Chapter 1

1. INTRODUCTION

Financial Inclusion is a Public Private Partnership initiative for providing access to the main stream banking services for Below the Poverty Line (BPL) Citizen of India. Financial inclusion is the process of ensuring access to appropriate financial products and services desirable by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner through mainstream institutional players. Financial inclusion has turn into one of the most critical aspects in the context of economic growth.

Definitions:

In order to deal with the issues of financial inclusion, the Government of India made a “Committee on Financial Inclusion” under the Chairmanship of Dr. C. Rangarajan. The Committee has defined Financial Inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

United Nations defined financial inclusion as “the timely delivery of financial services to disadvantaged sections of society.”

Access to finance by the poor and weak groups is a precondition for poverty reduction and social solidity. This has to become an integral part of our efforts to promote wide-ranging growth. In fact, given that access to finance is a form of empowerment of the weak groups. Financial inclusion denotes release of financial services at a reasonable cost to the vast sections of the disadvantaged groups. The variety of financial services includes credit, savings, insurance and payments and transfer of funds facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its realm people with low incomes.
Indian banking system has emerged as an energetic sector in the Indian economy. Strong rigid mechanism, inbuilt strength in the economy, and progressive policy structure which supports, nurtures, and helps in increasing the financial institutions. There has been amazing growth in profits in our banking industry over the last two decades. The banking sector index has grown at a compounded annual rate of 51% since the year 2001.

Indian economy in general and banking services in particular have made rapid strides in the recent past. However, an ample section of the populace, mainly the vulnerable groups, such as weaker sections and low earnings groups, continue to stay expelled from even the most basic opportunities and services provided by the financial sector. To address the issue of such financial segregation in a right manner, it is necessary to ensure that a range of financial services is available to every individual. These services can be seen as follows:

- A no-frills banking account,
- A savings product suitable to the pattern of cash flows of a poor family,
- Money transfer facilities,
- Small loans and overdrafts for industrious, individual and other purposes, and
- Micro-insurance (life and non-life).

**Historical Perspective:**

Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were included into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make no-frills bank account. Financial inclusion first featured in 2005 in India, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. The first village in India was Mangalam Village, where all households were provided banking services. Norms were calm for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them admittance easy credit. In January 2006, the Reserve Bank allowed 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. 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.

1.1 REVIEW OF THE LITERATURE

A brief literature helped the researcher in gaining insight into selected problem. The literature is divided into two parts: (a) Literature on defining financial inclusion and (b) Measuring financial inclusion.

1.1.1 Defining Financial Inclusion

Basu (2005), Dev (2006), Mohan (2006) stated that the discussion on financial inclusion in policy and academic circles tended to revolve around the extension of institutional credit at the expense of given that savings, in spite of proof that poor people keep. If this tendency continues, a myopic focus on credit could lead to harmful, long-term outcomes such as over-indebtedness and extravagant use of limited resources. Positively, the RBI-led drive for financial inclusion is thus significant in that it attempts to extend savings bank accounts to ‘unbanked’ households.

United Nations (2006) defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society. This simple definition encompasses the concept’s two, primary dimensions. Firstly, financial inclusion refers to a customer having access to a range of formal financial services, from easy credit and savings services to the more complex such as insurance and pensions. Secondly, financial inclusion helps that customers have access to more than one financial services provider, which ensures a variety of spirited options.

Union Budget (2007-2008): financial inclusion was defined as “the process of ensuring access to timely and sufficient credit and financial services by weak groups at a reasonable cost”.

Report of the Committee for Financial Inclusion (2008) defines financial inclusion as “…the process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost”. Even though these two definitions mention a range of financial services, their wording reveals a prejudice towards credit.
1.1.2 Measuring Financial Inclusion

**Beck & De la Torre** (2006): Financial inclusion is the idea of breadth of financial services. Breadth of financial services refers to the outreach of financial services in an economy. In other words, breadth measures how many people have access to financial services. Although financial inclusion should signify access to a range of different economic services, the proportion of people in a certain area with access to a bank account is the emblematic measuring stick for breadth of financial services.

**Mohan** (2006) assumes that a bank account enables poor households to perform important financial functions such as saving money safely exterior the house, accessing credit, creation of loan or finest payments and transferring money. Thus, in this structure, a bank account *should* determine access to and usage of many other financial services.

**Pal and Sura** (2006): The overall position of RRBs in India is not quite cheering. The poor credit-deposit ratio is at rest making indentation on the desired performance of RRBs. Since the RRB is thought to be a bank for poor people, government should increase the branches of RRBs at grass root level to provide such banking service to the really needy rural people and to take remedial measures to raise the credit deposit ratio of the bank that would make RRBs relevant in the rural India.

**Ghosh** (2007): The Post Office Saving Bank (POSB) can be used to cater the financial need of rural India where Microfinance Institutions (MFIs) have very little occurrence in total requirement of finance. To enhance micro financing initiatives and financial inclusion program banks are deploying Biometric ATM solutions to its rural customers helping illiterate or barely literate folks to become part of the banking user community.

**Gupta and Gupta** (2008): Financial literacy program has no effect on the likelihood of opening a bank savings account, but do find diffident effects for untrained and financially uneducated households. In difference, small grant payments have a large effect on the probability of opening a savings account. These expenses are more than two times more cost-effective than the financial literacy education. Rising propagation of mobile services and ATMs in rural areas of India has created a new opportunity to attain
financial inclusion and thus an effective tool to provide financial services to the un-banked areas with reduced overheads with providing access to banking services in remote rural destinations of India.

**Committee for Financial Sector Reforms** (2008): There are many metrics to measure financial inclusion including population per bank branch or using the percentage of adult population.

**Ravichandran and Alkhathlan** (2009): There are number of factors affecting access to financial services by weaker section of society in India. The lack of alertness, low incomes and property, social elimination, illiteracy are the obstacles from demand portion. The distance from bank branch, branch timings, awkward banking process, over prerequisite of documents for opening bank accounts, unsuitable banking schemes, verbal communication, high transaction costs and attitudes of bank officials are the barriers from supply side.

**Cole et al.** (2009): Financial literacy program has no effect on the likelihood of opening a bank savings account, but do find modest effects for untrained and monetarily illiterate households. In contrast, small grant expenses have a large effect on the likelihood of opening a savings account. These expenses are more than two times more cost-effective than the financial literacy training.

**K. Sameer, R Chandrashekhar, K C Chakrabarty, Deepak B Phatak, eds.,** (2009) stated that compilation is the result of action research and field visits across India extend over last 10-years. These were conducted by Skoch Consultancy Services with recently added hold up from Skoch Development Foundation. The collection focuses on various facets of financial inclusion ranging from opening up of no-frills accounts to micro-credit to financial literacy, while appreciating the role of process changes, ability building and outreach.

**K. Sameer,** (2009) focused on scaling-up access to finance for India’s rural poor who has presented a formidable developmental challenge in a country as vast and varied as India. The author has penned his views in the context of the Skoch Development Foundation’s first-ever nationwide multi-stakeholder study entitled "National Study on Speeding Financial Inclusion" which sought to collate primary research based on our proletariat experiences from several project sites and views from all stakeholders so as to arrive at key interventions and intermediations to speed up the process of financial inclusion, and thereby poverty
mitigation. Separately from providing key recommendations in the form of a roadmap to speed up the process of financial inclusion, the study also required to determine the viability and cost-effectiveness of the Business Correspondent (BC) model and has identified several options to make the model viable.

**Reddy** (2010) suggested a new approach to banks to reach wider population in rural areas by establishing mobile-banks/representatives/agents who operate on commercial basis rather than just by SHGs. These agents work on commission basis and hence self-motivated and cost efficient in assisting banks in service provision/deposit mobilization.

**Thingalya N.K., M.S. Moodithaya & N S Shetty** (2010) explained the conceptual framework of Financial Inclusion as well as assessed the financial exclusion measures on which it could be evaluated. These measures include bank system outreach, access to financial services, and financial exclusion on the basis of economic, social and people’s regional conditions.

**Ravichandran K.** (2010) initially listed the formal and informal financial sources accessible to a common man for availing the financial services.

**Tejani Rachana** (2011) stated that there is lot of opportunity for the commercial banks to explore the rural unbanked areas. The number of kisan credit cards issued and the amount of credit granted under it is also showing a waning trend. Commercial banks should seize this opportunity rather than looking at it as a social obligation.

**Karmakar K.G, G. D. Banerjee, N. P. Mohapatra** (2011) makes out a strong case for seeing financial inclusion from a much broader perspective and argue that the objective should include meeting not just micro-credit needs but also micro-insurance to cover emergencies, besides given that regular pension by way of old age safety. This demand side analysis is accessible in general terms as well as with particular reference to farmers and ancestral people. In the supply side, they look at dissimilar models of providing financial services such as Business Correspondents and Facilitators; the Regional Rural Banks; and the Post Offices.
Joshi D.P (2011) viewed how financial inclusion has acquired policy precedence in even in developed countries with examples of the “The Financial Inclusion Task Force” of the UK and the “Community Investment Act” of the USA.

Srinivasan L (2012): Financial Inclusion is essential for the nation. For banks, financial inclusion initiatives offer a great opportunity.

Kuppan S (2012) stated the main reason for financial exclusion is be short of regular or considerable income. In most of the cases people with low returns do not qualify for a credit. The proximity of the financial service is an additional fact. The loss is not only the shipping cost but also the loss of daily pay for a low income person. Most of excluded consumers are not aware of bank’s goods, which are helpful for them. Receiving of money for their financial necessities from a local money-lender is easier than getting loan from the bank.

Maiti, S.K, Banerji Sudipti, Majumder A, Sarkar. A (2012): There were numbers of traditional and informal ways of forwarding credit before the emergence of the SHGs. All of them provide very little attention to the question of both empowerment and sustainability. Along with this there was a casual approach towards the responsibility of the credits leading to adverse impact on both repayments as well as additional outreach. The result that emerges from this study is that SHGs are playing a very important role in the rural empowerment, although most of SHSs are formed as a female group.

1.2 NEED OF THE STUDY

After reviewing the above related literature, researcher found a significant research gap and lack of input. It is argued that as banking services are in the nature of a public good, it is essential that the accessibility of banking services to the entire population without discrimination is the prime objective of public policy. Vision of poor people from the financial system is protection and safety of deposits, low transaction costs, suitable operating time, least paper work, regular deposits, and quick and easy admittance to credit and other products, counting remittances appropriate to their income and consumption.

The provision of simple, small, affordable products can help bring low-income families into the formal monetary sector. Taking into account their cyclic inflow of income from agricultural operations,
colonization from one place to an additional and seasonal and uneven work accessibility and income, the existing financial system wants to be designed to suit their necessities. Mainstream financial institutions such as banks have an important role to play in this attempt, not as a social obligation, but as a clean business proposal.

In Agra district, many poor people live in urban as well as rural areas. In the previous researches, there is nothing mentioned about the beneficiaries of the financial inclusion at Agra district. Therefore, keeping in view of the above facts, this research work is an attempt to find out the role of few of the public sector and private sector banks towards financial inclusion, the status of the people who have benefited by this inclusion and to know the recent changes regarding financial inclusion. Therefore, the study entitled as “The Role of Public Sector and Private Sector Banks in Financial Inclusion at Agra District: A Comparative Study.”

1.3 OBJECTIVES OF THE STUDY

To make study scientific and relevant, the researcher has framed the following objectives:

- To evaluate the performance of the public sector and the private sector banks related to financial inclusion at Agra district.
- To know about the benefits of customers regarding financial inclusion at Agra district.
- To examine the recent changes regarding financial inclusion.

1.4 HYPOTHESIS OF THE STUDY

\( H_0: \) There is no divergence in the performance of public sector and private sector banks related to financial inclusion at Agra district.

\( H_1: \) There is divergence in the performance of public sector and private sector banks related to financial inclusion at Agra district.
1.5 RESEARCH METHODOLOGY

To fulfill the above desired objectives, the study will be conducted by collecting primary data as well as secondary data.

The primary study is as per the following research design table:

**TABLE A**

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<tr>
<th>SAMPLE DESIGN FOR THE RESEARCH WORK</th>
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<tbody>
<tr>
<td>Geographical Area</td>
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<td>Respondents of the Study</td>
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<td>Sample Banks</td>
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<td>Sample Area (for Beneficiaries)</td>
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<td>Sample Size</td>
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<td>Sampling Method used for the Study</td>
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<td>Research Method</td>
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<td>Time Duration of the Study</td>
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<td>Research Tools used for the Study</td>
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<td>Statistical Tool</td>
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<td>Software</td>
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The secondary data will be collected through internet, newspapers, articles, magazines, journals, articles of RBI, Bank circulars, Govt. reports etc.