

## PRESENT CHANGING SCENARIO OF FINANCIAL INCLUSION IN WEST BENGAL: AN OVERVIEW

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### Abstract

Financial inclusion, of late, has become the business world in academic research, public policy meetings and seminars drawing wider attention in view of its important role in aiding economic development of the resource poor developing economies. In the Indian scenario, the term 'financial inclusion' is popular in financial circles, especially after the Reserve Bank of India (RBI) announced a series of measures in its credit policy for 2006-07 to include many of the hitherto excluded groups in the banking net. There have been numerous researches analyzing how an extensive financial system helps in developing an economy. A great deal of uniformity exists among economists regarding financial development prompting economic growth. The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from different secondary sources. At this backdrop, a humble attempt has been made in this paper to study that how the financial inclusion enabling issues are changing in West Bengal as well as in our country.

**Key Words:** Poverty, SHGs, Financial Inclusion.

### 1. a Introduction

Over the last decade, Financial Inclusion has come into focus in the global policy and development discourse, given its irrefutable link with upward economic and social mobility. Till recently, financial inclusion was nothing more than an onerous, target-driven corporate social responsibility for banks. But these days, the once-unbanked people are now spoilt for choice with global attention in the recent past. Lack of accessible, affordable and appropriate financial services has always been a global problem. It is estimated that about 2.9 billion people around the world do not have access to formal sources of banking and financial services. India is said to live in its villages, a convincing statement, considering that nearly 72% of our population lives there. However, a significant proportion of our 6,50,000 odd villages does not have a single bank multiple bank accounts, inclusive of zero balance and free debit card facilities. The concept of Financial Inclusion is not a new one. It has become a catchphrase now and has attracted the branch to boast of, leaving swathes of the rural population in financial exclusion. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one per cent (RBI, Working Paper Series (DEPR): 8/2011). Financially excluded people, consistently, depend on money lenders even for their day to day needs, borrowing at excessive rates to finally

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get caught in a debt trap. In addition, people in far-off villages are completely unaware of financial products like insurance, which could protect them in adverse situation. Therefore, financial inclusion is a big necessity for our country as a large chunk of the world's poor resides here. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. Through this paper I want to explore the present status of financial inclusion in our state.

### **b. Financial Exclusion-Background**

The ever-looming specter of India is of urban poverty and rural inequities, a specter which refuses to go away. A shocking 30-35% of India's total population still lives below the poverty line. Poverty, accompanied by low health and nutrition levels, high infant mortality and illiteracy, is now almost uniform in terms of the proportion of population in rural and urban areas. Using the Indian definition based on income needed to acquire food to provide the minimum required calories (2,100 for rural and 1,800 for urban adults), roughly 260 million people or 26% of the population fall below the poverty line. Using another definition of poverty-those living on less than \$1 per day-the number of poor would be much larger at around 400 million, accounting for over 36% of the population. Sixty four years after independence, these are disturbing statistics and in many ways an indictment of the effectiveness of our policies and efforts so far. Even more disturbing is that within these poor are the poorest, which live on an income of less than Rs. 50 per day.

The Government of India wishes that the poor people should be benefited by Financial Inclusion. They have to be given loan for trading activities or paying back the loans from moneylenders.

The Reserve Bank of India permits Financial Inclusion by allowing banks to grant loan to non-registered bodies subject to fulfilling certain norms. On the basis of group performance, groups or individuals may be extended loans. Savings, repayment capacity and cash flows should be the criteria.

NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farmer households' not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions, respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

The main reason for financial exclusion is the lack of a regular or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them. Getting money for their financial requirements from a local moneylender is easier than getting a loan from the bank. Most of the banks need collateral

for their loans. It is very difficult for a low income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit.

### **c. Financial Inclusion: A New Paradigm**

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development.

Typically, financial inclusion in India is characterized by:

1. Lower outreach by financial institutions/MFIs/ SHG Bank Linkage Programme in comparison to below poverty line (BPL) and low income population.
2. Priority Sector Lending norm of 18% advances to agriculture is not met in many states. Also, agriculture's share in Priority Sector Lending has been declining in some states.
3. Financial inclusion is characterized primarily as either general access to loans (mostly consumption or consumer loans rather than livelihood loan) or access to savings accounts. Very few risk management and vulnerability reducing products are available to small holder producers.
4. Access to finance is primarily a bridging resource for many low income groups.

Given the above context, to truly financially include the poor would require creating a variety of risk/ vulnerability management mechanisms and ensuring that they are consistently and simultaneously available. Unless major risks are simultaneously covered, the likelihood of one risk wiping out an entire livelihood is a very high possibility, and people who have been temporarily included would be excluded again.

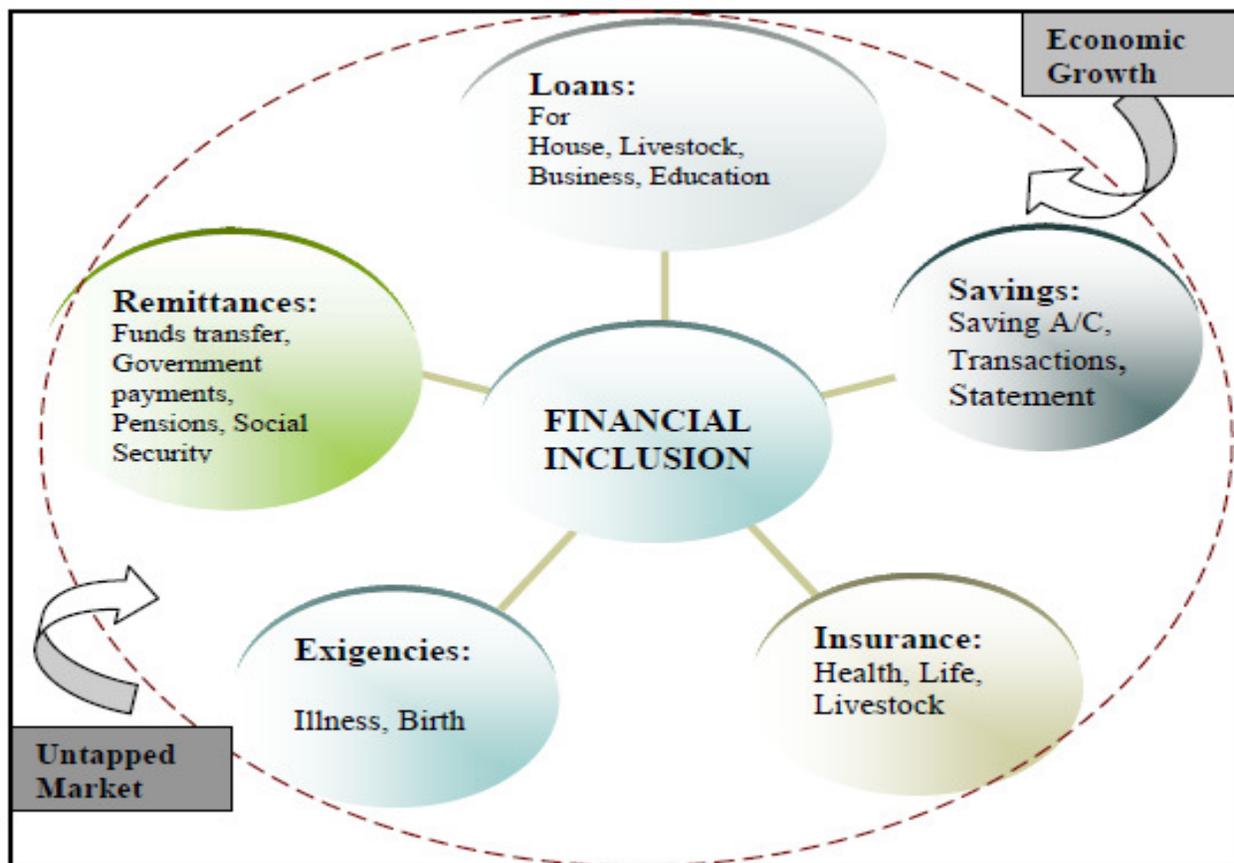
## **2. Objectives of the study**

- To explore the need and significance of financial inclusion for economic and social development of society.
- To study present scenario of financial inclusion in West Bengal.
- To study the financial inclusion eco-system and its functional application.
- To suggest the future prospects of financial inclusion.

## **3. Methodology of the study**

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

## **4. Financial Inclusion Ecosystem**

**Table 1: Showing Factors of Financial Inclusion Ecosystem**

On the basis of Table 1, it can be said that financial inclusion eco-system consists of five major elements and they are Loans, Savings, Insurance, Exigencies and Remittances. These five elements are the major functional areas of financial inclusion and to explore the financial inclusion to the poorer people of our state as well as of our country we have to give better services to them on these five issues. And we know that our present central government and state government are trying unanimously to establish the better services on the above mention issues by launching different schemes, plans like PMJDY etc.

### **5. Present Status of Financial Inclusion in West Bengal**

Present changing status of financial inclusion in our state as well as in our country may be enucleated by the following considerations:

#### **5.1 Progress in extension of banking facilities as per Financial Inclusion Plan:**

The banks operating in West Bengal have already set up banking outlets in 7452 villages out of 7486 villages originally identified largely through BC model and Mobile Van and Brick and mortar branches in some villages. The remaining 34 villages are now nonexistent because of

merger with Municipalities and repetition of name in the mother list etc. 4685601 accounts have been enrolled in these FI villages up to Dec 2012.

The Dept. of Financial Services, MOF, GoI in its circular dated 18th May 2012 communicated that all villages in the population range of 1600 to 2000 be covered under “Swabhiman”, the financial inclusion campaign, as these are likely to have crossed the population of 2000 by 2011. Accordingly, the villages having population of 1600 to < 2000 (as per 2001 census) have been allocated amongst the banks for providing banking services within March 2013. Banking outlet has been set up 614 such villages up to December, 2012. **Swabhimaan Scheme<sup>1</sup>** is under the Swabhimaan campaign, the Banks were advised to provide appropriate banking facilities to habitations having a population in excess of 2000 (as per 2001 census) by March 2012. The banks identified approximately 74000 habitations across the country having a population of over 2000 for providing banking facilities. As per reports received from Banks, 74351 villages with population of above 2000 have been covered with banking facilities either by branches; Business Correspondents, mobile banking etc. by March 31, 2012.

In West Bengal there are altogether 37945 villages which includes 7452 villages with 2000+ population already provided with banking outlets last year. This year banking outlets are going to be set up in 2444 villages with 1600 to < 2000 population of which 614 villages have already been covered. Rest of the villages (1830) will be covered by March 2013. Roadmap for covering 28140 villages in the population range of 1 to < 2000 has been prepared and submitted to RBI. These villages will be covered within March 2016. As per RBI directives, member banks have been advised to identify and submit the list of 5% of the allotted villages for branch opening.

### **5.2 Progress in opening of branches in under-banked and other districts as per strategy and guidelines on Financial Inclusion issued by the Department:**

In the circular dated 20.3.2012 issued by DFS it has been clarified that in the under banked districts all villages with 5000+ population should have a bank branch (irrespective of the fact whether another bank branch is located within a radial distance of 5 km). It was also clarified that banks can set up Ultra Small Branches in those villages where regular Brick & Mortar branches are not considered viable. Following the above directives, we had convened meeting of Subcommittee of SLBC on FI on 30.3.2012 and impressed upon the member banks to implement the revised directives. In West Bengal 1440 villages located in under banked districts are having population more than 5000.

Up to December 2012, out of 7170 villages having 2000+ population, outlets of only 1278 villages could be converted into USBs. The member banks were requested to speed up the process of conversion so that all 2000+ population villages already covered with BCAs are converted to USBs at the earliest.

Setting up of USBs in villages having population of 5000+ in under banked districts and 10000+ population in other districts as per revised guidelines of DFS which are to be manned with one

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<sup>1</sup> <http://financialservices.gov.in/banking/Overview%20and%20Progress%20on%20Financial%20Inclusion%20>

full time Officer and equipped with Cash Safe and Passbook Printer may involve the following operational risks:

- i) Under Maker - Checker concept officers posted at the base branch are to act as Checker and authenticate transactions without any documentary evidence.
- ii) In absence of any specific directives it is not clear whether the Cash Safe will be operated single handedly.
- iii) Upper limit of Cash transaction and retention has not been spelt out.

Cash Retention / Transit Cash Insurance Coverage apart from insurance coverage for the Laptops also need to be arranged to mitigate the risk. The member banks may examine the issue and give their observations.

### 5.3 Campaign to ensure that each family has at least one account in Rural Areas:

Some of the salient points that are to be noted for discussion in the meeting and implementation of the task are as under:

- Service area banks in rural areas and banks assigned the responsibility in specific wards in urban/ metro areas would be responsible for ensuring that every household has one bank account. This would be achieved in collaboration with other banks in the area. Subsequently, in a meeting convened by the Chief Secretary of West Bengal on 19th February, 2013 the issue of opening at least one A/c per household was emphasized.
- Information about opening of bank accounts must be prominently displayed in the villages by the service area bank / designated bank along with the person / bank to be contacted.

The member banks were requested to issue necessary instruction to their branches to open SB A/cs in their service areas in villages and allotted / to be allotted wards in urban areas for payment through EBT mode. Branches should also be advised to send report on SB A/cs opened to the District Coordinators for onward submission to the LDMs.

## 2. Position of households availing banking services:

Households	As per Census 2001			As per Census 2011		
	Total number of households	Number of households availing banking services	Percent	Number of households availing banking services	Number	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
<b>Total</b>	<b>191,963,935</b>	<b>68,230,642</b>	<b>35.5</b>	<b>246,692,667</b>	<b>144,814,788</b>	<b>58.7</b>

#### **5.4 Progress in urban financial inclusion by way of opening accounts of migrant labourers, street vendors / hawkers and Slum Dwellers and facilitate remittance:**

The essential features of Financial Inclusion in Urban / Metro areas have been mentioned in the previous Agenda. In Municipal areas wherever LDMs are posted, they will take the initiative and coordinate the campaign with the active involvement of all the banks. In Metro areas the Banks may have to take the support of external Agencies / NGOs. United Bank of India has launched urban financial inclusion campaign in Kolkata Municipal Corporation area on pilot basis. Gradually the campaign will be spread in other areas. The bankers have been advised to submit ward wise branch list to facilitate allocation of Wards amongst them. As SLBC convener of the State, United Bank of India has provided a Toll Free Telephone number - 18003450345 for use of the common people intending to open accounts with the banks. A separate e-mail ID - urbanfi@unitedbank.co.in has also been put in place for use of the prospective A/c holders. The matter was extensively discussed in the meeting of the Subcommittee of SLBC on Financial Inclusion held on 13.2.2013.

#### **5.5 Progress in establishment of Currency Chest and Clearing Houses:**

All the districts of West Bengal are already having one or more Currency Chests. UnitedBank of India has opened a new Currency Chests at Burdwan Station Bazar Branch and Central Park Branch, Kalyani, Nadia.

In West Bengal 217 centers have been identified where 3 or more branches are operating but clearing facility is yet to be made available in the said centers. The list of such centers have been submitted to Kolkata National Clearing Cell, Reserve Bank of India for initiating necessary steps and providing guidance to SLBC / LDMs / Banks to take the issue forward. RBI in its letter dated February, 18 2013 has since advised the Lead Banks of the districts to make necessary arrangements in such identified centers so as to introduce clearing facility as per RBI guidelines at the earliest.

#### **5.6 Progress in GIS data entry:**

GIS data entry has been completed in all the 18 lead districts of the State. The concerned LDMs have been advised to keep updating the entries as and when occasions arise.

#### **5.7 FLC activities:**

The meeting of the Subcommittee of SLBC on FLC was last held on 13th February, 2013, proceedings of which with action points emerging is annexed. Some of the salient points are:

- FLCs can also be set up in other areas by non-lead banks / lead banks.
- The FLCs and rural branches of the banks would also conduct outdoor Financial Literacy Camps with focus on financially excluded people at least once in a month.

The banks having lead district responsibility have set up FLCs in all the LDM offices. Due to inadequacy of space in LDM Office Nadia, the FLC has been set up in a premise located 100 meters away from the LDM office. The process was completed by October, 2012 but outdoor activities could not be undertaken in a regular manner. RBI has since permitted the banks to engage retired officers for running such FLCs in the LDM offices. The banks are urged to make the FLCs truly operational with mandatory outdoor activities as it is one of the potent weapons to create financial awareness amongst rural mass. Rural branches are also to organize outdoor financial literacy camps at least once in a month.

**Table 3: Progress under Financial Inclusion Plans, All SCBs including RRBs**

S.N	Particulars	Mar 10- Actual	Mar 11- Actual	June 11- Actual	Mar 12- Target	Mar 13- Target
1	Villages Covered - Grand Total ( 2+3+4 = 5+6)	54258	100183	107604	218574	352269
2	Villages Covered - Total Branches	21475	22662	22870	24995	26440
3	Villages Covered - Total BCs	32684	77138	84274	192249	323699
4	Villages Covered - Total Other Modes	99	383	460	1330	2130
5	Villages Covered >2000	27353	54246	59640	86806	91440
6	Villages Covered <2000	26905	45937	47964	131768	260829
7	Urban Locations covered through BCs	433	3757	4524	6068	8614
8	No Frill A/Cs (No. in Lakh)	493.27	739.36	790.86	1125.06	1582.93
9	Amount in No Frill A/Cs (Amt in Crore)	4257.07	5702.94	5944.73	7449.86	8871.55
10	No Frill A/Cs with OD (No. in Lakh)	1.31	6.32	9.34	183.61	286.54
11	No Frill A/Cs with OD (Amt In Crore)	8.34	21.48	37.42	1008.04	1636.32
12	KCCs-Total-No. in Lakh	176.30	201.91	202.89	276.59	350.36
13	KCCs-Total-Amt In Crore	98749.5	132352.3	136122.3	144685.5	172775.0
14	GCC-Total-No. in Lakh	4.73	10.83	10.70	37.34	61.23
15	GCC-Total-Amt In Crore	753.49	2328.36	2356.25	4266.13	6715.07
16	ICT Based A/Cs-through BCs (No. in Lakh)	125.42	295.41	338.36	641.73	1014.74
17	EBT A/Cs-through BCs (No. in Lakh)	74.81	146.51	164.60	249.07	368.96

Source: RBI

Note: Absolute change could be slightly different as numbers have been rounded off to million/billion.

## 6. Financing the Minority Community and Backward Classes:

The under noted twelve districts of the State have been identified as Minority concentrated districts:

i) Howrah ii) Kolkata iii) Burdwan iv) Nadia v) 24 Parganas (N) vi) 24 Parganas (S) vii) Malda viii) Murshidabad ix) Uttar Dinajpur x) DakshinDinajpur xi) Coochbehar and xii) Birbhum.

**Table 4: Position of outstanding credit to Minorities during last five years in West Bengal**

(Amt in Rs. crore)									
Item	March 2009	March 2010	March 2011	March 2012	March 2013	% of increase during 2009-10	% of increase during 2010-11	% of increase during 2011-12.	% of increase During 2012-13
Outstanding Priority sec credit to Minority Com	7486	8864	10620	12621	15570	18.40	19.81	18.84	23.36
Total priority sector credit in the State	51560	60048	72625	80374	91687	16.46	20.94	10.67	14.08
% to total Priority sector credit	14.51	14.76	14.62	15.70	16.98	0.25	(-) 0.14	1.08	1.28

The present Priority sector Advance to Minority Community at the end of March 2013 has increased by 23.36 % compared to 14.08 %. Our objective is to ensure that the Minority communities and backward classes receive a fair and equitable portion of the credit within the overall target of the Priority sector. Formation of SHGs should be popularized amongst the Minorities and other backward classes as well.

The following Table showing bank wise disbursement of loans to Minority Communities, Scheduled castes and scheduled Tribes and also other backward classes have been annexed.

The summary position is as under:

**Table 5: Minority Community's Disbursement Details**

Minority Community						(Rs. In Crore)	
Sl No.	Item	Disbursement made				Otg. Bal on 31.03.2013	% to Prisec Advance
		1.4.2008-31.3.2012		01.04.12-31.03.2013.			
		A/c	Amt	A/c	Amt		

1	Minority Community	1636145	16013	447298	3435.92	15570.36	16.98
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SC/ST & OBC							
(Rs in crore)							
Sl No.	Item	Disbursement made				Otg. Bal on 31.12.2012	% to ANBC
		2011-12		01.04.12-31.03.2013			
		A/c	Amt	A/c	Amt		
2.	SC / ST	321949	1801.20	283477	1768.85	9725	4.35
3.	OBC	86247	746.86	177085	1329.96	7668	3.43

## 7. Conclusion

As per present study, our state is in position to utilize all the tools of financial inclusion but due to lack of proper implementation in rural Bengal it is not fulfilling our satisfaction. For achieving complete financial inclusion and for inclusive growth, the RBI, State as well as Central Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. The Government of India and the Reserve Bank of India has now realized that uniform financial inclusion is an essential component of overall economic growth. The Reserve Bank of India has designed specific schemes for broadening the access of rural credit to the rural poor. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals but the ball is set in motion. Thus it can be summed up that the social banking concept had mixed results in India as even after strong efforts, the problem of financial exclusion still prevails in India. Government of India along with the Central Bank has come up with number of specific schemes for a balanced financial inclusion for the whole country which will also be applied for our state and only time will tell its effects and ramifications on the Indian economy as well as on the development of our state.

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