Theoratical Overview of Financial Inclusion and Cooperative Bank

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Abstract - In India, financial inclusion has been considered a critical policy goal. Financial inclusion refers to the delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups who tend to be socially and economically excluded. Different policy efforts have been made by the government of India and the Reserve Bank of India to promote financial inclusion as important national objective. In the process of achieving this objective, the importance of cooperatives has been cited as a key player as it directly affects the economic status of those excluded groups who can be facilitated with financial and banking services. This study aims at understanding the importance of Sikkim State Cooperative Bank Ltd. in ensuring the inclusive growth through financial inclusion. This study also tries to identify various issues and challenges, associated with cooperatives, affecting towards the realisation of financial inclusion in Sikkim.

Keywords: Financial Inclusion, Financial Exclusion, Cooperatives, NABARD

I. INTRODUCTION

In the arena of five-year plan of Indian economy, NITI AAYOG replaced Planning Commission in the year 2017. "Faster, more inclusive and sustainable growth" were the focused objectives of the 12thfive-year plan. Financial inclusion as an instrument is expected to play a vital role towards the achievement of these objectives. Financial Inclusion has been 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" (C. Rangarajan, 2008). To enhance the level of financial inclusion, an opportunity is required to be given to this section of population in the form of opening bank account to ensure their saving, investment and credit facility. "Ensuring access to financial services and timely and adequate credit for vulnerable groups at an affordable cost is recognized as an urgent need. It concerns not only with delivering financial services to the unbanked population, but also emphasized on innovative delivery systems and channels to expand banking reach into unbanked interior parts" (Ramakrishnan, 2007).In this backdrop, RBI started focusing on financial inclusion since 2005 and undertook a number of initiatives for bringing the larger population within the ambit of structured and organized financial system (Mohan, 2006).

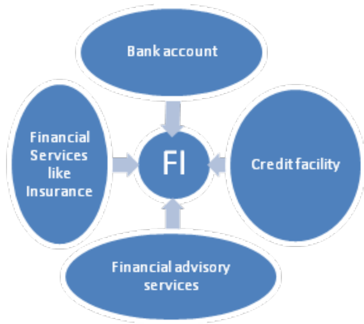
Thus, the instrument of financial inclusion can be properly activated by the banking sector where both the banking sector and financial inclusion are considered as interrelated. Unlike the commercial banks which are urban in their orientation, cooperative banks have very much rural experience with vast network in rural areas. So, this study tries to find out the role of cooperative banks in financial inclusion and also to identify the determinants in achieving the financial inclusion. K.C. Shekhar and Lekshmy Shekhar outlined "The Cooperative banking system in India is characterised by a relatively comprehensive network extending to the grass root level. What distinguishes the co-operative banking sector from commercial banking sector is the focus of the former on the local population and micro-banking among middle and low income strata of the society."

II. FINANCIAL INCLUSION – IT'S MEANING AND DIMENSIONS

As per the definitions of financial inclusion it refers to the access to the purposeful and affordable financial products and services by all sections of the society in a sustainable manner. It rests on three pillars viz., access to financial services, affordability and actual utilization of financial services. The main aim of financial inclusion is to transform the unbanked and under – banked populace within the purview of getting banking facilities and to protect them from informal credit markets so that they can be brought into the main stream of financial system. Thus, the real spirit of financial inclusion ensures the delivery of financial products and services to the all sections of the society which

include bank accounts for saving and remittance purposes, easy and affordable credit for productive, personal and other purposes, financial advisory services, life and non-life insurance services etc.
Financial inclusion (FI) is a multidimensional concept. The different dimensions are inter-related and reinforce each other. Within each dimension of FI different degrees of inclusion are identified. Greater level of FI can only be achieved if a wide range of financial products and services exist to meet the needs and circumstances of the masses.
The different dimensions of FI are outlined below:
i. **Banking inclusion** – having bank account allowing access to and being able to make effective use of it in terms of savings and remittance.
ii. **Credit inclusion** – having credit account allowing access to and being able to make effective use of credit facility.
iii. **Financial Service Inclusion (**like insurance) – having availability of financial services allowing access to them, like insurance products.
iv. **Financial Advisory services –** having facilities of financial advice allowing access to timely and appropriate information about financial products and services and implementation thereon.

Figure1 The Dimension of Financial Inclusion (FI)



Source: Created by author

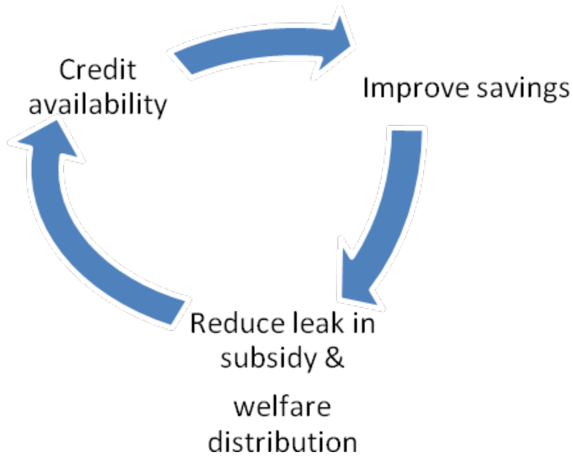
III. OBJECTIVES OF FINANCIAL INCLUSION

The major objectives of FI are the following:
i. Making available the various financial products and services such as savings bank account, credit facility, insurance facility, payments and remittance services and financial advisory services.
ii. Giving the benefit of vast formal financial markets and protecting a section of financially excluded population from the exploitation of informal financial markets so that they can be brought into the platform of mainstream financial markets.

IV. SIGNIFICANCE OF FINANCIAL INCLUSION

The Government of India has been focusing on financial inclusion of all the sections of the society with the motive of achieving the following major benefits:

i. To provide a stage for inculcating the habit of saving as a critical tool, especially for the lower income and disadvantaged groups.
ii. To provide a platform for adequate and transparent credit facility from the formal banking system, especially for those who are dependent on informal credit channels, like family, friends and moneylenders.
iii. To provide a platform for blocking the leaks in public subsidies and welfare programmes of the Government by way of direct transfer of those benefits including social security transfer and Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGA) wages to the actual beneficiaries' bank account.
iv. Finally, to provide a platform for each group of the society in accessing the banking facilities in the form of cash receipts, cash payments, investments and balance enquiry etc.



Source: Arihant Bhandawat, Financial Inclusion - Role of Indian Banks in Reaching Out to the unbanked, www.allindiabankingsolutions.com

V. FINANCIAL INCLUSION MODELS

Models on financial inclusion reveal different approaches, followed by the countries around the world towards the achievement of financial inclusion which shows that there is no 'one size fits all' outcome in solving the problem of financial inclusion. But the models used so far in the Indian context are discussed below:

a. Lead Bank System – Here, the lead bank system was introduced by RBI in 1969 to provide lead roles to individual banks (public and private) for each district in a state on the basis of the recommendations of both the Gadgil Study Group and Banker's Committee (Nariman Committee). Here, it has been said that the lead bank identified is expected to act as a consortium leader to coordinate the efforts particularly in the matters of branch expansion and credit planning. Under this, it was targeted that all the villages above 2000 population would be provided access to financial services by March 2012.

b. Correspondent Banking – In 2006, with the motive of getting low-cost technology solution, the RBI had permitted banks to use intermediaries as Business Facilitators (BFs) or Business Correspondents (BCs) for providing financial and banking services. The BCs are allowed to conduct banking business as agents of the banks at the places other than the banking premises who would serve as the "Doorstep Bankers" and also as the provider of the last mile connectivity. For the purpose, banks were permitted to utilize the services of non-governmental organisations, like NGOs or SHGs, micro-finance institutions and other civil society organisations. As per the present norms, various categories of individuals, kirana shops etc. and in addition corporate and for-profit companies are allowed to act as Business Correspondents' of banks.

c. Mobile Banking – The mobile penetration is very high in the country and so to make use of this opportunity the green signal from RBI was given in October 2008 and 32 banks were authorized to provide the facility of online banking. But, still the object of achieving the financial inclusion with the help of technology looks far beyond the target. To improve the situation, The Financial Inclusion Technology Fund was established with an overall corpus of INR 5000 million to create technology infrastructure with comprehensive credit information. And subsequently, mobile banking guidelines were also issued by RBI as mobile connectivity was thought of as a cheap but reliable model to reach out to the people.

d. Microfinance Model – There are a variety of micro-credit models operating in India, making it the world's best laboratory for micro-finance. The model includes Microfinance system in India including Self-Help Group – Bank Linkage Programme.

VI. MAJOR INITIATIVES OF FINANCIAL INCLUSION IN INDIA

For the first time in April 2005, the mile stone of financial inclusion was initiated in the presentation of Annual Policy Statement by Y.V. Reddy, the then RBI Governor, which gained a greater momentum later on. Here, banks were advised to review their existing practices to arrange them in line with the objectives of achieving financial inclusion to the greater extend. In the year 2006, commercial banks were allowed in making use of the services of NGOs/SHGs, microfinance institutions and other civil society organisations as agents for them for the purpose of providing financial and banking services towards the achievement of financial inclusion. Pradhan Mantri Jan Dhan

Yojna – the National Mission of Financial Inclusion was declared in the year 2014 by the Government of India with an aim to integrate the poorest of the poor with bank account and so as to ensure access to financial services, namely, saving and deposit accounts, remittance, credit, insurance, pension in an affordable manner.
In India, RBI has taken several steps to boost up the financial inclusion process to a greater degree. Some of the initiatives taken by RBI are as follows:

a. No-Frill Accounts - It is a kind of basic saving account with all the features of a normal savings account. The special features of this account are as follows:

- The account holder is not required to maintain any minimum balance requirement.
- Requirement of simplified KYC norms.
- ATM facility is provided at free of cost.
- There is no account maintenance cost.

b. Overdraft in Saving Bank Accounts–Though the overdraft facility is given to current accounts only, but under the financial inclusion initiatives, banks have been advised to give credit facility in the form of overdraft on saving bank account to its customers so that no frill account holders can enjoy the benefits of overdraft facility.

c. KYC Norms - Know Your Customers (KYC) system enables banks to recognize their customers and financial dealings which can ultimately help them to serve in a better way in managing their risks in a efficient way. KYC norms were revised in order to make it easy for people to avail financial services on February 18, 2008.

d. **Self Help Groups (SHGs)** - Self Help Group is a homogenous group of micro entrepreneurs with affinity among themselves, voluntarily formed to save whatever amount they can conveniently save out of their earning and mutually agree to contribute to a common fund of the group from which small loans are given to the members in order to meet their protective and emergent credit needs at such rate of interest, period of loan and other terms as the group may desire.
The SHG-Bank Linkage Programme was launched by NABARD in 1992, with the policy support of the RBI. The SHG-Bank Linkage program can be regarded as the most powerful initiative since independence for providing financial services to the poor in a sustainable manner.

e. **KCC / GCC Scheme**
i. Kisan Credit Card (KCC) Scheme
It is a credit card to provide affordable credit for farmers in India. It was started by Government of India, Reserve Bank of India and National Bank for Agricultural and Rural Development in 1998-99 to help farmers' access timely and adequate credit. It allows farmers to have cash credit facilities without going through time consuming bank credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crops season and extensions are offered for upto four years. The card is valid for five years' subject to annual renewal. Withdrawals are made using slips/cards and a pass book.

iii. General Credit Card (GCC) Scheme
With a view of providing credit card like facilities in the rural areas, with limited
Point-Of-Sale (POS) and limited ATM facilities, the Reserve Bank advised all scheduled commercial banks, including Regional Rural Banks (RRBs), in December 2005 to introduce a General Credit Card (GCC) Scheme for issuing GCC to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that of prevailing under a normal credit card.

f. **Micro-Credit Scheme**
Microcredit is a common form of microfinance which involves an extremely small loan given to people who do not have collateral support or steady employment with the motive of making them self-employed or grow a small business. Microcredit is also known as "micro lending" or "microloan". The origin of the Grameen Bank in Bangladesh during the late 80's, developed by Nobel Prize winner and economist Muhammad Yunus actually drew attention of the microcredit scheme that can play the role of banking the unbankable that are really poor to be served by the conventional banking system.
As the main aim of financial inclusion is to make financial services accessible the underprivileged section of the society and so where the role of microcredit comes in. Here, it can aptly be said that Micro Finance Institutions (MFIs) plays a pivotal role in achieving financial inclusion in different ways and micro credit is one of them which is provided to the members of Self Help Groups (SHGs) for enabling them to raise their income level and improve

living standards. So, the prospects of MFIs as encouraging platform have been identified in meeting the demands of the underprivileged section of the society by way of offering them right kind of financial products and services towards the achievement of financial inclusion

g. **Financial Literacy Program**
Identifying the lack of awareness level among the masses, the RBI has taken initiatives towards giving knowledge about financial literacy and related matters. A project named "Project Financial Literacy" has been undertaken by the RBI towards the same. The main objective of this project is to provide information to the masses, specially targeting students, women, poor, defence personnel and senior citizens about the central banks and the basics of banking practices. The information is expected to pass through pamphlets, brochures, documentaries as well as websites.

h. **Engaging business correspondents (BCs)**
The Reserve Bank of India, in 2006, gave permission to the banks to involve business facilitators (BFs) and BCs to act as the mediators for providing banking services. This system allows banks to give door to door services thus helping people to solve their problems. The eligibility conditions of the individuals or entities to become BCs are reviewed constantly. The Business Correspondents of various banking segments, with the help of the village local bodies like panchayats have set up Common Service Centres (CSC). It helps the rural people in finding out solution to their banking and financial needs through e-governance as it is facilitated with internet connected computers.

i. Use **of technology**
Realising the potential of technology in addressing the outreach and credit delivery services in rural and remote areas, the banks are advised to use the information and communication technology for various banking needs. It not only soothes the burden of work but can also be used by even an illiterate person with the help of their biometrics which enhances the security of banking transactions.

j. **Simplified branch authorization**
In order to solve the issue of uneven spreading of bank branches, the RBI permitted the domestic scheduled commercial banks to open tier III and tier VI branches with less than 50,000 populations. According to this rule, domestic scheduled commercial banks can now freely open branches in rural, semi-urban and urban places in the north eastern states without prior permission of the RBI.

6.1 Current Measures by RBI

Following are some of the measures taken by RBI recently to promote financial inclusion:

a. Licensing of New Banks**:** The current set of rules of licensing banks aim at providing boost to the financial inclusion strategies. Innovative ideas which will eventually boost up financial inclusion will certainly be taken into account for new licensing of banks. In fact, financial inclusion will remain as an important condition in procuring bank licenses.

b. Discussion Paper on Banking Structure in India: The RBI launched a discussion paper in August 2013 on banking structure for the public to get information and comment. The main issue behind this initiative is related to differentiate banking license. The issues pertaining to small bank licenses and financial inclusion are discussed thereon. The RBI would take call after receiving comments and suggestions from the public.

c. It has to be mentioned here that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) which are 1606, 64, and 4 in numbers respectively function as Small Finance Banks. Besides these, there is a three tier rural co-operative bank structure wherein State Co-operative Central Banks (SCCBs) are positioned at the apex level, District Central Co-operative Banks (DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) are positioned in grass root level. The numbers of these banks are 31, 371 and 92,432 respectively.

VII. FINANCIAL INCLUSION AT DIFFERENT LEVELS

The levels of financial inclusion are at world level, national level, state level and district level.

3.7.1 Financial Inclusion at World level
The analysis made of Global Financial Inclusion (Global Findex) Database derives a set of factors which indicate the financial behaviour in 148 economies in the world. A World Bank study reveals that 50% of the adults worldwide own an account; yet the penetration rate differs considering regions, income groups and individual

features. Apart from this, 22% of the adults reveal that they have made savings in organised institutions during one year and 9% reveal that they have taken loan from financial institution during one year. Half of the adults remain without any account in banks but they believe that the hindrances can be got rid of by amicable public policies. The mostly reported problems of such adults are high cost, distance, lack of documentation; but, again these problems differ individually and according to the geographical locations.

Financial exclusion is predominantly seen in the developing countries where in only 41% adults have formal accounts. Out of these, 37% of women have accounts in comparison to 46% of men. The gender difference deepens more with the difference in income in the developing countries. In a comparison made across the countries, it would be revealed that bank account penetration is a per cent of the adult population. In the high income group of countries, 89% of adults do have formal accounts with several financial entities.

VIII. FINANCIAL INCLUSION AND CO-OPERATIVES

Cooperative banks/sectors are indispensable part of Indian rural economy. These sectors do have direct or indirect influence on agricultural and rural development. The present worldly scenario is marked with so many factors like globalisation, structural adjustment programmes, transition from a centrally planned to a market oriented economy, processes of democratisation and decentralisation, agricultural industrialisation and rural out-migration and the cooperatives are having many challenges but, they have to be conducive in this changing pretext. They need to restructure themselves by re-evaluation, re-invention, and adaptation to the new paradigm shift and prove themselves to be of immense potential.

Little changes in the official composition will help financial inclusion to succeed. In order to become successful, the bankers need to travel on the field and design financial services as per observation of clients, households, markets and workplaces. In this context, the Primary Agricultural Cooperative Credit Societies are more suitable as these can perform the challenging tasks easily. The topmost essence in making out vast economic energy that is waiting to be unleashed in the rural farmers is cooperation. Experiences and studies have proved that cooperative institutions are very capable of catering to the need of financial inclusion which eventually would take a section or society to the mainstream economy.

IX. CONCLUSION

In winding up, it can be said that India has miles to go to emerge as a global economy. To talk about the Indian context, it can be said that merely opening of accounts is not the target of financial institutions. The banks and financial institutions must strive hard to gain the trust and goodwill of the unbanked populace through different financial ventures The concept of financial inclusion has not gained the desired momentum. The government, agencies and legal policy makers must work in an all-encompassing way to achieve the much coveted goal of financial inclusion.

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