Journey of Regional Rural Banks in Financial Inclusion

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Abstract

This paper has been written to check the sustainability of RRBs through its profits. This study emphasized the role of financial inclusion for the growth and development of country through RRBs. For this, role of financial inclusion has been seen for the economic development and subsequently role of RRBs has been studied under the financial inclusion. Government has introduced Prime Minister Jan Dhan Yojana through which financial inclusion got a boom with the help of RRBs. However, after a good achievement in number of results, RRBs are not getting good number of deposits. Further suggestion has been discussed on the sustainability and profitability of RRBs.

Keywords: *Growth, Profitability, Stability, Financial Inclusion, Government, Development*

Introduction

"Financial Inclusion" (FI) has been in centre for financial and economic policy of India for a decade or so. Decoding FI, there are different meanings of Financial Inclusion for example banking unbanked region, providing affordable financial products and services in a responsible and sustainable manner. In another word equal access of financial services for everyone. The objective of Financial Inclusion is to eliminate the discrimination in the access of financial product and services. The region, religion, literacy, caste and economic status should not be the constraints to access financial services. United nation defines Financial Inclusion goals as 1). Access to full range of financial service including savings or deposit services, payment and transfer services, credit and insurance at a reasonable cost. 2). Sound and safe institution 3). Financial and Institutional sustainability to ensure continuity and certainty of Investment 4). Competition to ensure choices and affordability for clients. According to Reserve Bank of India Financial Inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit wherever needed for vulnerable groups such as weaker section at affordable cost (The Committee on Financial Inclusion, Chairmen: Dr. C. Rangarajan). Defining broadly Financial Inclusion is universal access to wide range of financial services which not only include banking product but also other services such as Insurance and equity services. It persuades the public or citizen of the country to get facilitated with banking and financial services and on the other side it also robust the governance of banks and financial institutions to accommodate the need of everyone at a reasonable costs.

Financial Inclusion and Development

Financial Inclusion and Development are used simultaneously. Financial Inclusion has been defined broadly above. Decoding Development, it is a physical, social and mental well being of a citizen in specific and on the country level development comprises of GDP growth, increase in employment, poverty eradication, sound medical and educational facilities, infrastructure and so forth. Individual development symbolizes development of a country. Financial need, security, insurance , access to the benefits provided by government, subsidies, credit, input tax credit, seamless transaction helps a person to achieve the development of self and eventually of the country. Development is unattainable without adjoining the vulnerable with the financial mainstream of a nation. It connects citizens with the state.

For example a scholarship needs to be awarded by central government, if the beneficiary has a bank account the amount of scholarship after the verification of claims can seamlessly be transferred to the beneficiary account. Imagine a situation, if the beneficiary does not have account, there would be lots of beaurocratic hurdle, middlemen and chances of leakages in between.

It reduces the chance of leakage, corruption and time involved in the whole process. Scholarship is one example there are numerous example where one need financial product access on the affordable rate. Some of the research on microfinance revealed that Financial Inclusion can produce informal intermediation, an unintended form of entrepreneurship. Research and study of Asian Development Bank reveals that there is positive correlation between access to finance with economic growth and employment. It contributes in increasing the economic opportunities and improving the lives of vulnerable section of the society. It curbs income inequality and reduces poverty. The buzz of Financial Inclusion sparked in India a decade back or from 2010 in specific. During this period, there were lots of scams and policy paralysis. Policy makers, banking and financial institutions felt that there is a dire need of Financial Inclusion if the country needs to uplift the vulnerable and diagnose the socio-economic problem. However, in India the concept of Financial Inclusion occurs with a cooperative movement in 1904 and its pace get accelerated after independence especially on the occasion of nationalization of commercial banks in 1969. In 2005 the concept of Financial Inclusion was first featured in India launched by K C Chakraborthy, the chairman of Indian Bank. Mangalam a census town in Coimbatore, Tamil Nadu became the first village in India where all households were provided banking facilities. RBI permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services in January 2006.

During 2008-2010, banks and financial institution started working on Financial Inclusion by opening account of the customer at zero balance which is also called BSBD (Basic saving Bank Deposit) later it augmented with several innovation and recently with Prime Minister Jan Dhan Yojana (PMJDY). Globally India has performed very well in FI. The Findex report by World Bank which states about the Financial Inclusion performance of the country revealed that during (2014-2017) total of 514 million accounts were opened in which India constitute 55 percent of accounts approximately 28.17 crore.

Regional Rural Bank (RRB) and Financial Inclusion

For the real development of India, Mahatma Gandhi has initiated the concept of inclusion by saying that "the future of India lies in its villages". Only 30% of urban area cannot take any nation to the heights alone. It is very much required to concentrate on the rural area as well and in India, rural areas are seen to be very poor.

Financial Inclusion is the key for the problem of development in rural areas and it may improve the conditions of poor farmers, small enterprises and other vulnerable groups. Financial Inclusion is basically a banking service which is easily accessible at affordable cost for each and every section of economy. Non accessible groups such as poor farmers in some backward rural area can use the financial services for its own betterment is the main motive behind the idea of Financial Inclusion, since development of every individual may develop the nation faster. Financial Inclusion is an instrument for the inclusive growth of a nation.

In India, several measures has been taken for the growth of Financial Inclusion in rural India, like opening of no-frills accounts, relaxation on Know-Your-Customer (KYC) norms, agent banking model – use of Business Correspondents (BCs), development of Electronic Bank Transfer (EBT), avail of general credit cards, opening of branches in remote areas etc.

The step of Regional Rural Banks (RRBs) has been taken by government of India mainly for the improvement in the financial condition of rural sector. The RRBs were established in India under the RRB Act, 1976 "with a view to develop the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs and for matters connected there with and incidental thereto". From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, their number grew into 196 RRBs with 14,446 branches working in 518 districts across the country.

Regional Rural Banks play a vital role in rural development of India and to spread financial Inclusion over there. RRBs are setup to take banking facilities to the door steps of rural households who are in need of easy and cheap credit. These are institutions which strive to turn dream into reality. C K Prahlad focused on "Bottom of the pyramid" approach and when real India lies in villages the focus of the RRB's is to strengthen the backbone of Indian Economy. The objective of economic planning can never be achieved unless we uplift the rural economy and rural people of India. This study of CK Prahlad concludes that Regional Rural Banks have significantly made financial inclusion a reality.

In India Financial Inclusion starts from villages and goes upward then. It is very important to develop the villages and rural population through financial inclusion. Government has been working on this issue so long for the rural population. It can be seen that number of banking outlets in villages increases from 67,694 in 2010 to 5,86,307 in 2016 and this is the result of appointment of Business correspondent (BC) outlets as well as by the spread of bank branches. Not only rural India but BCs has covered the Urban India as their spread has raised to 1,02,552 in 2016 from only 447 in 2010. After the banking outlets, it can be seen that Basic Savings Bank Deposit Accounts (BSBDAs) have also gone up from 73 million in 2010 to 533 million in 2017.

Table 1: Situation of Regional Rural Banks upto January 2016

Bank Type	Rural	Urban	No of Accounts	No of Rupay Debit Card	Balance in Accounts (in Lacs)	No of Accounts with Zero Balance	Aadhaar Seeding
Regional Rural Banks	31248470	5153529	36401999	26389394	535818.3	9451369	10496171

Literature Review

The present study aims to examine the impact of financial inclusion on growth of the economy over a period of seven years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

Financial inclusion takes away many other variables with it and has an eminent role in various sector for their growth and development. For an economy of country, it is the source to touch sky by standing on earth as Prof Badar Alamlqbal and Prof Shaista Sami in their paper "Role of banks in Financial Inclusion in India"1 have examined the impact of financial inclusion on growth of the economy over a period of seven years. They have found that there is a positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

In his paper Financial Inclusion and Regulation in India during 2013 author Dr. Das Kanthi Tushar he stated that Building inclusive financial sectors improves people's lives, in particular those of the poor. A small loan, a saving account or an insurance policy can make a great difference to a low income family. They enable people to invest in better nutrition, housing, health and education for their children. They ease the strain of coping with difficult times caused by crop failures, illness or death. They help people plan for the future.

Empirical evidence indicates that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. If we are talking of financial stability, economic stability and inclusive growth with stability, it is not possible without achieving Financial Inclusion. Thus financial inclusion is no longer a policy choice but is a policy compulsion today and banking is a key driver for inclusive growth. However, we must bear in mind that apart from the supply side factors, demand side factors, such as lower income and /or asset holdings also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals and small and macro enterprises usually rely on their personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities. Inclusive financial sectors can break the vicious circle of poverty if implemented properly. This can empower the poor and can ensure that poor people have access to a wider range of financial services. For this unremitting effort from all the stakeholders are required. With more opportunities to build the poor will lead the way out of poverty with dignity.

The paper titled "The progress of Financial Inclusion in India: Insight from Multiple waves of survey data by Manuela Kristin Gunther overseas Development Institute surveyed data for 135,147 individuals and 16,000 households, the paper tries to understand the progress of financial inclusion for individuals and households between 2013 and 2015. The samples cover the time periods before and after the launch of the government-sponsored PMJDY scheme. Access to bank accounts has expanded significantly over the sample period. About 66 percent of India's adult population, and more than 90 percent of households have a registered bank account in 2015. While some geographic and socio-economic asymmetries persist, after the introduction of the PMJDY scheme, growth in account ownership has been greatest in low income states, and individual hurdles along the lines of gender, income and the rural-urban divide appear smoothened. Account ownership is largely driven by savings. Government interventions such as Benefit Transfers and Aadhaar cards also significantly increase the likelihood of account ownership. As caveat findings, I observe that the fine parameters of PMJDY are less known and that PMJDY and Benefit Transfers might have also increased duplicate accounts.

In the study researcher Mini Mehta, Deepak Sahni, and Suman Vij through their paper "Financial Inclusion through Regional Rural Banks- Dream or Reality" found and concluded that the Financial Inclusion through Regional Rural Banks have become a reality and it supposedly it should not be treated as dream. These banks have contributed towards inclusive growth of India and its economy. Despite the Bank of Rural peripheral RRBs have also benefitted the urban and semi rural area. Apart from stating positive outcomes of RRB's Banks have many challenges in the path of Financial Inclusion such as backward and informal sector should be included up to a great extent, to literate rural people financially , services should be enhanced and RRB's should take initiative to focus on urban area to prove their existence. People in rural areas feel that financial services are costly and access is difficult, these thoughts need to be addressed. RRB's should boost the IT infrastructure by recruiting IT professionals and undertake immediate assessment of training officers and staff.

A policy report by SIDBI titled "Regional Rural Banks and Financial Inclusion: Policy Imperatives". Author Ajay Tankha found and concluded that Rural outreach and Financial Inclusion has been very impressive if it is compared with other financial corporations. However, RRB's were not able to utilized its full potential specially in disbursement of credit. The author suggested amendments in RRB Act restructure ownership. He suggested for further amalgamation of Banks so that the state level can also contribute to keep it away from their original mandate. Many of the policies and norms are expected from every side. RRBs needs to move forward with innovation and to forge partnerships with MFIs and other agents. The bank should strengthen their old linkages with Self Help Group. These approach would help the RRB's to perform and serve better.

In his paper The Role of Regional Rural Banks in Financial Inclusion: An empirical study in India researcher Dr. Mahammad Paheem Beg wrote that Financial Inclusion in India is converged with aggressive micro credit policies and were introduced without appropriate consumer education and appropriate regulations oversight. The greatest challenge with the people working in the area is to separate micro-credit as the aspect of Financial Inclusion. In the paper author also emphasized on whether the financial inclusion which are earmarked in policies are reaching to the common beneficiaries or not. There should be a budget tracking to monitor the fund disbursement and its flow.

In the paper titled "NABARD: A Financial Inclusion through Regional Rural Banks (RRB's)authored by Gaurav Lodha and I.V. Trivedi summed up by stating that these banks have played a very significant role in ensuring sustainable development through financial inclusion which was also the objective of the paper. However the future challenges in the path of Financial Inclusion should be taken into consideration. The researcher conducted their study on the basis of secondary data from NABARD, RBI and other institutions. Researcher in their study were successfully able to negate the Null Hypothesis that there is no spread of Financial Inclusion in India through RRBs .

Research Objectives

After Literature review, it was found that augmentation in research related to PMJDY with Financial Inclusion and its impact on Banks and Customer is required. Less attention has been given for the same in the past study. Therefore, Objectives of the research is:

1. To study the role of RRBs in Financial Inclusion.
2. To Study the Role of RRBs in Prime Minister Jan Dhan Yojana
3. To study the impact of Financial Inclusion through RRBs on Customer
4. To study the Impact of Financial Inclusion through RRBs on the Profitability and sustainability of RRBs
5. To suggest the concern authority how to implement Financial Inclusion for the mutual benefit of Banks and customers.

Research Methodologies

There are many studies which have been analyzed on the performance of RRBs through its deposits, profits, credits, bank outlets, no of account etc. How influential the growth of RRBs is to the growth of economy by running regression between various variable of their growth. In our study we have used a quantitative methodology by taking data of variables like deposits, credits, no. of account, insurance and profit. Basically this study has been performed to check the stability of RRBs through their profit rates. Trend of growth rate has been measured and comparison has been build up on basis of different time period. For this time series data has been taken for the growth rate of deposits made to RRBs from 1990 to 2018. Moreover this whole study revolves round the PMJDY because this is the one government policy which has change the structure of financial inclusion and much of its part is rolled out by RRBs.

Role of RRB in Financial Inclusion with reference to Prime Minister Jan Dhan Yojana (PMJDY)

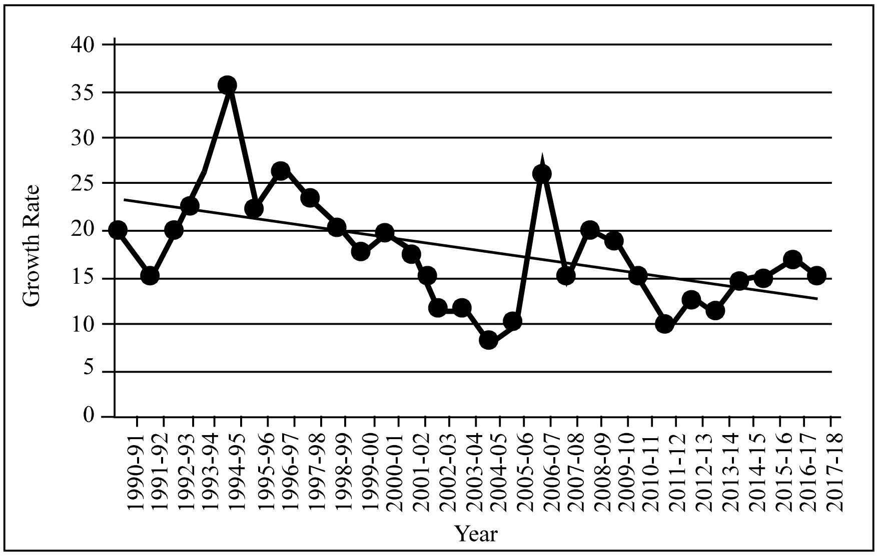
Role of RRBs is very important in the Financial Inclusion at ground level. With their not so complex policies, it becomes easily accessible to the rural population than scheduled commercial banks (SCBs). General manager, agri business unit, State Bank of India, K J Taori has also said that "RRBs can play a greater role than SCBs in achieving the goals of financial inclusion". To accelerate the rate of financial inclusion government has launched Pradhan Manatri Jan Dhan Yojana (PMJDY) on 28th August 2014. RRBs has opened 3.02 crore accounts under PMJDY as on 15.07.2015, or nearly 18% of total accounts.

Of these 2.57 crore accounts were in rural areas representing over 25% of the total 10.21 crores accounts opened in rural areas. RRBs accounted for nearly Rs. 3,500 crore out of Rs.20, 288 crores of deposits, representing over 17% of the balances in these accounts. Out of these newly opened accounts the proportion of zero balance accounts is 50%. RRBs have also opened 440,000 accounts in urban areas. The number of RuPay debit cards issued by RRBs was 2.19 crores, out of a total number of 15.05 crore such cards issued by all types of banks. Since the Jan Dhan accounts were introduced specifically for unbanked persons, the growth in these accounts is a key parameter for assessing PMJDY's contribution to enhanced financial inclusion.

RRBs has a significant role for the PMJDY as it can be seen that 5.14 crore accounts has been opened under PMJDY upto 2017 and have collected almost the deposit of Rs 8935 billion from 2014 to 2017. However it's a huge amount for RRBs but 50% of the total accounts have been maintained with zero balance. Additionally, 279 mn BSBD accounts have been opened with an approximate balance of Rs. 628 billion upto September 2017. Moreover, credit has also shown its boom as 47.31 million small farm sector credit accounts and 11.3 million small non-farm sector credit accounts has given outstanding amount of Rs. 5130.7 billion and Rs. 1493.3 billion respectively in 2016 from the amount of 24.3 million and 1.4 mn respectively in 2010.

Financial inclusion and its impact on profitability and sustainability of Bank Profitability means the ability to generate profit, whereas sustainability means how to make it more viable and strong for future. These words are used simultaneously because profit determines sustainability and sustainability determines profit. Sustainability and profit of banks and financial institutions comes from their main operations that are accepting deposits, granting loan, providing agency and utility services etc. The safety and security of customers' accounts and their funds also depend upon the profitability and sustainability of banks. For example, if a bank is suffering from loss due to high operating charges, to revamp with loss it will charge higher interest to offset their losses. According to an article in Journal of Economic Behaviour and organisation there is a positive association between financial inclusion and bank stability in the case with those banks which have higher retail deposit funding shares and lower marginal costs of providing banking services also those who operate in countries with stronger institutional quality. The banks need to be stable. As explained in introduction financial inclusion Financial Inclusion is the need of Indian economy, therefore Government of India has also done miscellaneous credible work in this area by Digital India, PMJDY and several other schemes. But the profitability and sustainability of banks also have prime importance in financial inclusion in the long run. RRB has played very important role in First step of financial inclusion that is opening of accounts. RRB has opened 5.14 crores in PMJDY. Apart from PMJDY, there must have been other source of account opening. If the account openings have surged, the total operating costs to maintain those accounts would also be higher that must be offset by linear profit growth or less than linear but there must be reasonable profit growth. According to the actual data after PMJDY the Net Profit of the RRB skewed for two times and increased for two times. The Net Profit grew only by 6 percent and if we compare it with number of Accounts opened it is very less. The reason for the same must be that there is huge Account Opening, but the proportion of Inactive Account is also high.

Good number of accounts, increasing credits and insurance may seem that financial inclusion is boon for customers but what if question is to be raised for the RRBs which are a small part of banking system and hardly looked up for any up gradations? Where growth rate of deposits used to be in between range of 10-30% during 1990-2010, now falls to the range of 10-15% for 2010-2018. Similarly, the trend of credits is showing a downfall in its growth rate as well as profits have huge fluctuations too. As mentioned above that accounts are increasing with very high rate, so a high rate of deposits and credits would also be expected. Direct Benefit Transfer has initiated in January 2013 through which government of India transfers subsidies directly to the people in their bank accounts and hence becomes one of reasons of deposits with RRBs. Demonetization and digitalization are other reasons which might have some influence on the deposits. Succeeding these policies of government, unexpectedly deposit rates are decreasing as it can be analyzed through following diagram.



F igure 1: Growth rate of deposits to RRB (1990-2018)

(Source: Reserve Bank of India)

A clear trend line can be seen in the diagram which showing the downward fall in deposit rates. Continuation of this trend can put sustainability of RRBs in danger. Apart from low rate of deposits and credits there are several other challenges which RRBs are facing like very less number of transactions, low rate of insurance, poor infrastructure, inactive BC outlets, connectivity issues, technology up gradations etc. Satisfaction level has decreased and level of stress of employee has increased. Several researches have shown that the rapid reform in financial and banking sector has decreased satisfaction level of employees. Thus, it is very necessary to restore profitability and Stability in RRB if FI to be successful in long run.

Conclusion and Recommendation

Financial Inclusion directed the inclusive growth which itself starts from rural level where Regional Rural banks leads the role with various challenges. Number of financial outlets in rural areas has been developed so far since 2005 to stimulate the financial inclusion. In addition, Pradhan Mantri Jan Dhan Yojana pours its efforts to step up the financial inclusion with a sudden increase in number of accounts throughout its period. It has been beneficial in many ways, mainly to get the Direct Benefit Transfer, insurance, credits, Kisan Credit Card, Rupay debit card etc. and that all facilities connect millions of families from rural India. But on the other hand, it is becoming harder for RRBs to sustain that level for so long because operating cost of accounts as well as opportunity cost of employees is increasing and profit is not running parallel. Retail deposits which could enhance the sustainability of Banks have also not accelerated in the way it should have been. The pressure over the governance has also grown to accommodate surging number of accounts. Decreasing deposit rate, less amount of net profit, inactive accounts are questioning the sustainability of RRBs as well as financial inclusion.

RRBs need to be more flexible in its approach. Challenges should always be converted into opportunities. In the past various attempts have been made to boost the governance and profitability of Banks. In 2014, RRB amendment came into existence which allows the banks to raise capital from another source of accounts other than central, state and sponsored Banks. Now the RRBs can procure funds from IPO, bond market e.t.c. Apart from this, Government of India and its committees are continuously recommending and working on consolidation of RRBs and reducing the total count of RRB to 35-36. It is believed that it would be very beneficial for the banks to boost up its corporate governance, enhances efficiency and productivity. Also, reduction in overall expenses, optimal use of technology and expansion in capital base would be there. However, the consolidation is not always a solution. For example, SBI and its associates after their merger have not contributed much to the profit and growth. Furthermore banks should optimize their inactive accounts, they should persuade the inactive account holders to use the accounts for deposit, saving and transaction process. RRB needs to increase its goodwill so that it can attract large base of customers. Banks also need to have strong debt recovery system to reduce the chances of NPA and the regular and expected annual cash inflow should come to the organization to avoid liquidity problem. From the government side, the rural people should have formal and regular source of income so that they can use the financial services in a very disciplined and regular manner which will be mutually benefiting for banks and customer. From the customer side, there is a need to adopt an ethical business practice with the banks such as maintaining a nominal amount in accounts, depositing surplus money in account, returning the interest on debt timely and so forth. Small steps from each stakeholder will surely make the FI viable in India.

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