FINANCIAL INCLUSION UNDER RRBs

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INTRODUCTION

Financial inclusion has increasingly attracted attention of the global community in recent years. Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable. In fact, it is one of the essential conditions for reduction of poverty and socio-economic inequalities in the society. In simple words Financial inclusion means the Banks open at least one bank account for every family through an intensive campaign, It means the delivery of banking services at an affordable cost to the vast sections of disadvantages low income groups. Financial inclusion is integral to the inclusive growth process and sustainable development of the country.

According to **C. Rangarajan Committee Report, 2008** "Financial inclusion may be defined as the process of ensuring 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."

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire populations without discrimination is the prime objective of this public policy. The term "financial inclusion" has gained importance to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

The key focus of Financial Inclusion includes four products:

- A pure savings product with inbuilt overdraft facility.
- A Recurring Deposit product.

- A remittance product and
- Entrepreneurship credit in the form of KCC/ GCC.

The history of financial inclusion dates back to the Co Operative credit movement in India. Successive Indian governments have tried to address the issue of financial exclusion by directing the banking sector to provide financial services to poor and vulnerable at subsidized conditions. Rural finance is a matter of great concern in an agrarian economy like India. The institutional credit accounts for 60 percent of the total credit needs and rest of the 40 percent is provided by non institutional sector (informal sector). The informal sector for rural finance is an age old. It consists primarily of rural money lenders, traders merchants etc. it proved to be avaricious and ruinous for rural India. Realizing the fleeing of rural masses, Government of India took several initiatives to promote the growth of Rural and agriculture sector. Amongst these initiatives, major was the establishment of Regional Rural Banks (RRBs). The basic idea of introducing RRBs was to look after the financial needs of rural sector with professional approach as that of commercial banks in India. RRBs also participated enthusiastically in enhancing poverty alleviation schemes especially for the drought-prone and deserts regions. By doing this RRBs became an important and integral part of the rural credit system.

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/ semi-urban areas and grant loans and advance mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State. RRBs started their development process on 2nd October 1975 with the formation of a single bank (Prathama Grameen Bank). As on 31 March 2012, there were 82 RRBs (post-merger) covering 620 districts with a network of 16,001 branches. RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus.

The key objectives of Financial Inclusion:

- Extending formal banking system among less privileged in urban & rural India.

- Weaning them away from unorganized money markets and money lenders.
- Equipping them with the confidence to make informed financial decisions.

REVIEW OF LITERATURE

To understand financial inclusion, knowing the nature and causes of exclusion is imperative.

Kempson and Whyley (1998) discuss the major forms of exclusion that deter certain segments of population from being financially included-access exclusion, i.e. unavailability / remote availability of banking services price exclusion, i.e. high cost of financial products, condition exclusion i.e. inappropriate conditions attached to financial product, marketing exclusion i.e. cultural/ religious / psychological barriers and mistrust etc. Building an inclusive financial system calls for addressing the above multidimensional forms of exclusion.

According to (H.M. Treasury, 2007) The operational definitions of financial inclusion, have also evolved from the underlying public policy concerns that many people, particularly those living on low income, cannot access mainstream financial products such as bank accounts and low cost loans, which, in turn, imposes real costs on them-often the most vulnerable people.

In the Indian context, Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008)) defines it as: "Financial inclusion may be defined 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."

METHODOLOGY

For the present study, my research work is secondary data base. For this purpose. I have used NABARD Annual Report, RBI bulletin, Statistics on RRBs, Articles on financial inclusion.

OBJECTIVES

The specific objectives of this study are to:

- To deepen the understanding of the factors which are crucial in determining the extent of financial inclusion in rural areas.
- To explore/ unravel statistically significant interaction effects between explanatory variables.
- To study efforts to expedite financial inclusion from the lens of social banking.
- To suggest measures for banks to tap unexplored markets.

RBI INITIATIVES FINANCIAL INCLUSION

It is absolutely beyond any doubt that the financial access to masses has significantly improved in the last three and a half decades. With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of populations, urged bank to review their existing practices to align them with the objective of financial inclusion. In the midterm Review of the policy (2005-06), RBI with a view to achieving greater financial inclusion exhorted the banks:-

- Relaxation of Know Your Customer (KYC) guideline for No-Frill accounts.
- Introduction of Business Correspondent (BC) Model for service delivery in remote areas.
- Adoption of Information & Communication Technology (ICT) based model for enhancing outreach.
- Integration of Electronic Benefit Transfer (EBT) for disbursement of Govt. Grants.
- Reorganization of Aadhar Number under KYC norms.
- Banking services in unbanked villages with a population of more than 2,000.
- New branches in unbanked rural centres.
- Branch authorization in Tier 3 to Tier 6 centres.

FINANCIAL INCLUSION UNDER RRBS

RRBs in India emerged as a potentially powerful instrument for achieving rural development through providing resources for agriculture, industry, trade, commerce, and other productive agencies operating in rural sectors. RRBs are working in 635 districts in India as on 31 March

2012. After amalgamation, RRBs have become quite large covering most parts of the State in many cases. Assam Gramin Vikas Bank, an amalgamated RRB, covers 25 out of 27 districts of the State through its strong network of 355 branches and 7 Regional Offices. So, this is the highest in the country, while five other amalgamated RRBs cover 10 or more districts each. However, 40 RRBs covered two districts and 16 RRBs covered a single district each in 2005-06. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI) for financial inclusion. RRBs in India emerged as a potentially powerful instrument for achieving rural development through providing resources for agriculture, industry, trade, commerce, and other productive agencies operating in rural sectors. Post-merger RRBs represent a powerful instrument for financial inclusion. With merger infusing the much needed financial strength in RRBs coupled with the local feel and familiarity they command, RRBs are in a unique position to play a decisive role in financial inclusion.

Table – 1 : Indicators of Performance of RRB (As on 31 March, 2012)

(Rs. In Crore)

Particulars	**2009**	**2010**	**2011**	**2012 P**
No. of RRBs (No.)	86*	82*	82	82
Branch Network (No.)	15181	15480	16001	16914
Share Capital (Rs.)	197.00	197.00	197.00	197.00
Share Capital Deposit (Rs.)	3959.30	3984.90	4076.34	4559.48
Reserves (Rs.)	6753.99	8065.26	9565.58	11135.19
Deposits (Rs.)	120189.90	145034.95	166232.34	187351.37
Borrowings (Rs.)	12734.65	18770.06	26490.80	30271.71
Investments (Rs.)	65909.92	79379.16	86510.44	89145.79
Loans & Advances (Outstanding) (Rs.)	67802.10	82819.10	98917.43	120550.66
Loans Issued (Rs.)	43367.13	56079.24	71724.19	78546.55
RRB Earning Profit (No.)	80	79	75	79
Amount of Profit (A) $	1823.55	2514.83	2420.75	2469.18
RRB Incurring Losses (No.)	6	3	7	3
Amount of Loss (B) $	35.91	5.65	71.32	25.77

Net Profit (A-B) $ (Rs.)	1787.64	2509.18	2349.43	2443.41
Accumulated Losses (Rs.)	2299.98	1775.06	1532.39	1104.85
RRB with accumulated Losses (No.)	31	27	23	22
Recovery (%)	77.85	80.09	81.18	82.63
NP As to loans outstanding (%)	4.14	3.72	3.75	4.14
Net worth (Rs.)	**8610.31**	**10472.10**	**12306.53**	**14786.77**
*: Number reduced due to amalgamation $: Before Tax P: Provisional				

Source : Data compiled from NABARD, Annual Report 2011-2012. Page no. 86.

Post amalgamation, the number of RRB operating in the country was 82, with a network of 16, 914 branches (Table 1) spread over 635 districts in twenty-six states and one UT (Pondicherry). Over a period of three years (2009-10 to 2011-12), the deposits an disinvestments increased by 29.18 percent and 12.30 per cent, respectively, the borrowing increased by 61.28 per cent and loans and advances (outstanding) increased by 45.56 per cent Financial results of RRBs for the year 2.11-12 indicate that there was improvement in their performance with 79 out of 82 RRBs showing pre-tax profit to the extent of Rs. 2469.18 crore as compared to 75 with Rs. 2420.75 crore in 2010-11. The remaining 3 RRBs incurred losses of Rs. 25.77 crore as compared to loss of Rs. 71.32 crore posted by 7 RRB in 2010-11. The number of sustainably viable RRBs (i.e. RRBs making net current profit and having no accumulated losses) had increased to 60 as on 31 March 2012 as compared to 58 as on 31 March 2011. The aggregate reserves of RRBs increased to Rs. 11,135.19 crore and net worth increased to Rs. 14786.77 crore as on 31 March 2012 (Table 1).

No Frills Accounts: The RRB has emerged as a strong intermediary for Finance Inclusion in rural areas by opening large numbers of “No Frills” accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRB stood at 1188.83 lakh, as on 31 March 2010. (NABARD ‘Review of the Performance of RRBs as on 31 March 2011 ‘Mumbai’’).

Outreach: In rural areas, RRBs account for a substantial 37% of total offices of all scheduled commercial banks. In semi-urban areas, their share comes to 15%. It goes without saying that exclusion is more severe in rural areas. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai').

Manpower Deployment: 91% of the total workforce in RRBs in posted in rural and semi-urban areas as compared to 38% for other scheduled commercial banks (table below). Even in absolute terms, out of a total workforce of 179,423 deployed by all scheduled commercial banks in rural areas, RRBs share is 25% (45,062). This is significant considering that at all India level, manpower of RRBs constitute only 7% of the total manpower of all scheduled commercial banks. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai').

Savings Mobilization: At all India level, RRBs account for 12% of all deposit accounts of scheduled commercial banks and meager 3.5% of deposit amount. However, in rural areas, RRBs share in deposit accounts is a significant 31% and that in deposit amount 19%. This shows that the average deposit amount is lower in RRBs than other commercial banks, thereby implying RRBs better reach to small depositors. If we include semi-urban areas for both RRBs and scheduled commercial banks, RRBs' share in deposit account and amount stands at 21% and 11% respectively. (NABARD 'Review of the Performance of RRBs as on 31 March 2011 'Mumbai').

Credit Disbursed: At all India level, RRBs account for 18% of loan account of an scheduled commercial bank and 3% of loans outstanding. However, in rural areas the share of RRBs in loan account is an impressive 38%. More significantly, despite having 38% of all loan accounts, RRBs account for only 21% of total credit outstanding in rural areas, implying thereby their better reach to small borrowers. If semi-urban branches are included, the share of RRBs in credit accounts and amount outstanding is of the order of 29% and 13% respectively. (NABARD 'Review of the Performance of RRBs as on 31 March 2011 'Mumbai').

Both deposit and credit data indicate that RRB branches in rural areas have performed better in relation to other scheduled commercial bank branches. However, RrBs' share comes down significantly when data for both rural and semi-urban areas are considered. This could be due to the fact that branches of other scheduled commercial banks located in semi-urban areas disburse considerable loans in rural areas also. This is significant from the point of view of financial inclusion as rural branches are closer and more active in extending outreach to remote and interior villages. Viewed from this angle RRBs are particularly well placed to achieve the goal of financial inclusion.

Outreach across Regions: Of all the scheduled commercial banks, RRBs account for 34% of branches in North-Eastern, 30% in Eastern and 32% in Central Regions whereas there presence is significantly lower (9% to 17%) in other regions. The data points to the fact that as an institutional group, RRBs are best suited to take up the leadership role in financial inclusion across priority areas in States of North Eastern, Eastern and Central Regions featuring high levels of exclusion.

Savings Mobilization across Regions : Although RRBs account for only 12% of total number of deposit accounts at all India level, their share is significantly higher (18% to 29%) in the North Eastern, Eastern and Central Regions where major interventions are required for financial inclusion. Further, the share of RRBs in a region in terms of no. of accounts is significantly higher than in terms of amount of deposits in the same region. This point to the fact that they basically cater to small depositors or the small depositors are more inclined towards RRBs.

Credit Disbursed across Region: RRBs account for about one third of total number of credit accounts in North-Eastern , Eastern and Central Regions as against only 18% at all India level. Further, the average loan amount disbursed by RRBs is significantly less than by other scheduled commercial banks. In North-Eastern Region, RRBs account for 36% of loan account but only 13% of the outstanding loan amount. For Eastern Region, the respective share are 35% and 6% and for Central Region they are 31% and 10%. It is obvious; RRBs command better outreach and level of comfort for small borrowers.

RRBS AS SELF HELP PROMOTION INSTITUTIONS (SHPI)

RRBs have not only provided financial services to the SHG-Bank Linkage Programme, but have also played in significant role as SHPLs. RRBs are also functioning as SHPls with grant assistance from NABARD. Non-availability of good NGOs is a matter of concern especially in North-Eastern, Central and Eastern Regions. RRBs can play in vital role as SHPLs in such areas. The foregoing paragraph conclusively indicate that RRBs are well positioned to play a major role in financial inclusion particularly in areas/ regons with high rates of financial exclusion. RRBs were originally created to cater to neglected section/ areas as they were expected to have sound financial management combined with local feel and familiarity. With the amalgamation of RRBs, they have acquired the critical mass in terms of financial strength to widen and deepen their outreach. With the requisite strength having been developed, RRBs are the best suited vehicles to widen and deepen the process of financial inclusion. However, utmost care must be taken to ensure that in the process of fulfilling the socio-economic objective of financial inclusion, RRBs' do not again fall into the vicious circle of deteriorating financial and developmental assistance to contribute substantially to financial inclusion in a way that the business generated out of inclusion efforts add positively to their performance.

Strategic microfinance plan with NABARD support: RRBs have the potential and capability to emerge as niche operators in microfinance. They are playing a major role in the SHG- Bank Linkage Programme especially also as SHPLs.

Their dual role has special meaning in areas which face severe financial exclusion and which do not have a sufficient presence of well performing NGOs. However, to upscale the programme to a level where it can really make a visible impact, RRBs need handholding particularly in the areas of training, promotion and development. NABARD may provide required assistance. NABARD should prepare a strategic action plan RRB-wise, for NABARD for a period of 5 years – NABARD providing the promotional and development assistance out of the "Financial Inclusion Promotion and Development Fund" and RRBs forming, nurturing and providing financial services to SHGs. RRBs may accomplish the task with the support of individual rural volunteers, BFs, their staff members, etc. NABARD may closely monitor the programme – with focus on qualitative aspects.

The RRB has emerged as a strong intermediary for Financial Inclusion in rural areas by opening large numbers of "No Frills" accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRB stood at 1188.83 lakh, as on 31 March 2010 (Table-2).

Table-2: Status of Financial Inclusion – RRB

(As on 31 March 2010)

(No. in Lakh)

Year	No. Of Deposit Accounts	Of Which 'No-Frills' Accounts	No. of Loan Accounts	Of total Loan Accounts, major area of Financial Inclusion				
				SSO, artisans, SCC & retail				
				GCC	SHG	KCC	Tenants	Trade
2007-08	758.02	81.17	171.20	2.35	7.20	69.84	1.03	20.78
2008-09	935.54	153.81	170.66	3.22	8.04	67.87	0.95	19.64
2009-10	1002.16	200.09	186.67	4.12	8.97	83.72	0.83	21.28

CONCLUSION

The introduction of the RRBs from the year 1975 was a bold attempt to ensure savings and credit opportunities to the rural population. The contribution of the RRBs to financial inclusion in rural areas has been significant. In fact, on matters like financial inclusion, appointment of business facilitators, etc, RRBs have to make a real breakthrough. On the basis of above analysis, RRBs' goal is increasingly being force-fed to the banking system as a whole through the mechanism of "no-frills" accounts and implemented through under-paid business correspondents, it is unlikely that this strategy is sustainable. The purpose of this research programme is to assess the recent operational experience of RRBs to determine their contribution to financial inclusion and to document the constraints such banks face in furthering that process. The reach of RRBs particularly in regions and across population groups facing the brunt of financial exclusion is impressive. In rural areas, RRBs account for a substantial 37% of total offices of all scheduled commercial banks. In semi-urban, RRBs their share comes to 15%. With the process of merger strengthening, to some extent, the viability of the RRBs and also because of the local feel and familiarity they command, RRBs are in a unique position to play a potential role in financial inclusion. On an average, RRBs covered more than 5749 accounts per branch, comprising 4450 for deposit accounts and 1299 for loan accounts. The per branch coverage varied widely between 1311 and 10384 in terms of aggregate business. From the above statistics vis-à-vis the vast number of unbanked population in the rural areas, it is clear that there is a good scope for financial inclusion initiatives by the RRBs. So, RRBs have a vital role in the National Plan of Financial Inclusion to bring hitherto financially excluded adults within banking fold as well as rural poor households to access micro-finance services. The RRBs have emerged as a strong intermediary for Financial Inclusion in rural areas by opening a large number of "No Frills" accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRBs stood at 1,363.09 lakh, as 31 March 2012.

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