

Banking Reforms for Financial Inclusion: Performance of Selected Indian Banks

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The paper aims at analyzing the experience of few selected Indian banks in the area of financial inclusion. This paper contributes to the literature on financial inclusion from a micro perspective of bank level performance. Instead of using macro data pertaining to banking industry as a whole, bank level data available through annual reports of the selected banks for the year ended 31st March 2011 was analyzed. Five banks namely State Bank of India, Syndicate Bank, UCO Bank, ICICI Bank & HDFC Bank were selected in public and private sector. To find out the performance in the financial inclusion front as reported by the sample banks, a detailed study was done with the help of the annual reports of the selected banks. An attempt was made to analyze the methods adopted by the sample units in presenting their performance, the place of disclosure, the parameters used for such reporting etc.

Keywords: Banking Reforms, Financial Inclusion, SBI Bank, ICICI Bank, HDFC Bank, UCO Bank, Syndicate Bank

Introduction

The introduction of reform measures in 1992-93 in the banking sector on the recommendation of the committee on financial system brought about paradigm shift in policies and functioning of commercial banks in India. Despite the commendable progress of Indian banking sector in the areas of productivity and efficiency, the task of deepening the services of banks was left unattended after 15 years of the start of reform process (Rao, 2008). Financial exclusion in the sense of inability to extend banking products at an affordable cost to the vast segment of population, led to be serious thinking of policy makers in late 2000's. The Report of the Committee on Financial Inclusion under the Chairmanship of Shri C. Rangarajan highlights the need of financial inclusion to sustain and accelerate the growth momentum (Government of India, 2008). Constitution a High Level Committee on Financial Sector Reforms (vide order No. A 43011/17/2007 Adm I dt. 17.08.2007) under the chairmanship of Professor Raghuram. G. Rajan was a step towards outlining a comprehensive agenda for the evolution of the financial sector. The Rajan Committee in its Reports entitled "A Hundred Small Steps" has given thrust on the broadening of access to finance or financial inclusion. (Government of India, 2009). The Reserve Bank of India has also taken various initiatives to give a big push to the agenda of financial inclusion.

Against this backdrop, the paper aims at analyzing the experience of few selected Indian banks in the area of financial inclusion. Extant literature in general, covers macro aspects of

financial inclusion taking banking industry as a whole. The individual bank level position is not researched in a significant way in earlier studies. This paper contributes to the literature on financial inclusion from a micro perspective of bank level performance. The remainder of the paper is structured as follows: The section 2 provides a review of concept of financial inclusion and section 3 provides the reform measures initiated at the policy level to facilitate financial inclusion. Section 4 presents the performance of selected Indian banks and Section 5 gives concluding observations.

Financial Inclusion: An Overview

Financial inclusion is aimed at providing access to financial products and services to underprivileged sections in rural and urban area at an affordable cost in a fair and transparent manner. The committee on Financial Inclusion defines financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker section and low income groups at an affordable cost" (Government of India, 2008).

Financial Inclusion promotes thrift and develops culture of savings and also enables efficient payment mechanism strengthening the resources base of financial institution which benefits the economy as resources become available for efficient payment mechanism and allocations. The empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality (Thorat, 2008). Financial inclusion through banking services and products makes a qualitative difference to the lives of all those who are covered by the process through

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- a. Credit and easy access to banking facilities
- b. Access to the suite of appropriate financial products including credit
- c. Financial literacy and awareness programme.

Focus on inclusive growth and the realization that poor is bankable have revived our interest on financial inclusion. It is felt that high growth that consists with rising inequality will become unsustainable at some point. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income distribution, as a means of increasing incomes of excluded groups. The 'financial inclusion' as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equally shared. As inclusive growth is not possible without financial inclusion, there is a thrust on providing access to financial product and services. Development in the field of banking technology is also facilitating factor for recent thrust in financial inclusion. However, financial inclusion remains a complex issue. Statistics about the progress of financial inclusion may be staggering, but they do not convey the true extent of the problem. Even where bank accounts are claimed to have been opened, verification has shown that a significant portions of these accounts are dormant. When credit

is provided through microfinance route, issue of high interest rate may crop up (e.g., Andhra Pradesh experience).

Measuring financial inclusions is also a challenging area because there are no readily obtainable indicators of access and different countries and institution may define financial access differently. Bihari (2011) proposes an index of financial inclusion following a multidimensional approach.

In the next section, the initiatives at the level of Regulators and Policy makers to promote financial inclusion, are described.

Financial Inclusion: Regulatory Interventions

In India, the need of financial inclusion was felt by the policy makers after independence. Some of the notable steps that were taken to wider the availability of financial services are:

- Co-operative Movement
- Self Help Groups

But, those measures were inadequate as they failed to achieve desired results. Exhibit I presents the extent of financial exclusion in India.

Exhibit 1 Extent of Financial Exclusion

1. Coverage of (Estimates based on various studies and Market Surveys):
 - Check in accounts - 40%
 - Life Insurance - 10.0%
 - Non-Life Insurance - 0.6%
 - Credit Card - 2%
 - ATM + Debit Card - 13%
2. Geographical coverage
 - 5.2% villages are having a bank branch
3. Farmers coverage
 - Out of 119 million farmers, small and marginal farmers are 97.7 million (82.1 %)

Source: Chakraborty, K.C. (2009)

Exhibit 2 RBI's Contribution to Promote Financial Inclusion

- No-Frill Accounts
- Overdraft in Saving Bank Accounts
- Banking Correspondent / Banking Facilitator Model
- Kishan Credit Card / General Credit Card Guidelines
- Liberalized branch expansion
- Liberalized policy for ATM
- Liberal KYC Norms
- Introducing technology products and services
 - Pre-Paid cards, Mobile Banking etc.
- Allowing RRBs' / Co-operative banks to sell Insurance and Financial Products
- Financial Literacy Program
- Creation of Special Funds
- Identification of 431 for 100 per cent financial inclusion across various States/Union Territories
- Draft Code on Licensing of New Banks

Source: Chakraborty, K.C. (2009)

Establishment of C. Rangarajan Committee and publication of its report have led to various policy initiatives at the level of Reserve Bank of India (RBI). The major contributions of RBI in this regard is summarized in Exhibit 2.

In the Rajan Committee Report it is stressed that a comprehensive agenda of financial reforms should include issues on broadening access to finance. Furthermore, the Committee recognized that greater commercial viability cannot be truly achieved for all section of the poor and therefore some kind of mandated coverage will always be required (Government of India, 2009).

The regulatory approach of the RBI has not compromised with prudential norms and the RBI has tried to have a system of incentives and disincentives that further the financial inclusion objective and while doing so the RBI has tried to balance the degree of risk with the ability to achieve greater penetration (Thorat, 2010).

Data & Methodology

An attempt has been made to analyze the performance of Indian Banks in the area of financial inclusion. Instead of using macro data pertaining to banking industry as a whole, bank level data was collected through annual reports of the selected banks for the year ended 31st March 2011. The Study is restricted to five selected banks in public and private sector. Following banks have been chosen on the basis of availability of annual reports.

1. State Bank of India
2. Syndicate Bank
3. UCO Bank
4. ICICI Bank
5. HDFC Bank

Annual reports of the selected banks have been analyzed in detail to find out the performance in the financial inclusion front as reported by the sample banks. An attempt has been made to analyze the methods adopted by the banks in presenting their performance, the place of disclosure, the parameters used for such reporting etc. First, findings for each banks are reported separately in alphabetical order and thereafter a comparative analysis of reporting practice is given.

Financial Inclusion Initiatives of Selected Banks

HDFC Bank

It is observed that most of the sample banks have used the Directors' Report Section to highlight the initiatives to promote financial inclusion. Like other banks, HDFC Bank has reported in its Directors' Report its financial inclusion initiative under the head 'Financial Inclusion'. The bank states that its 'financial inclusion initiatives have been integrated across its various business, across various product groups'. Unlike other banks, HDFC Bank gives a target and states that the Bank will endeavor to bring 10 million households currently excluded from basic banking services under the fold of financial inclusion programme.

HDFC Bank reports its initiatives under the following sub heads:

1. Rural Initiative
2. No Frills Saving Accounts
3. Loan to Self Help Groups and Mutual Guarantee Micro Loans
4. Agriculture and Allied Activities
5. Small and Micro Enterprises
6. Promoting Financial Awareness

The Bank devotes only 1.2 pages for such reporting and the manner of reporting is mostly narrative and there is little statistical data. Out of six sub-heads mentioned above a few pieces of quantitative data are provided under two heads viz. 'Rural Initiatives' and 'Loans to Self Help Groups and Mutual Guarantee Micro Loans'. Under the sub-head Rural Initiatives, the bank discloses that it covers 4000 villages in the country through various distribution set ups (including business correspondents) and over half of those villages are having a population of less than 2000. Regarding 'Loan to Self Help Group' it stated that the bank has lent to over 54000 self help groups covering approximately 8 lakh households.

Overall, there is lack of financial and other quantitative data on several parameters, like, amount lent to self help groups, volume of business under No Frills Savings Accounts (e.g., percentage of CASA deposit) Number of No Frill Savings Accounts, Number of Financial Awareness Programs organized etc. It is also noticed that there

is no information on extending micro insurance products although the bank is having a life insurance subsidiary. Furthermore, 'Gold Loans' as a measure of financial inclusion initiative is quite uncommon as it is a traditional loan product and most of the banks offer it to their customers.

ICICI Bank

Unlike other sample banks, ICICI Bank has reported financial inclusion initiatives under a separate section entitled 'Business Overview' and that section is not a part of the Directors' Report. A few pieces of narrative information are provided under the section 'Promoting Inclusive Growth'. Thus, the reporting practice of the bank is unique among the sample banks as it does not disclose financial inclusion initiative in the Directors' Report and it provides a separate section entitled 'Promoting Inclusive Growth' in its Annual Report.

However, overall reporting of the bank offers scope of much improvement. It only provides narrative report and no sub-heads are used to facilitate quicker understanding and ease of finding.

Under 'Business Review' section financial inclusion initiatives are reported under the head 'Inclusive and Rural Banking'. The relevant section covers only four paragraphs and most of the report covers the banks future plan. There is hardly any quantitative data and a close reading suggests that the bank has very little achievement in the year under review.

In the section 'Promoting Inclusive Growth' the bank reports its initiatives under the sub head 'Improving access to financial services'. The sub-section contains three paragraphs. The first paragraph gives a description of the banks partnering with Unique Identification Authority of India (UIDAI) for a pilot project in Hazaribagh for enrollment and opening of Aadhaar enabled bank accounts. Second and third paragraphs describe the initiatives banks subsidiaries (viz., ICICI Prudential Life Insurance Company and ICICI Lombard General Insurance Company) regarding provision of micro-insurance and health insurance products respectively.

State Bank of India

Among the sample banks, the reporting of the State Bank of India (SBI) is comparatively quantitative in nature and the report is well structured. State Bank of India discloses its financial

inclusion initiatives in the Directors' Report. It reports its performance under the major head Rural Business Group and uses the following sub-heads for reporting.

1. Micro Finance and Financial Inclusion
2. Multiple IT enabled channels for Financial Inclusion
3. Urban Financial Inclusion

The quantitative details disclosed by the bank in its 2010-11 annual report include data for the following items.

1. No. of customer service point including the break up of Business Correspondents and Business Facilitators.
2. No. of enrollments under UID
3. No. of financial Inclusion centers
4. Amount of Loan disbursed under SHG Bank credit linkage programme
5. No. of unbanked villages covered during the year under report
6. No. of SBI tiny card issued
7. Kiosk Banking
8. No. of business correspondents outlets to cater to urban excluded.

Report of SBI also give details about coverage of micro insurance product, products launched for self help groups (SHGs). SBI report also give details about the major IT enabled channels used by the Bank for financial inclusion. Such channels are SBI tiny card, Kiosk Banking, cell phone messaging etc. But the Bank has made no mention about Number of No Frills Accounts in this section of the report. On an overall basis, the reporting of SBI reveals a promising picture of financial inclusion initiatives by the largest bank of India.

Syndicate Bank

Syndicate Bank discloses its financial inclusion initiatives in the Directors' Report under the head 'Financial Inclusion'. The Bank gives quantitative details regarding target and achievements of implementation of Financial Inclusion (FI) Programme. Other details provided by the Bank include quantitative data on opening of No. frills Accounts', Issuance of smart cards and opening of Financial Inclusion Resource Centre. Narrative details are provided for offering of Micro Insurance Product at a nominal cost, the Bank's participation in

Aadhaar Project of UDAI launching of customized FI products and urban financial inclusion initiatives.

UCO Bank

Uco Bank has also chosen the Directors Reports for disclosing financial inclusion initiatives. The relevant reporting is made under the head 'Social Banking & Financial Inclusion'. The report of Uco Bank is similar to that of Syndicate Bank. Uco Bank had adopted 3-way approaches to implement the Financial Inclusion Programme which constitutes (i) Brick and Mortar branches (ii) Uco Bank on wheels and (iii) Business correspondent model. Quantitative details are provided regarding target and achievement of covering unbanked villages, Number of mobile vans and Number of No Frill Accounts. However, there is no mention about establishment of Financial Inclusion Resource Centre.

Financial Inclusion Initiatives of Selected Banks: A Comparative Analysis

A Comparative Analysis of the performance of sample banks may reveal the ground realities at the bank level. With this idea we have attempted a modest analysis of financial inclusion initiatives of selected banks. For the purpose of analysis following parameters were chosen.

1. No. of unbanked villages covered upto 31.03.2011 (both target and achievement)
2. No. of customer service point (Business Correspondent and Business Facilitators)
3. No. of Kishan Credit Card Issues
4. No. of 'No Frill' Account opened
5. Advances to weaker section
6. Coverage of Micro Insurance Products
7. No. of Financial Inclusion Centers
8. No. of Branches in Rural Area

For better comparison, relative measures were also used in some cases alongwith absolute numbers. Table 1 gives results of our comparative analysis.

The analysis of performance of the banks from their own reports reveals that public sector banks have better performance compared to their private sector competitors. Among the public sector sample banks, the achievement of State Bank of India is comparatively much better.

The findings of the study have important policy implications. The RBI has released a draft guideline for giving licenses to new banks in private sector. One of the objectives of providing new licenses is

Table 1 Financial Inclusion Performance of Selected Banks in 2010 11

Particulars	ICICI Bank	HDFC Bank	SBI	Syndicate Bank	Uco Bank
1.No.of unbanked villages covered:					
a) Target	NA	NA	5261	750	880
b) Achievement	NA	NA	6599	750	1005
c) Achievement as % target	NA	NA	125.43	100.00	114.20 NA
2. No. of customer service point (BC & BF)	208	NA	35100	NA	NA
3. No. of Kishan Credit Card Issued	NA	NA	900000	357000	75649
4. No. of "No Frill" Accounts opened	NA	NA	NA	300000	256243
5. a) Advance to weaker section (Rs. Crore)	NA	NA	59213	NA	7496
b) Advance to weaker section as a % of Adjusted Net Bank Credit (ANBC)	NA	NA	10.42	NA	10.39
6. Coverage of Micro Insurance Products (No. of Lives) (In Lakh)	NA	NA	11.40	NA	NA
6. No. of Financial Inclusion Centre	NA	NA	65	2	NA
7. No. of Branches in Rural Area (% of Total Branches)	NA	NA	5138 (35%)	803 (32%)	815 (37%)

NA- Not Available

Source: Annual Reports of Sample Banks for 2010-11. Results Computed.

facilitating greater financial inclusion. Although this study is not empirical, yet findings suggest that relying on private sector for scaling up financial inclusion may not yield desired result.

Conclusion

Indian experience of providing financial access demonstrates that banking inclusion can work within framework of mainstream banking with a sound regulatory framework. But mitigating supply side issues are not enough and in order to improve the level of financial inclusion, demand side effects need to be considered including improving human and physical resource endowments. Some authors name this effort as 'true inclusion'. Sincere efforts are needed to put in places policies that generally take care of the interest of rural and urban excluded, particularly, in the area of delivering credit related products at an affordable interest rate.

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