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Bank Linkage Programme and Financial Inclusion – A Case Study of Mysore District

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Abstract: *The main problem faced by the lower income group people is the non accessibility of banking and other financial services, which causes hindrance in their social and economic development. These financial products include insurance, credit etc. The great tragedy lies in the fact that sometimes even though there are certain financial services which are specially designed to meet the needs of these low income group people, these people are not aware of it due to illiteracy or any other reason. Thus lack of awareness also leads to the financial exclusion of these people. For the achievement of financial inclusion, the most important goal is to make the banking facilities available to all the unbanked areas and to each and every household. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. This paper examines the bank linkage and the measures taken by the banks and problem involved in financial inclusion. The sample has been collected from the 50 respondents in Mysore District. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGO"s, microfinance, mobile banking, no frill accounts, and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. So there is a need for the formal financial system to look at increasing financial literacy, financial counseling and Business correspondent to focus on financial inclusion and distress amongst farmers.*

***Key Words**: Financial Services, Financial Inclusion, Bank Linkage, Microfinance, Mobile Banking, Financial Literacy*

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I. Introduction

Indian banking system has exhibited tremendous growth in extending its reach, coverage & delivery of financial products to the mass ever since 1881. The All India Rural Survey committee in 1954 recommended the creation of a state sponsored bank to promote rural penetration. Accordingly, SBI was established in 1955. Another step in this direction was taken in 1969 when 14 major commercial banks were nationalized followed by six more in 1980. This strengthened the concept of socialistic & welfare state stature of the country. Lead bank scheme was launched in 1970 to increase banking penetration with special focus on the districts. The emergence of RRBs in 1976 blended the skills of commercial banks with the grass root presence of the cooperative banks helped the mass to access to institutional credit. NABARD established in 1982 regulated institutional credit for agriculture & rural development. Talwar committee & Goiporia committee in the early eighties have made many recommendations to improve the customer services in India. Following are some of the steps undertaken by RBI: The RRBs have been advised to allow limited overdraft facilities in no-frill accounts without any collateral. The idea was that provision of such overdraft facilities provides a ready source of funding to the account holders who are thereby inducted to open such accounts. Banks also have been advised to provide a General Purpose Credit Card (GCC) at their rural & semi urban branches. From this revolving card system the customer can withdraw money to a limited amount from the concerned branch. Bhumuheen" credit card facility has been arranged apart from Kisan credit cards for the rural & semi urban tenant farmers, landless labourers whereby they can be allowed hassle free credit limit up to 0.25 lac per person. Special Agricultural branches have been opened by the PSBs to meet the financial needs fore agricultural & allied activities. On the behest of the RBI, SHG & bank linkage programme has been initiated which has been a major micro finance programme in the country. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Mahendra S, 2006). In India, the drive for financial inclusion, initiated by the Reserve Bank of India, has thus far involved ensuring access to at least one zero minimum-balance „no frills" savings bank account to every household. In this context, at least one district in each state has been brought under the purview of this drive with public sector banks in the region taking the lead to open at least one bank account per family in the district. The broad objective of Financial Inclusion (FI) is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempts must be to lift the poor from one level to another so that they come out of poverty (Rangarajan, op. cit.). Inclusive growth encompasses ideas related to basic needs and equity. It focuses on broad – based growth so that growth covers all strata of society. It seeks to bridge the various divides that may fragment the society. Reduction in poverty and disparities of income and ensuring every /07jmone a basic minimum standard of living are the objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a pre requisite for poverty reduction and social cohesion. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

II. Financial Inclusion

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. By financial inclusion we mean the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. In the policy framework for development of the formal financial system in India, there is always an emphasis on the need for financial inclusion and covering more and more of the excluded population by the formal financial system.

III. Review Of Literature

Financial inclusion is defined as the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost (Kamath, 2007). Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature (Rao, 2007) empirical evidence shows that inclusive financial system significantly raise growth, alleviate poverty and expand economic opportunity (More and Ananth, 2007). Financial inclusion is very much needed to reach the unreached section of people and to bring them to the mainstream economy. A World Bank NCAER Survey (2003). On Rural Access to Finance" indicates that 70% of the rural poor do not have a bank account and 87% have no access to credit from a formal source. In the era of financial globalization, financial inclusion has been considered as a major requirement. Micro finance being used in India for the purpose accomplishing universal financial inclusion (Economic Research Journal 2009). Rangarajan (2008) accessed that to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Sharma (2009) studied the financial inclusion by channelizing existing recourses. His conclusions are that (i) use of technology in the banking system is the most feasible solution for achieving financial inclusion, and (ii) the implementation of technology should follow a top down approach. Anamika (2009) analyzed the efforts made by the government of India in the implementation of financial inclusion, identifies the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. (Collard, 2007)Financial inclusion must include the three essential dimensions of banking, consumer credit and insurance and the importance of the concept has become more felt in cashless economies. S. K., (2011), analyzed the role of microfinance and observed that SHG membership and SHG banking/MFP linkage could promote financial inclusion and households with SHG members achieve medium level of financial inclusion than non-members. The study observed that non-members had the lowest financial inclusion index, while SHG members had higher index and those having a linkage with banks/MFPs achieved even higher index. Uma, H. R. and Rupa, K, N., (2013), studied the impact of SHGs on financial inclusion with parameters of increase in bank accounts, increase in avail of credit and percentage of repayment during pre- and post-SHG situations. The study revealed positive impact of SHG on financial inclusion. The study found that the percentage of members having bank accounts, credit availed and repayment of credit had increased in post-SHG situation.

OBJECTIVE

1. To analyze financial inclusion in SHGs-Bank linkage programme and measures taken by the banks for financial inclusion
2. To study problems faced and adoption of financial inclusion

IV. Methodology

Type of research: The study is based on simple random sampling and sampling frame work consists of members of self – help groups.
Sources of Data: The study is based on primary and secondary data. Secondary data are collected from various books, journals, articles, working paper, GOI, Non – Government Organization (NGOs) etc. Primary data are collected through a field survey in the study area. A structured interview scheduled is prepared and used for collecting data from the banks.
Area of sampling: This study is conducted in Mysore District.
Population and Sample size: The study consists of 50 members.
Tools and techniques of data analysis: The data collected is represented with the help of Tabulation method, mean score analysis and percentage analysis.

Measure Taken For Financial Inclusion

Services	Yes	No
No Frills account	35 (70%)	15 (30%)
Mobile Banking	30 (60%)	20 (40%)
E-Banking	38 (76%)	12 (24%)
Tie up with NGOs	40 (80%)	10 (20%)
Business Corresponding model	10 (20%)	40 (80%)
Financial Literacy and Counseling Centre	15 (30%)	35 (70%)
Advertisement for financial inclusion	30 (60%)	20 (40%)
Kisan Credit Card	28 (56%)	22 (44%)
Core banking	40 (80%)	10 (20%)
Microfinance	42 (84%)	08 (16%)
Awareness programme	30 (60%)	20 (40%)

Out of 50 banks, 70% of the banks offered no frill account, 60% of bank offered mobile banking and remaing 40% are not offered such services, 76% of the banks offered e- banking services and 24% are not offering such services, 80% of NGOs are tied up with banks, only 20% are not tied up with banks, 80% of the banks not preferred Business Corresponding model and only 20% have preferred.70% of the banks have not preferred for Financial Literacy and Counseling Centre and only 30% have preferred to educate the customers. 60 % of the banks have promoting their products and schemes through the advertising for financial inclusion for the purpose of creating awareness among the customers and only 40% are not promoting through advertising.44% of the banks have not issues Kisan Credit Card and 66% banks have issued Kisan Credit Card to farmers. 80% of the banks have offered core banking facilities and reaming 20% have not offered core banking facilities to the customers. 84% of the banks have offered microfinance facilities and only 20% have not offered any microfinance products and services to the customers. 60% of the banks are providing awareness progrmme to educate the customers on their schemes, product and services and 40 % are not providing any details regarding schemes, product and services.

Problems Involved In Financial Inclusion

PROBLEMS	HA	A	DA	HAD	Mean score
Non availability of special product	34	10	4	2	3.00
Lack of social capital	30	10	5	5	3.10

Information asymmetry lack of collateral	38	10	……….	2	3.54
High transaction cost	15	10	20	5	3.00
Small loan amount	35	10	5	………	3.20
Human resource constraint	37	11	………	2	3.40
Lack of awareness	14	26	5	5	2.90
Time consumption	36	10	4	………	3.30
Default in repayment	40	8	1	1	3.64

Table 2 :Shows the problem and difficulties faced by the banks. As per the above table, it is noted that problems were highly in default in repayment of the loan. With the mean value of (3.64). Information asymmetry lack of collateral (3.54) and human resource constraint in the banks with mean value of 3.40, time consumption with mean value of (3.30), small loan (3.20), lack of social capital (3.10), high transaction cost (3.00), Non availability of special product (3.00), lack of awareness (2.90).

V. Conclusion

Bank linkage is an effective tool for financial inclusion in India. The banks need to understand the needs and service for the customers in rural area. So banks need to increase the awareness programme through financial literacy counseling, NGO and Business Corresponding models. The bank should encourage the customers to open the accounts through no frills accounts, provide them e- banking and core banking facilities. In addition banks should concentrate on the issues like default in repayment, Information asymmetry lack of collateral, human resource constraint, time consumption etc for the financial inclusion.

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