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PEEKING THROUGH THE FINANCIAL INCLUSION TRIPOD

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ABSTRACT

Financial inclusion gained prime importance since 2005 when Rangarajan Committee was set up to review the banking practices hindering inclusive growth. India recognized the need for inclusive growth at the onset of independence. Unfortunately, in spite of having a far-fetched vision and well intended policies, she is still struggling to achieve its goal of financial inclusion. This paper reviews the important initiatives undertaken by the government and RBI since 1950 and tries to explore why India failed to achieve financial inclusion in spite of having identified the problem much before the world had realized. It tries to contemplate why commercial banks are unable to synchronize with the financial inclusion philosophy of RBI. Using in-depth secondary research, it is found that commercial banks are adhering to financial inclusion guidelines under compulsion. Populist measures by the state, information asymmetry and inadequate physical and digital infrastructure have emerged as the key disablers towards achieving inclusive growth.

INTRODUCTION

Background

Financial inclusion is not a new concept in the context of India. Even though the phrase has been coined recently, Indian banking system has always abided by the underlying philosophy of inclusive growth. Banking service in India is always accepted as a public good and thus is considered to be available to every citizen without any discrimination (Leeladhar, 2006). Guided by this ideology, Indian banking system since independence, has strived for providing banking services to both urban and rural areas. Backed by this ideology, an all-India Rural Credit Survey was conducted in early 1950s to promote greater financial access in the country. The findings of the survey indicated that, out of the total borrowings of the farmers in 1951-52 estimated at INR 7.5 billion, commercial banks provided less than 1 per cent while moneylenders provided 70 per cent (Khan, 2011). The data was disturbing and brought the government on toes. Policy makers and regulators were immediately buzzed off to take concrete steps to improve the scenario. Hence, in a phased mode, both policy makers and the regulator undertook responsible initiatives towards making banking for masses.

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Sadly, in spite of being designed around noble intentions, these initiatives failed to have an effective impact. In order to explore what went wrong with these initiatives, let us have a look at each of them briefly.

(a) Cooperative Movement: Cooperatives emerge in a context, when market institutions seek excessive rent (Sriram, 2006). Market failure created the need for an alternative mechanism based on the guiding principles of equality, equity and mutual self help. The outcome was in the form of cooperatives. This structure was born in 1904 through enactment of the Cooperative Credit Societies Act which was subsequently amended as Cooperatives Societies Act in 1912.
Post independence, cooperative appeared as an obvious and impactful instrument for socio-economic development of the country. The gravity of the intention to adopt cooperatives as a tool of rural development was evident from the fact that India's first Five Year Plan integrated it as a critical rudiment for development. As a result of government impetus, all types of cooperatives expanded across country with credit cooperatives and cooperative banks being the most numerous of all types.

The credit cooperative system in India has two parallel structures – Short Term (ST) or Production Credit and Long Term (LT) or Investment Credit. Primary Agricultural Credit Societies (PACS), Farmer Service Societies (FSS) and Largesized Adivasi Multipurpose Societies (LAMPS) are aligned under ST. All base level societies are affiliated to District Central Cooperative Banks which in turn are affiliated to State Cooperative Banks. Cooperative movement has suffered rough weather since 1904, succeeding in some parts of the country while failing in others. Singh and Pundir (2000), have asserted that there are three determinants of performance of cooperatives –

- Structural - cooperative's performance is determined by its structure/design
- Contextual - cooperative's performance is determined by the context – socio-economic, political, legal and policy
- Management - cooperative's performance is determined by quality of management and leadership.

Majority cooperatives in the country have failed due to imperfection in one or more of the above mentioned factors. Singh and Pundir (2000) have affirmed that cooperatives suffer from the problem of low recovery which has been further exacerbated by populist measures such as loan waivers, loan disbursements in loan melas and stay orders on legal processes of recovery. Sriram (2005) states that waivers disturb the accepted pattern of exchanges between the intermediary institutions and poor and thus lead to disequilibrium. Thus, fraught with too much interference from the state, cooperatives in spite of having an extensive reach, failed to accomplish inclusive growth as envisioned by the policy makers at the advent of independence.

(b) Nationalization of Banks: Murky performance of credit cooperatives and cooperative banks in improving rural credit delivery system forced government to turn around its head for other avenues to meet the objective. It was observed that the financial system of the country was grossly underdeveloped. There were 551 commercial banks and bank office to population ratio was one branch per 1,36,000 persons[6]. Moreover, banks were owned by business houses that had little intention to cater to the financial needs of the rural India.

With an intention to meet the financial needs of the agricultural sector, government mandated Imperial Bank of India (named State Bank of India post nationalization) to open 114 offices within five years starting from July 1, 1951. All other commercial banks were also instructed to expand their operations to taluka, smaller towns and semi-urban areas. At the same time, in order to understand the grass root level challenge in providing banking services in rural areas, Reserve Bank of India (RBI) set up an All India Rural Credit Survey Committee (AIRCS) in 1951 which submitted its report in 1954. Thus 1954-55 became the significant years when the seeds for bank nationalization were being sown. AIRCS Committee observed that Imperial Bank of India could play a pivotal role in promoting institutionalization of credit to agriculture and thus recommended the amalgamation of Imperial Bank of India and major state associated banks into State Bank of India (SBI). The Report indicated that nationalization would be able to initiate an expeditious programme of bank expansion, especially in rural areas. Subsequently, by June 20, 1955 the final figure of branch expansion as against the mandated number was out. The results were gloomy. Imperial Bank of India could open only 63 branches against the mandate of 114. Other banks too failed in branch expansion. Guided by the recommendations of AIRCS Committee and the dismal performance of the banks towards branch expansion, RBI initiated the process of nationalization of Imperial Bank of India with an objective of providing banking services to masses covering both rural as well as urban India. In 1955, Imperial Bank of India was nationalized and converted into State Bank of India. This exercise was continued in 1969 when 14 more banks were nationalized followed by an additional six in 1980. Nationalization, though facilitated in branch expansion and reducing average population per branch, failed to meet the prime objective of meeting credit needs of agricultural sector. The orientation of the banks was still towards urban population and thus they did not make proactive attempts to allure the rural customers. Moreover, nexus between banks and industry excluded the unbanked areas from availing banking services[7].

(c) Lead Bank Scheme: In spite of nationalization and social control of the banks, RBI was facing the challenge of urban orientation of the commercial banks. Moreover, weakness of the cooperative banks and non availability of the institutional credit to weaker section still continued. By June 1967, only 1 per cent of the total number of the villages (5,64,000) were served by commercial banks[8]. Thus, it was evident that there were major territorial and functional credit gaps which were hindering the access of neglected sectors to institutional credit.

To design the measures to fill these gaps, Gadgil Committee was set up in 1968 which submitted its report in 1969. The Committee observed that banking services could be made available to the neglected sectors and weaker sections by the even spread of institutional credit over unbanked and under-banked areas. Hence, it advocated the concept of Lead Bank Scheme (LBS). Subsequently, in the same year Nariman Committee while studying the branch expansion programme of public sector banks endorsed the same concept. Thus, led by the recommendations of Gadgil Committee and Nariman Committee, RBI launched LBS in 1969 with an objective to mobilise deposits on a large scale throughout the country and to increase the flow of credit to weaker sections of the economy. Under this scheme, considering the resource base of the bank and its regional orientation, each bank was allotted a district to evolve plans and programmes for providing adequate integrated banking facilities to the population of the district allotted. The bank was designated as the Lead Bank and was expected to assume leadership position in providing banking services in respective districts. LBS largely met its objective of improvements in branch expansion, deposit mobilisation and priority sector lending in rural/semi-urban areas. During the period from June 1969 to March 2007:

- Population per branch declined from 63,000 to 16,000 at national level
- Population per branch declined from 82,000 to 17,000 in rural/semi-urban area
- Credit to agriculture, SSI and priority sector increased from 14 per cent to 37 per cent of bank credit
- Number of savings bank accounts per 100 adult population increased from 7.1 (1971) to 48.9
- Number of loan accounts per 100 adult population increased from 1.3 to 12.4

While it seemed that the long wait for an adequate mechanism to improve rural credit delivery system is over, ripples in the external environment started to form with financial sector reforms in 1990. Controlling NPAs, ensuring profitability, growth and competition from private sectors banks became the major concerns for public sector banks, thus resulting in the decline of branch expansion and credit planning in neglected sectors over the years.

(d) Incorporation of Regional Rural Banks (RRBs): Government in tandem with RBI was taking various measures to improve credit planning in the ignored sectors. Credit cooperatives, nationalized banks and LBS were all present and running but none of them were able to yield the expected results. It was observed that commercial banks having adequate resources did not have the intention to cater to these sectors while cooperative banks, which had the rural orientation did not have the resources to meet the expected demand of this segment. Thus there was a need for a banking set up which had the professionalism and large resource base of commercial banks and rural orientation like cooperative banks.

With an intention to establish a banking structure with an objective of development of rural economy, Regional Rural Banks (RRBs) were set up in 1976 under Regional Rural Banks Act. RRBs address the credit needs of agriculture, trade, commerce, industry and other facilities of small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. RRBs appeared perfect structures for catering to the rural sector but they got marred by the restrictive stipulations of the regulator itself. RRBs struggled with the restrictions primarily limit on the client base and lending below the cost of their funds. These stipulations decelerated RRBs and made them high cost structures thus, damaging their performance.

(e) Service Area Approach: By late eighties, it was observed that rural credit delivery system due to structural weaknesses, was unable to meet its objective of providing banking to masses. Rural lending of bank branches was haphazard and dispersed in large number of villages spread over a wide area rendering supervision difficult[9].

Pursuant to the reference made in the budget speech of 1988-89 on proposed rural credit dispensation through assigning specific service areas to bank branches, Ojha Committee was set up by RBI to examine the operational aspects of implementation of this mechanism. The committee recommended the establishment of a decentralized planning policy leading to the introduction of Service Area Approach (SAA) from April 1, 1989. SAA was based on demarcation of service area and preparation of credit plans to address the credit needs of specific areas in a methodical fashion. About 15-25 villages, generally in a geographically contiguous areas, are allocated to specific banks branches, depending on the proximity. The designated branch is called the service area branch and is responsible for planning and implementation of credit plans for the area under its operation. This approach however had some constraints which hindered the successful implementation of the scheme. By the very design of the mechanism, there were restrictions imposed on both the service area branches as well as the borrowers being catered by these branches. A service area branch was not allowed to provide service outside its service area. Similarly, borrowers belonging to one service area could not avail the services of other service area branches. To address this issue, Vyas Committee was formed which suggested the abolition of these restrictive measures to improve SAA. Consequently, SAA was modified and these restrictive measures were dispensed with in December 2004. Again, SAA appeared as an apt mechanism for providing banking services to the unbanked and under banked segments. Unfortunately, government and the RBI took a long time to address the design related issues of this structure which hampered its performance.

(f) SHG Bank Linkage Programme: By 1990s, government and the regulator were still struggling with sustainable banking structure which could meet the credit needs of the rural India. It was observed that poor in rural areas had been meeting their credit needs in an indigenous fashion. They used to come together and pool in their savings in informal ways. This group used to lend unsecured small ticket loan to group members at varying costs depending on the need. Peer pressure acted as social collateral.

Driven by this insight, SHG Bank Linkage Programme was initiated as an Action Research Project in 1989 by MYRADA[10]under the aegis of National Bank of Agriculture and Rural Development (NABARD). NABARD had granted the seed money of INR 1.0 million to MYRADA in 1967 to conduct an experiment on Credit Management Groups. Encouraged by the positive experiences of this project, a pilot project by NABARD was approved in 1992. This project was a partnership among informal groups of rural areas (later termed as Self Help Groups –SHGs), commercial banks and NGOs. The outcome of this pilot project was reviewed in 1995 which led to the evolution of formal guidelines by RBI on accepting these informal groups as legal entity open bank accounts based on simple "inter-se agreement" and meet the savings and credit needs of these groups. SHG Bank Linkage Programme, though started at a slower pace, picked up speed on account of enabling stipulations by NABARD and RBI on periodic basis. SHG Bank Linkage model has emerged as a sustainable rural credit delivery model and commercial banks are meeting the credit demands of rural areas via this structure as advised by RBI. However, due to high cost involved in catering to frequent and small amount transactions by SHGs is acting as an impediment for commercial banks to attract this customer segment. Besides, heavy documentation, opportunity cost of the day and insensitive bank staff discourage SHGs from entering mainstream banking.

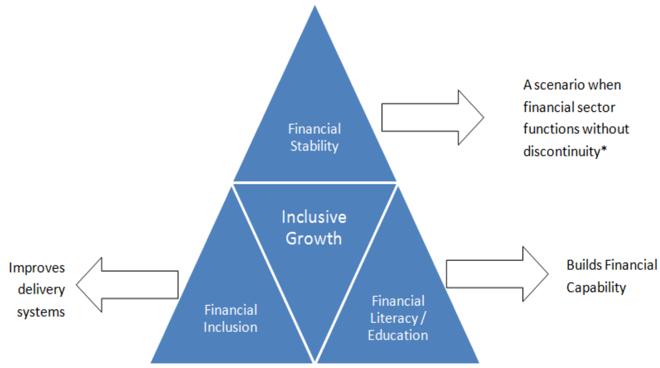
Financial Inclusion Tripod: Underlying Philosophy of Financial Inclusion

It was year 2000 and still in spite of having a noble intention, all initiatives of the government and the regulator failed to provide banking services to the poor. The measures that were undertaken by the RBI since 1950s brought about significant transformation in the banking industry in terms of volume and complexity. Branch expansion increased the reach, but did not yield the desired fruits. As per Census 2001, only 30.1 per cent of rural population was availing banking services. A whopping 69.9% of rural population was still excluded from basic banking services. Both government and the RBI were concerned about this discriminatory banking practice which was hindering inclusive growth. By 2000, world was also anxious about the exclusion of bankable people from availing banking services. United Nations (UN) through its remarkable research work titled "Building Inclusive Financial Sectors for Development (2006)" raised this growing concern and coined the need for an inclusive financial sector which would provide access to credit to all bankable people and firms, insurance for all insurable people and firms and savings and payments services to everyone. Guided by the recommendations of the UN and to correct this situation in India by extending the reach of the financial sector to vulnerable groups by minimising the barriers to access as encountered by them, the Government of India in June 2006, constituted a Committee on Financial Inclusion under the chairmanship of Dr. C. Rangarajan[11]. The Committee submitted its report in 2008. Taking cue from the recommendations suggested by the Committee, RBI came up with a definition for Financial Inclusion which has been refined time and again to make the underlying philosophy unambiguous for the banks.

RBI defines Financial Inclusion as "*process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players*."

Having framed a clear definition for financial inclusion, RBI settled on three guiding principles for achieving inclusive growth. They are Financial Inclusion, Financial Stability and Financial Literacy. Financial inclusion, as already discussed, was always the prime concern for RBI. But, it would be interesting to explore how RBI zeroed on the other two pillars as foundation for attaining inclusive growth. When world in general and India in particular was trying to address the challenges surrounding financial inclusion, abrupt collapse of Lehman Brothers in mid-September 2008 caused financial markets in advanced economies to go into seizure. This black swan event resulted in the sudden breakdown of trust in the financial markets. D Subbarao then Governor of RBI in 2009, in his valedictory address stated that the whole scheme of things taught one important lesson that financial stability cannot be taken for granted. He further asserted that RBI learnt that financial stability has to shift from being an implicit variable to an explicit variable of economic policy.

This lesson of bringing financial stability explicitly into the purview of RBI led to the establishment of multi-disciplinary Financial Stability Unit in the RBI. Additionally, the objective of achieving financial stability got embedded in all economic policies of RBI including the one on attaining financial inclusion. Thus apart from financial inclusion, financial stability became the second integral rudiment of the RBI philosophy on financial inclusion. Finally, the need for financial literacy got highlighted when Rangarajan Committee in its report observed that while financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is equally important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services. Amartya Sen[12] argued that poverty is not merely insufficient income rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. It was thus realized that financial literacy/education can go a long way in building financial capability among financially excluded population. Financial literacy/education facilitates in creating awareness among individuals about the various financial products and services that could be useful in meeting their financial needs. It helps them to identify and use appropriate financial products and services in order to build and preserve their assets over time. It makes people better informed, better educated, more confident and more responsible so that they can play an active role in the financial market[13]. Hence, financial literacy/ education became the third and the last important element of financial inclusion of RBI. Having discovered the three important pillars for inclusive growth, RBI came up with the Financial Inclusion Tripod as a tool to gauge inclusive growth of the economy. The Tripod thus contains the three guiding principles for achieving inclusive growth of Indian financial market. Figure I depict the three rudiments of Financial Inclusion Tripod.



* Financial Stability: Issues and Challenges (2009): valedictory address by Dr. D. Subbarao, then governor of RBI

Figure 1. Financial Inclusion Tripod

Penetration of Financial Inclusion

Continuous and rapt effort of RBI has steered the deepening of financial inclusion. Rural banking is gradually maturing in terms of varied range of products available as well as reach – primarily through brick and mortar branches and Business Correspondent / Business Facilitator (BC/BF) model. Availing of banking services has increased from 35.5 per cent (Census 2001) to 58.7 per cent (Census 2011) at national level. Rural India alone witnessed an increase from 30.1 per cent (Census 2001) to 54.4 per cent (Census 2011). The scenario has witnessed a significant change but is still far from the desired result since approximately 40 per cent of the population is still without access to basic financial services. Crisil, a Standard & Poor's company engaged in rating, has designed an analytical framework to measure the extent of inclusion. With full support from RBI and Ministry of Finance, the company launched Crisil Inclusix in 2013 which measures the extent of financial inclusion on a scale of 100. The first report presents the financial inclusion metrics in 632 districts of the country over a three-year time frame (2009-2011). The study found that formal banking facilities are still under-penetrated in most parts of the country. Just one in two Indians has a savings account and only one in seven Indians have access to banking credit. Presence of bank branch is still lagging with 7.6 branches per lakh of population.

Table 1. Data pertaining to financial literacy

(All data is as on March 31, 2013)

S. No.	Name	Nature of the bank	No. of Rural self Employment Training Institutes (RSETI)	No. of Financial Literacy Centres	No. of Financial Trainings and Campaigns
1	State Bank of India	Public	111	169	5,371
2	Punjab National Bank	Public	44	100	967
3	Bank of Baroda	Public	47	45	5,505
4	IDBI Bank	Public	1	-	27
5	Syndicate Bank	Public	16	47	8,316
6	ICICI Bank	Private	Financial Literacy Programme has been rolled out as an integral part of RSETI courses in Udaipur and Jodhpur		
7	HDFC Bank	Private	-	-	8,550
8	Axis Bank	Private	Conducts Van campaigns across rural markets to enhance financial inclusion and education		
9	Kotak Mahindra	Private	Have signed MoU with Kotak Education Foundation for financial literacy		
10	Yes Bank	Private	Conducted Financial Literacy camps on International Literacy day by inviting local school students on Yes Bank tour		

At this backdrop, the paper analysed the branch penetration and credit penetration for the top five public and private sector banks for financial year 2012-13. For the purpose of study, branch penetration is taken as the percentage of total number of branches in rural and semi-urban areas. Similarly, credit penetration is the percentage of total amount of priority sector advances. Data illustrates that the average branch penetration of public sector banks is 56.4 per cent while that of private sector banks is 42.3 per cent. Average credit penetration of public sector banks is 25.6 per cent while that of private sector bank is 26.2 per cent. Nearly all banks under study are providing all essential financial services – savings, credit, remittance and insurance. Although banks are gearing on their financial inclusion strategy with growing rural reach and a fairly appropriate bouquet of financial products, there is still a long way to be covered. While new distribution models coupled with technology advancement and enabling regulatory guidelines are facilitating in reducing the cost of delivery, yet this challenge demands an innovative solution for accelerating financial inclusion. Till the time financial sector comes up with a profitable and sustainable model for delivering financial services to the rural segment, financial inclusion will remain a regulatory compulsion and not a business proposition for the banks.

Financial Literacy: Broad Assessment

A Hundred Small Steps – Report of the Committee on Financial Sector Reforms (2008) - states that financial inclusion has long been the core of financial sector policies in India. However, the strategy for achieving the same was largely driven by the mindset of increasing branch penetration through mandate for branch expansion, setting up of RRBs, Co-operatives etc. and credit penetration by increasing targets for priority sector lending. This approach of the regulator and policy makers however could not yield the desired results. It was observed that sheer credit provision to the excluded segment is not going to serve the objective. Adequate measures need to be taken for creating livelihood opportunities. Such opportunities build financial capabilities and thus will enhance credit absorption capacity of the target segment. Thus, there was an evident need to work on the demand side of the challenge which could be improved by making rural population aware about the financial products and services and their respective utilities in meeting their financial needs. It was realized that this could be achieved through impetus on financial literacy and self employment trainings.

Financial literacy, as well as livelihood trainings serves the dual purpose of customer protection and catalysing credit demand. Simultaneously, they facilitate inculcation of financial discipline among the rural population. To boost its customer protection and financial discipline initiatives, RBI through its circular RPCD.FLC.No.12452/12.01.018/2011-12 on revised guidelines for setting up of Financial Literacy Centres (FLCs), instructed banks to include financial literacy initiatives as part of financial inclusion strategy. Banks are mandated to set up FLCs and are instructed to scale up their financial literacy initiatives through FLCs and rural branches. Later in 2013, through its circular RPCD.GSSD.CO.No 81/09.01.03/2012-13, RBI advised setting up of Rural Self Employment Training Institutes (RSETIs) for strengthening National Rural Livelihood Mission (NRLM) which in turn acts as a key driver in catalysing rural credit demand. With this background, data from the banks under study was broadly assessed which revealed that although banks are setting up FLCs and organizing awareness camps as instructed by the regulator, they consider these centres as additional cost. Nevertheless, it is worthy to state that public sector banks are fairly better attuned compared to their private counterparts which is evident from the data presented in Table I.

It seems that these centres and campaigns, especially of private sector banks, are for namesake and are not aligned with RBI's principle of financial literacy. This dismal approach towards financial literacy is nipping the objective of the Financial Inclusion Tripod. Financial literacy and self employment trainings can prove to be an effective tool to enable income generating activities and increase credit absorption of the rural population which equip the demand side of the problem. The challenge of transaction cost that banks are facing in credit delivery may also get reduced by increased credit demand for sustainable livelihood opportunities. Moreover, the fiscal discipline implanted among the rural population may reduce the risk of money not coming back thus making this segment more bankable. Yet, financial literacy and self employment trainings have been put on back burner by banks due to the cost involved in catering to the rural segment. Considering this, an adequate incentive structure for banks needs to be designed if RBI wants to expedite the setting of FLCs and RSETIs. Those banks that are progressively setting up FLCs and RSETIs should be monetarily incentivized vis-a-vis those who are lagging behind.

Table 2. Financial inclusion models adopted by commercial banks under study

				Financial Inclusion Models Adopted		
S. No.	Name	Nature of the bank	Year of Establishment/Nationalization	Brick & Mortar	BC/BF	Mobile Van
1	State Bank of India	Public	1955	Y	Y	N
2	Punjab National Bank	Public	1969	Y	Y	N
3	Bank of Baroda	Public	1969	Y	Y	Y
4	IDBI Bank	Public	2004	Y	Y	N
5	Syndicate Bank	Public	1969	Y	Y	Y
6	ICICI Bank	Private	1994	Y	Y	Y
7	HDFC Bank	Private	1994	Y	Y	N
8	Axis Bank	Private	1994	Y	Y	N
9	Kotak Mahindra	Private	2003	Y	Y	N
10	Yes Bank	Private	2004	Y	Y	N

Data as available in the Annual Reports and press release of respective banks for FY2012-2013

Table 3. Branch penetration and credit penetration of the commercial banks under study

S. No.	Name	Nature of the bank	Year of Establishment/Nationalization	Total no. of branches	No.of rural branches	Branch Penetration (%)	Total Advaces (INR Bn)	Priority Sector Advances (INR Bn)	Credit Penetration (%)
1	State Bank of India	Public	1955	14,816	9,851	66.5	10,456	2,643	25.3
2	Punjab National Bank	Public	1969	5,874	3,642	62.0	3,087	914	29.6
3	Bank of Baroda	Public	1969	4,516	2,598	57.5	3,282	800	24.4
4	IDBI Bank	Public	2004	1,076	414	38.5	1,963	344	17.5
5	Syndicate Bank	Public	1969	2,934	1,691	57.6	1,494	464	31.1
6	ICICI Bank	Private	1994	3,100	1,453	46.9	2,902	675	23.3
7	HDFC Bank	Private	1994	3,062	1,623	53.0	2,397	767	32.0
8	Axis Bank	Private	1994	1,947	883	45.4	1,970	485	24.6
9	Kotak Mahindra	Private	2003	437	46	10.5	485	140	28.9
10	Yes Bank	Private	2004	430	240	55.8	470	105	22.4

Data as available in the Annual Reports of respective banks for FY2012-2013

Table 4. Financial products and services provided by the commercial banks under study

				Bouquet of Products Available			
S. No.	Name	Nature of the bank	Year of Establishment/Nationalization	Savings	Credit	Remittance	Insurance
1	State Bank of India	Public	1955	Y	Y	Y	Y
2	Punjab National Bank	Public	1969	Y	Y	Y	Y
3	Bank of Baroda	Public	1969	Y	Y	Y	Y
4	IDBI Bank	Public	2004	Y	Y	N	Y
5	Syndicate Bank	Public	1969	Y	Y	N	Y
6	ICICI Bank	Private	1994	Y	Y	Y	Y
7	HDFC Bank	Private	1994	Y	Y	Y	Y
8	Axis Bank	Private	1994	Y	Y	Y	Y
9	Kotak Mahindra	Private	2003	Y	Y	N	Y
10	Yes Bank	Private	2004	Y	Y	Y	Y

Data as available in the Annual Reports of respective banks for FY2012-2013

Table 5. Financial literacy initiatives undertaken by commercial banks under study

S. No.	Name	Nature of the bank	Year of Establishment/ Nationalization	Financial Literacy Initiatives					
1	State Bank of India	Public	1955	Special training programme in SHGs	Rural self employement training institutes	Financial Literacy Centres	-	-	-
2	Punjab National Bank	Public	1969	PNB Janamitra	Financial Literacy Centres	Common Service Centres for village level entrepreneurs	Training for BC/BF	Farmers' Training Centres	Rural self employement training institutes
3	Bank of Baroda	Public	1969	Baroda Grameen Paramarsh Kendra	Baroda Swarojgar Vikas Sansthan	Rural self employement training institutes	Financial Literacy Centres (Sarathee)	-	-
4	IDBI Bank	Public	2004	Vittya Shakashrta Jankari Kendra	Rural self employement training institutes	-	-	-	-
5	Syndicate Bank	Public	1969	Financial Literacy Centres	Financial Inclusion Resource Centres	-	-	-	-
6	ICICI Bank	Private	1994	Financial Literacy Programme under RESTI in Jodhpur & Udaipur	-	-	-	-	-
7	HDFC Bank	Private	1994	Training for BC/BF	Financial awarenes campiagn in rural areas	-	-	-	-
8	Axis Bank	Private	1994	Van campaigns to enhance FI and education	Krishi Pragtishala for farmers as a platform to interact with agri experts and increase the productivity	-	-	-	-
9	Kotak Mahindra	Private	2003	Signed MoU with Kotak Education Foundation for financial literacy	-	-	-	-	-
10	Yes Bank	Private	2004	Conducted Financial Literacy camps on International Literacy day by inviting local school students on Yes Bank tour	-	-	-	-	-

Data as available in the Annual Reports and press release of respective banks for FY2012-2013

Conclusion

RBI expects banks to strive for financial stability by focussing on both financial inclusion and financial education. Data under study gave a broad overview that banks are yet to internalise this principle. Rural branches are seen as a burden rather than as an opportunity by the increasingly profit-oriented banks[14]. Furthermore, the principle of inclusive growth of the financial sector was embedded in all financial sector policies designed by the government and RBI since 1950s. India was thinking about financial inclusion when the world had not even displayed its concerns about the same. In spite of having such a far-fetched vision and well principled policies, India's goal of financial inclusion is still a distant dream. So, what went wrong? A closer look into the whole series of events that have taken place so far reveals three major roadblocks that ruined India's dream of achieving financial inclusion.

Short-sighted government interventions: Social development is always the prime concern of India. Government policies are driven by the notion that poor are vulnerable and they need to be protected. In this attempt, government has unknowingly eroded the financial discipline of the poor.

M S Sriram (2005)[15] has pointed out that waivers announced by state mars the repayment ethics and disturbs the accepted pattern of exchanges between banks and the poor, thus leading to disequilibrium. The borrower is not sure whether the next loan is going to be waived and the lender does not know if the borrower has the intent to repay because the behavioural pattern of the past has been artificially tampered with. This fact was echoed by Raghuram Rajan in his report on financial sector reforms[16] that interference in tweaking the interest rates on small loans instead of market determining the same reduces the commercial bank's desire to service the truly excluded. Vulnerability of the poor is a prime concern and state should design mechanisms to reduce it. There is no ambiguity about that. However, populist measures like penal interest waivers, interest waivers or entire loan amount waivers are not going to serve the purpose. Rather, state should focus on promoting the design and usage of vulnerability reducing financial instruments like insurance (health, crop, cattle etc.) and pensions.

Information asymmetry

From the perspective of financial intermediations, two broad categories of customers are present – one, who has surplus money and needs a secured avenue to save it and second, who has scarce money and needs a source to avail it. Thus in a normal financial market, there are some who are savers and some who are borrowers. Since full information about who is willing to supply money and who is willing to borrow is not easily available, there is asymmetry[17]. Financial institutions such as banks are thus needed to bridge this gap by providing a common platform for both savers and borrowers. The challenge with the banks in catering to the rural population is that they have limited access to prospective borrowers' profiles in terms of transaction history and repayment behaviour. In order to have an authentic and reliable transaction, banks thus rely on excessive information which in turn increase the transaction cost. High transaction cost coupled with populist state measures as already discussed, have hindered the growth of financial inclusion in India. Government along with RBI should establish customer data bank for rural population containing customers' profiles in terms of credit history and behaviour which would facilitate in reducing the transaction cost for banks. It is not that India does not have such a set up. In August 2000, Credit Information Bureau (India) Limited (CIBIL) was founded as a channel to provide credit information especially on urban borrowers to check non-performing assets, thus mitigating credit risks. Had government and RBI worked towards setting up of CIBIL-like structure for rural population as well, financial inclusion scenario had been rosier today. Nevertheless, with advanced technology in place, establishment of such a structure for rural India is quiet achievable now.

Inadequate infrastructure

Lack of adequate infrastructure has emerged as the third deterrent in achieving the goal of financial inclusion. Infrastructure for greater physical and digital connectivity is the need of the hour. Even during the phases of bank nationalizations, setting up of cooperatives, RRBs etc. inadequate infrastructure was a challenge and if government would have invested in building physical infrastructure with a focus to achieve financial inclusion, prospect would have been different today. The Report of the High Level Committee to review Lead Bank Scheme (2009) clearly brings out that if the objective of effectively achieving banking penetration in all parts of the country is to be achieved, it is necessary that the state governments ensure road and digital connectivity to all centres where penetration by the formal banking system is required.

NOTES

1. Leeladhar (2006) discussed about how to provide banking services for the masses. He spoke about financial inclusion, consequences of financial exclusion and shared international experience in promoting financial inclusion.
2. Khan (2011) discussed about financial inclusion and financial stability being the two important economic dimensions which have shaped the tone and tenor of financial sector.
3. Sriram (2006) expressed his concerns about implementation issues on reviving cooperative credit institutions.
4. Singh and Pundir (2000) studied cooperatives in India, distinguished them from other forms of organizations and highlighted the important place they occupy in India's rural economy.
5. Sriram (2005) discussed about role of trust in various types of exchanges and highlighted how it impacts the effectiveness of repeated transactions.
6. Evolution of Banking in India: Reserve Bank of India publication
7. Evolution of Banking in India: Reserve Bank of India publication
8. Report of the High Level Committee to review Lead Bank Scheme, August 2009, Reserve Bank of India
9. Report of the High Level Committee to review Lead Bank Scheme, August 2009, Reserve Bank of India
10. MYRADA is a Non Government Organization based out of Bangalore (Karnataka)

11. Report of the Committee on Financial Inclusion, January 2008
12. Sen, Amartya, (2000): "Development as Freedom", Anchor Books, New York, 2000
13. Reserve Bank of India Annual Report 2012-13
14. A Hundred Small Steps: Report of the Committee on Financial Sector Reforms (2008)
15. Sriram (2005) discussed about role of trust in various types of exchanges and highlighted how it impacts the effectiveness of repeated transactions.
16. A Hundred Small Steps: Report of the Committee on Financial Sector Reforms (2008)
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