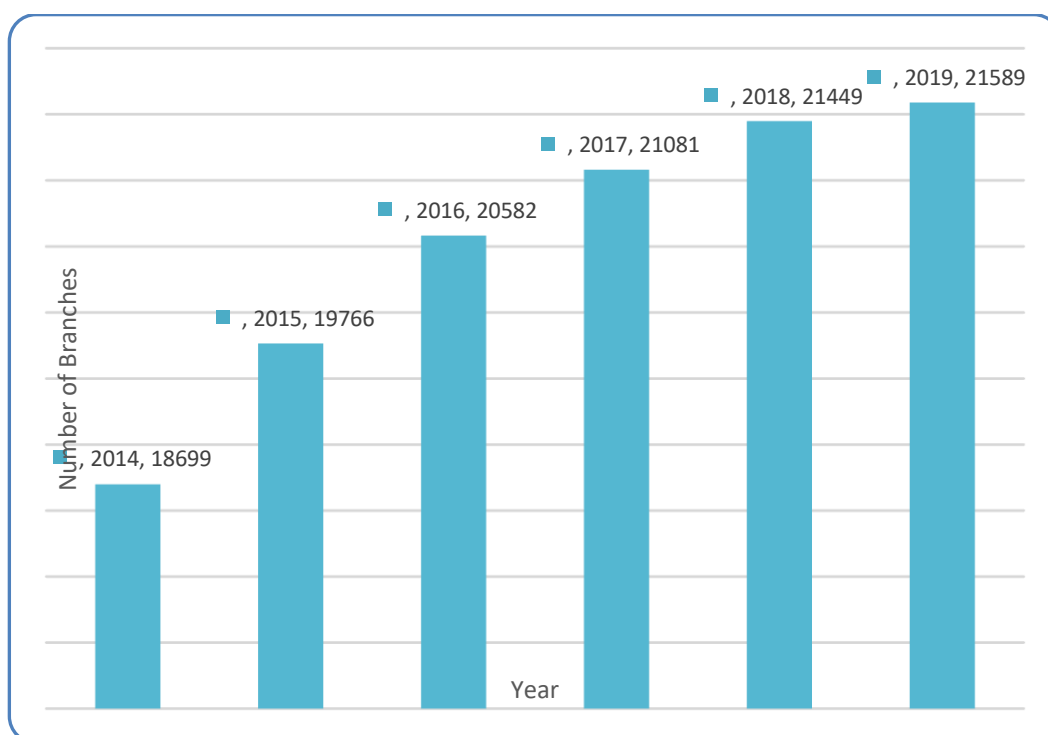


Figure 3.3: Number of Functioning Branches of Regional Rural Banks

It can be seen in the above table that at the end of March, 2014, there were a total of 18699 branches of regional rural banks in India, which showed a marginal increase to 21589 branches at the end of March, 2019, registering an increase of 15% during the span of six years from 2014 to 2019.

Number of Co-operative Sector Banks:

Co-operative banks operate on the principle of co-operation. The number of these banks keep changing due to closure of many small banks and opening of new ones. The following figures show the number of functioning urban co-operative banks and rural co-operative banks in India at the end of March each year from 2014 to 2019:

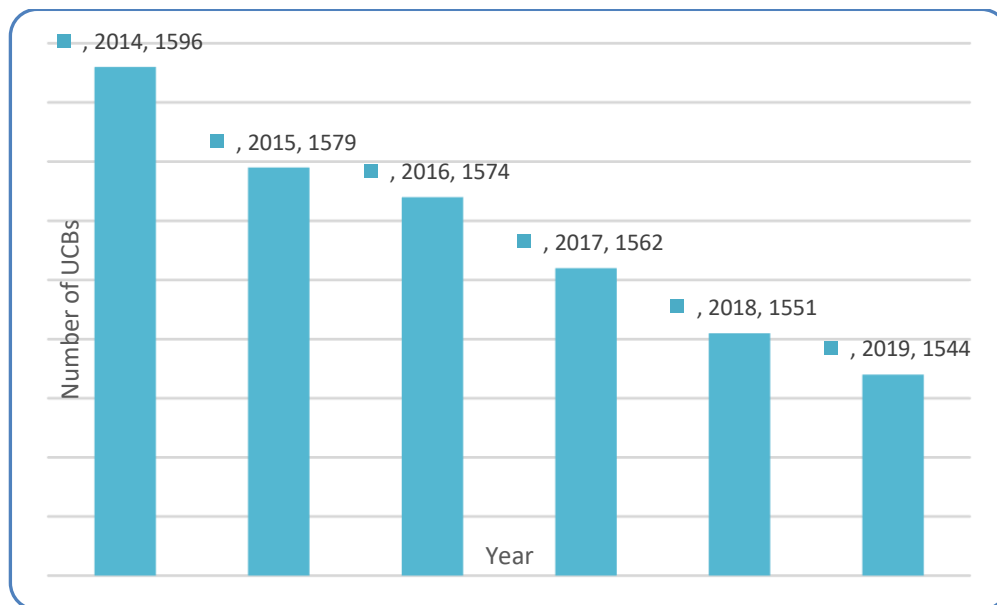


Figure 3.4: (A) Number of Functioning Urban Co-operative Banks

It can be seen in the above table that the number of Urban Co-operative Banks in India has declined from 1596 at the end of March 2014 to 1544 at the end of March, 2019, registering a fall of 3% in number of urban co-operative banks during a period of six years from 2014 to 2019.

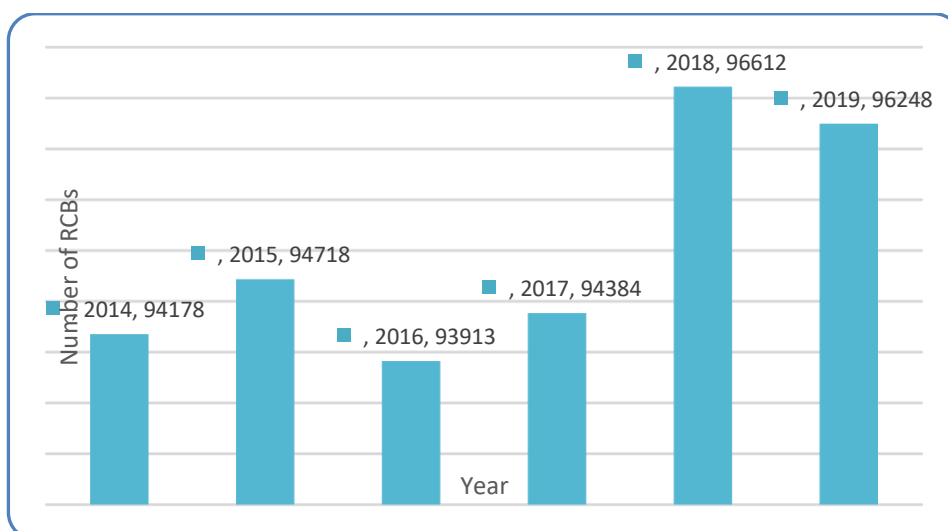


Figure 3.4: (B) Number of Functioning Rural Co-operative Banks

The number of Rural Co-operative Banks has shown a marginal increase from 94178 at the end of March, 2014 to 94718 at the end of March, 2015; after that, the number fell to 93913 at the end of March, 2016. The number of Rural Co-operative Banks again revived to 94384 at the end of March 2017 and jumped to 96612 at the end of March, 2018. However, at the end of March, 2019 their numbers again declined to 96248. It can be concluded from the above discussion that the number of Rural Co-operative Banks has marginally increased by 2% during the research period.

India Post:

India post offices have provided banking services to all sections of society in urban and rural areas since 1882. With 156600 post offices across the country, India Post has the world's widest network of post offices. The following figure shows the number of functioning post offices in India at the end of March each year from 2014 to 2019:

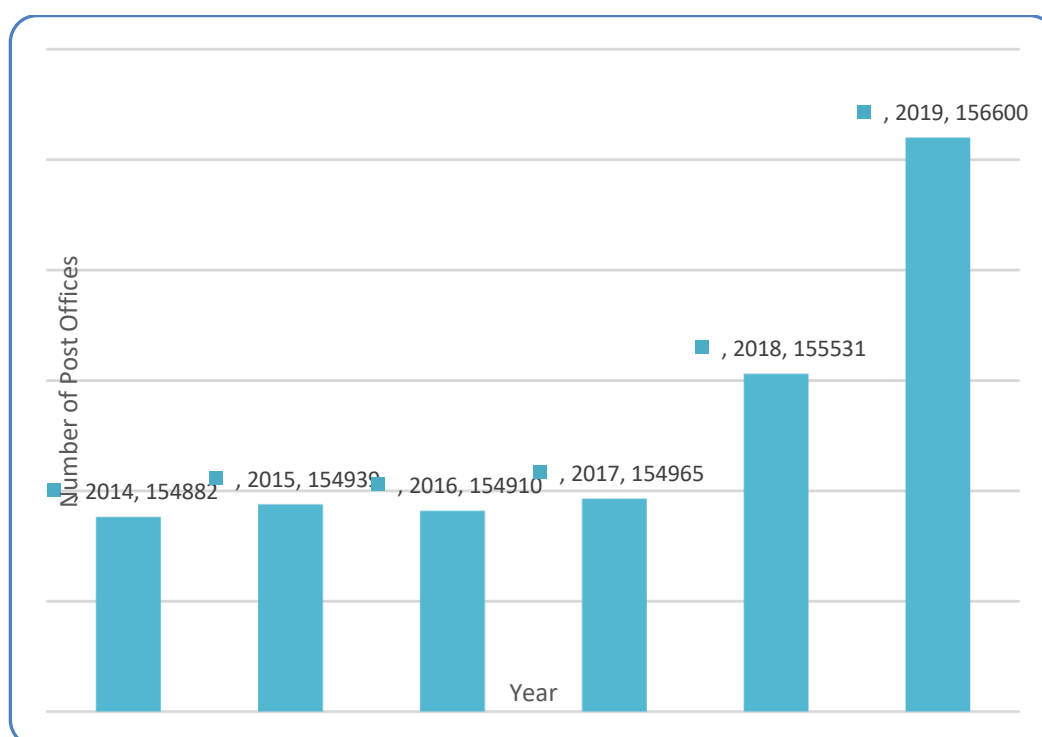


Figure 3.5: Number of Functioning Post Offices in India

It can be seen in the above table that India Post has a very large network of offices across country. Although the number of post offices have remained more or less same during the last five years, the existing post office network is large enough to cater to various parts of the country.

3.5 Conclusions:

An in-depth analysis of various financial inclusion schemes indicates that the Government has not left any stone unturned to bridge the economic gap between the masses. However, there is a long way for the Government to go to achieve complete financial inclusion. Several factors hinder the success of these schemes. Some of these are poor implementation, lack of follow-up action, bureaucratic approach, lack of awareness and trust, absence of adequate infrastructure, etc. The Government needs to integrate these fragmented Schemes into one central Scheme to meet all the masses' financial needs and ensure its effective implementation. Also, each Scheme has several leakages, which must be plugged in effectively to make these Schemes output-oriented. If these constraints are taken care of, the objective of financial inclusion can certainly be achieved over the next decade.

3.6 References:

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