[Rahuman, 5(8): August 2018]
DOI- 10.5281/zenodo.1402022

ISSN 2348 – 8034
Impact Factor- 5.070

GLOBAL JOURNAL OF ENGINEERING SCIENCE AND RESEARCHES

THE FINANCIAL INCLUSION PROGRAMME FOR POVERTY ALLEVIATION – A STUDY WITH SPECIAL REFECNE TO PUBLIC SECTOR BANKS IN TIRUNELVELI DISTRICT

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ABSTRACT

Banks and financial institutions need to orchestrate all their energies towards financial inclusion because the alleviation of poverty and the development of the economy largely depend on financial inclusion strategy of the country. The states in the south are performing well towards poverty alleviation programme through public sector banks. Hence, it is essential to study the role of public sector banks in the financial inclusion programme for poverty alleviation. But, due to the lack of time and cost, the range of financial inclusion programme offered by the public sector bank in Tirunelveli district only analysed with the help of secondary data provided by Lead bank and IOB bank in Tirunelveli. The financial inclusion programme of public sector bank for poverty alleviation shows an increasing trend. But the villages covered by BCs and Branches are stagnant throughout the study period. So it is suggested that the road towards 100% financial inclusion is possible via the villages covered by BC and Branches must be enhanced.

I. INTRODUCTION

Public sector banks play a vital role in the economic development of a country like India. Indian economy in general and banking services in particular have made rapid strides in the recent past. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. To address the issue of such financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. But, due to the lack of time and cost, the range of financial inclusion programme offered by the public sector bank in Tirunelveli district only analysed with the help of secondary data provided by Lead bank and IOB bank in Tirunelveli.

Objective

- To study the role of public sector banks in the financial inclusion programme for poverty alleviation.

II. ROLE OF PUBLIC SECTOR BANKS IN THE FINANCIAL INCLUSION PROGRAMME FOR POVERTY ALLEVIATION

Financial access varies widely around the world, and that expanding access remains an important challenge even in advanced economies, it is clear that there is much for policy to do. It is not enough to say that the policy will provide. Policy may failures related to information gaps, the need for coordination on collective action, and concentrations of poor people, mean that banks in India everywhere have an extensive role in supporting, regulating, and sometimes directly intervening in the provision of financial services.

Financial inclusion is one of the top most policy priorities of the Government of India. Social inclusion is the most visible aspects and integral part of financial inclusion. Taking cue from the state proclivity towards inclusive growth agenda, the Reserve Bank of India (RBI) has taken a proactive role in ushering the enabling environment for expediting financial inclusion across length and breadth of the country through bank led model. To reach out at 400 million plus unbanked population at pace with profitability is the single most important challenge faced by the multi stakeholders, particularly banks and delivery channels. Following are the role of public sector banks in the financial inclusion programme for poverty alleviation.

a) Financial literacy
b) Credit counseling
c) BC/BF model
d) KYC norms
e) KCC/GCC
f) No-frill accounts Financial literacy
g) Branch expansion,
h) Mobile banking, and
i) Other measures.

a) Financial literacy:

Providing financial literacy is the core function of financial inclusion, as the main reason for exclusion is the lack knowledge about formal financial system. Financial literacy refers to knowledge required for managing personal finance. The ultimate goal is empowerment of people to take action by them that are in their self interest. When the people know about the financial products available and when they are able to evaluate the merits and demerits of each product and the suitability of the product for the specific needs they are in a better posi tion to decide what they want and feel empowered in a meaningful way. The main functions to be performed by commercial banks in relation with financial literacy are:

1. Disseminating information regarding financial services and general banking concepts to various target groups, including school and college going children, women in rural places and urban poor, senior citizens.
2. Extending financial education which will include:
   - Need for savings,
   - Advantages of banking with formal financial institutions, various financial products offered by banks relating to deposits, advances.
   - Other financial services through electronic mode such as ATMs, Smart Cards, Mobile banking.
   - Method of calculation of interest on savings bank accounts, Fixed Deposits.
   - Benefits of nomination facilities of accounts.
3. Bringing awareness of customer rights under fair practice code.
4. Organizing public awareness campaigns, seminars, press conferences etc.

b) Credit counseling:

There are two types of credit counseling, one is preventive counseling and the other is curative credit counseling.

Preventive counselling will include bringing awareness regarding cost of credit, availability of backward and forward linkages, etc., need to avail of credit on the basis of customer's repaying capacity. In case of **curative counseling** the credit counseling centre will work out individual debt management plans for resolving the unmanageable debt portfolio of the clients by working out effective debt restructuring plan in consultation with branch of the bank, taking into account income level and size of the loans.

Reserve Bank of India has indicated that banks may adopt segmented approach specific to different categories of borrowers. The canters in rural and semi- urban areas could concentrate on financial literacy and counselling for farming communities and those engaged in allied activities. The centers in metro and urban areas could concentrate on individuals with overdues in credit cards, personal loans and housing loan.

c) BC/BF model:

With an effort to focus commercial banks, to reach rural household and farm household, banks were permitted to use infrastructure of civil society organizations, rural kiosks, and adopt Business Facilitator (BF) and Business Correspondent (BC) models for providing financial services. RBI has operators and agents of small saving schemes of government of India/Insurance companies, retired and authorized functionaries of well run SHGs linked to banks as BCs. In January 2006 RBI permitted to utilize the services of NGOs, SHGs, MFIs and other civil society organizations as intermediaries in providing finance and banking services through BF and BC which is known as "Agency model". (This allows banks to do 'cash in cash out' transactions at a location closer to rural population and facilitate greater financial inclusion and income)

The type of services of Business Facilitator is:

- Identification of borrowers and fitment activities.
- Creation of awareness of savings and other products.
- Collection and preliminary process of loan application.
- Processing and submission of application to banks.
- Educating, counseling, advice on managing money and debt.
- Promotion and nurturing of Self Help group and Joint Liability Group.
- Post sanctions monitoring.

In addition to the activities listed under business facilitator model, the scope of activities listed to be undertaken by BCs will include:

- Disbursement of small value credit.
- Recovery of principal/ collection of interest.
- Collection of small value deposits.
- Sale of micro insurance/mutual fund products, pension products and other third party products.
- Receipt and delivery of small value remittances, other payments of instruments.

d) KYC norms:

In order to ensure that persons belonging to the low income group both rural and urban areas do not encounter difficulties in opening bank accounts, the Know Your Customer procedure (KYC) for opening bank account was simplified asking banks to seek only a photograph of the account holder and self certification of addresses (the amount of outstanding balance in these accounts would be limited to 50000 rupees and total transactions would be limited to one lakh rupees in one year.

e) KCC/GCC:

Banks were asked 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 prevailing under normal credit card without insisting on security and the purpose or end use of credit (as Point Of Sale-POS and ATM facilities) with similar products are not feasible or available and limited infra structure in rural areas. The limit under GCC is up to 25000 rupees. Banks were advised to utilize the services of Schools,Primary Health Centre, local government Functionaries, Farmers' Association / Clubs, well established community based agencies etc.

f) No-frill accounts:

In November 2005 RBI advised banks to make available a basic banking "No-frill Account" with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population.

g) Branch expansion:

In terms of existing provisions of banking regulation act, 1949 banks are not allowed to open new place of business or change the locations of the place or villages in India without prior approval of RBI. While considering the application of banks for opening branches, RBI gives due weightage to the nature and scope of banking facilities

provided to common person, particularly in unbanked areas, actual flow of credit to the priority sector, pricing of its products and overall efforts for promoting financial inclusion including introduction of appropriate new products and enhanced use of technology for delivery of banking services. RBI has identified districts were the population per bank office is higher than national average in rural and semiurban areas. The lead banks have been advised by RBI to identify unbanked villages of populations above 2000 and to provide banking services through a banking outlet in every village by March 2011. Now it is completed through the lead banks of the concerned districts. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of Information and Communication Technology (ICT) models, including
through BCs.

h) Mobile banking:
Mobile banking is a term used for performing accounting transactions, balance checks, payments via mobile device such as mobile phone. Mobile banking enables:

- Users to perform banking transaction using mobile phone like balance checks, fund transfers, bill payment etc.
- Purchase goods over internet or phone delivery
- Person to person fund transfers
- To pay goods at merchant location point of sale.

As the penetration of mobile phones particularly among low income people and enormous opportunities they afford in extending the banking outreach, RBI has formulated guidelines on mobile banking.

i) Other measures:
The excluded segments of the population require products which are customized, taking into consideration their varied needs. Their banking requirements being small, the issue of servicing and delivery in a cost effective manner assumes significance. The need for savings by these groups require special attention, e.g. for meeting life cycle needs, creating assets, repaying high cost borrowings and meeting emergencies.

a. Small Savings:
Savings products to meet the specific requirements of the poor need to be evolved. One way of meeting this would be to utilize the amount of MGNREGP wages of the poor who gets payment through banks, and another way to utilize the SHGs for tapping the small savings by providing incentives to the SHGs with suitable back-end technology support. The banks can develop medium and long term savings instruments by issue of pre-printed deposit receipts to the SHGs which in turn can be sold to the SHG members. Banks could be given the freedom to develop their own products, suiting local requirements and felt needs of the poor.

b. Micro-Credit:
With regard to credit products, the savings linked financing model can be adopted for these segments**.** The approach should be kept simple which should guarantee the beneficiaries a credit limit, subject to adherence to terms and conditions. The credit within the limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behaviour of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it also ensures good credit dispensation.

c. Micro-Insurance:
Since the income of the poor are uncertain they are more prone to risk, thus to provide the insurance cover the concept of micro insurance is used. Micro insurance is used to refer for providing insurance facilities to poor/low income group. The need for micro finance arises due to the fact that the risk faced by the poor is different from that of other income class, secondly they are more prone to all types of risk and thirdly the product that is applicable for high income are not applicable for them.

STATUS OF PUBLIC SECTOR BANKS IN THE FINANCIAL INCLUSION ROGRAMME FOR POVERTY ALLEVIATION IN TIRUNELVELI

TABLE .1

Sl.No.	PROGRAMME	YEAR				
		2013	**2014**	**2015**	**2016**	**2017**
1	Total Number of Branches	224	248	280	301	317
	Trend	**100**	**110.71**	**125.00**	**134.38**	**141.52**
2	Villages Covered by BCs	425	425	425	425	425
	Trend	**100**	**100**	**100**	**100**	**100**
3	Villages covered by Branches	425	425	425	425	425
	Trend	**100**	**100**	**100**	**100**	**100**
4	Villages covered by other modes like rural ATMs , mobile van	128	140	162	184	284
	Trend	**100**	**109.38**	**126.56**	**143.75**	**221.86**
5	Urban location covered through BCs	-	-	10	18	22
	Trend	**-**	**-**	**100**	**180**	**220**
6	No frill A/Cs(BSBD) No.in lakh	1.15	1.38	1.58	1.72	1.96
	Trend	**100**	**120**	**137.39**	**149.56**	**170.43**
7	BSBD a/c through BCs No.in lakh	0.20	0.22	0.36	.0.42	0.58
	Trend	**100**	**110**	**180**	**210**	**290**
8	KCCs total – No.in lakh	1.62	1.65	1.82	2.15	2.60
	Trend	**100**	**101.85**	**112.35**	**132.72**	**160.49**
9	GCC- total – No in lakh	0.14	0.24	0.32	0.36	0.48
	Trend	**100**	**171.42**	**228.57**	**257.14**	**342.86**

Source : *Lead bank and Indian Overseas Bank, Tirunelveli*

III. DISCUSSION

It is observed from the above table, the financial inclusion programme of public sector bank shows an increasing trend. But the villages covered by BCs and Branches are stagnant throughout the study period.

IV. CONCLUSION

For the success of the financial inclusion initiative what is important is to provide banking services at an affordable cost to the disadvantaged and low income group. Public sector banks have to perform a vital role in this regard. However the road towards 100% financial inclusion is yet to complete. ***This is possible via the villages covered by BC and Branches must be enhanced.*** Financial Inclusion should not be seen as a social responsibility of the

Governments and the banking system, but it is a potentially viable business proposition today which provides the poor with opportunities to build savings make investments and get credit.

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