ABSTRACT

This report examines evidence from the academic and policy literature review about the financial capability & saving of low-income people. The purposes of the study are to provide a critical review of evidence about the low-income people’s financial savings & the role of commercial banks measurement, the programs used to promote their saving capability & aware their knowledge about financial product, services and the information uncovered about the programs by evaluations. Financial knowledge & saving is the most important for financial inclusion. Financial product knowledge has been proposed widely as an effective approach to preparing people to manage their finances. Financial capability includes both the ability to act (knowledge, skills, confidence, and motivation) and the opportunity to act (through access to quality financial products and services). The data required for the study have collected from the secondary sources. Banks are essential for each country’s economy, since no growth can be achieved unless savings are efficiently channeled into investment. In this respect, the lack of a full-fledged banking system has often been identified as a major weakness of the centrally planned economies. Therefore, reforming the banking sector in the former communist countries and creating a new culture of trust and confidence has been a crucial task in the process of transition to a market economy. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent etc. As a financial inclusion strategy, developing inclusive financial systems should give priority, which is financially and socially sustainable.

Keywords: Financial Inclusion , role of commercial bank, poverty Alleviation , Economic development, knowledge about Financial product & services.

INTRODUCTION

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system. Not only have the government and the Reserve Bank of India become very keen to promote inclusion, successful business models have at last emerged to serve the poor in a profitable manner. Capital, both debt and equity, is now available for this sector at reasonable cost even as better technology and Internet connectivity are making it easier and less expensive to reach the poor. Financial inclusion is the delivery of financial services at an affordable cost to low-income households. It is estimated that nearly 500 millions Indians are not served well (or even at all) by the current financial system. There is a close connection between poverty and financial exclusion, which can lead to estrangement, disaffection and reduced participation in society by low-income families. The government of India and the Reserve Bank of India have been very concerned about financial exclusion and the great harm it causes to the society. The RBI has taken many initiatives to spread banking services such as expanding the number of rural bank branches as well as allowing the banking correspondent model. The scale of the problem of financial exclusion can be daunting. Nearly half of the population and a majority in rural Indians do not have bank accounts. Less than 10% of India’s 600,000 villages have a bank branch. Nearly 80% of the Indian population is without life or health insurance. Penetration of mortgages, mutual funds and pension products is also very low. The world is full of poverty reducing strategies. Human imagination and creativity know no boundaries in how to overcome poverty. If they were all successful, the abolition of poverty might be in sight. However, only few of the many imaginable poverty reducing strategies are actually put to use, and most of those are incomplete in the sense that they are put only to partial use. There are many reasons for this situation. Lack of resources is the reason most often mentioned. Lack of knowledge on how to obtain efficient poverty reduction is one. Inaccurate use, or misuse of knowledge is another. Administrative inadequacy in organizing and implementing a poverty reducing strategy can be considered another reason for failure. Such arguments can be classified as technical reasons. The underlying assumption is that if knowledge, resources and administrative expertise increase, then poverty reduction would also increase. The explicit aim for donors and others is to work towards improving such technical defaults. It is important that they continue to do so. At the same time, we know that other and much stronger forces intervene to prevent poverty reduction. On the one hand we have forces that have a direct interest in neglecting poverty reduction or even trying to stop it from being implemented and carried out in an efficient manner. There are many reasons for such an attitude. It may be the dislike of poor people, the dislike of sharing resources or the fear of changing a social structure in favor of the poor. Some of those poverty producing forces are intended because vested interests are linked to continued poverty. Other poverty producing forces are unintentional, but still powerful. As a matter of fact, it can be argued that unintentional poverty production has a larger impact on poverty formation than
direct poverty production. The relevance of the argument here is that poverty reducing strategies cannot be understood unless one takes into account also the forces that work against poverty reduction. The negative forces built into a counter-strategy can be political, cultural, economic or symbolic. The latter might be as important in terms of resistance to a poverty reducing strategy as the other three. If this argument is correct poverty reducing strategies need to be analyzed and understood not only in terms of intended positive effects. It is just as necessary to analyze and understand the likely counter forces that come into play when a new poverty reducing strategy is introduced. Otherwise the poverty reducing strategy is doomed to fail. The measures that need to be taken to bring the counter-strategies under control, or neutralize their effect on the intended poverty reduction, are not part of the ordinary curriculum of poverty reduction. It is taken for granted that “everybody” wants poverty reduction. The reality is different. There are severe conflicts surrounding most poverty reducing efforts, in particular those that call for more comprehensive redistribution or changes in the social structure. A model of conflict is more adequate. However, to work within a model of conflict calls for a reorientation of those responsible for poverty reduction. It means among other things to identify the counteractive forces and to develop ways of dealing with actors who are often among the powerful people. So far poverty reducing measures have not been developed within such a context. In the following I shall outline a set of current poverty reducing strategies as they are played out on different levels. The readers will be invited to identify countering strategies and the actors and interests behind such strategies. The time ate goal is to learn how to protect poverty reducing strategies from counterstrategies and carry them through to greater efficiency. This may be asking too much since this is an infeld hat politicians and administrators have so far been reluctant to enter, and perhaps with good reason. Financial literacy levels are extremely low. Even though microfinance institutions have expanded very fast in the last five years, they still only cover about one fifth of low-income households and they to meet only one tenth of the credit needs of the poor. While it is a daunting challenge in size and scope, financial inclusion is also a great social and business opportunity. Among the potential businesses that will benefit from more inclusion are business correspondents who can bring simple banking services as wells insurance and even pension schemes to the poor.

LITERATURE REVIEW

Banks play an important role in meeting credit need of people. More studies have attempted to analyze the role of commercial banks in financial inclusion for sustainable development. The RRBs and commercial banks in the economic development and relation with other developmental programmes. An attempt in this section has been made to review some important research studies.

Finance Minister Pranab Mukherjee (2010) said financial inclusion was a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential of savings consumption and investment propensities of the poorer sections of society.

Transact the national forum for financial inclusion, (2007 ) Financial inclusion is a state in which all people have access to appropriate, defined financial products and services in order to manage their money effetely. It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and advice suppliers.

Farhat Husain (1986) has made a detailed analysis of the development of Commercial banks in India in the light of reorientation of banking policy, credit planning and resource mobilization for the regional development.

Choubey, B.N. (1983) has evaluated that Commercial Banks have failed to fill the serious gap and deficiencies in farm credit, which the RRBs could manage to do. Choubey emphasized that the NABARD would be required to pay special attention to the depoliticisation of the agricultural credit and government credit agencies. He suggested that NABARD might help the agricultural and rural sector in raising their productivity at reasonable faster rate.

Shetty (1997) in his studies that the ‘social banking’ policies being followed by the country resulted in widening the ‘geographical spread and functional reach’ of commercial banks in rural area in the period that followed the nationalization of banks.

NABARD (1999) remarked that the despite having a wide network of rural bank branches in India which implemented specific poverty alleviation programmes that sought creation of self employment opportunities through bank credit, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking systems.

Gundannavar, V.R. (1992) has highlighted the role of banks in implementing social banking schemes to keep pace with changing social needs. He has strongly opposed any move to reduce resources allocation to priority sectors, which will have an adverse impact on the agricultural credit. He has suggested to increase higher interest rate on commercial lending and to continue concessional rate of lending to priority sectors.

Barman, K.K. (1994) has made an analytical study on the implications of financial sector reforms on rural credit delivery system. He has found that implications are of wide spread; on interest rate of agricultural loans, lending rates, priority sector lending, reserve requirements and institutional restructuring.

Rangarajan, C. (1996) has identified three to four major factors which would have impact over the future banking operation including progressive de-regulation of interest rates, a diversified competitive market place, market determined exchange rate mechanism and technological progress. He suggested the banks to provide credit to agriculture and allied sector as provision of credit to high-
tech agriculture which is almost equal to providing credit to industry.

Vaidya, B.V. (2002) has made a comprehensive effort to highlight some of the aspects of rural development of the country under the policy of liberalisation and globalisation, including economic aspect, agricultural aspect, industrial aspect, infrastructural aspect and management aspect. From his analysis, he has drawn the conclusion that a comprehensive methodology will be necessary for rural development which is the bed-rock of development for the whole country.

Ansari (2007) in her study reveals that reaching the poorest and whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. to the poor to meet their simple requirements. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest.

Shylendra, (1998) spoke of SHGs as meaning small informal associations created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity, and joint responsibility. The benefits include mobilization of savings and credit facilities and pursuit of group enterprise activities. The group-based approach not only enables the poor to accumulate capital by way of small savings but also helps them to get access to formal credit facilities.

To Beck & De la Torre, (2006) financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services.

Karmarkar, K.G.(1997) has highlighted the role of Micro financing (SHGs) on the rural credit delivery system in the state of Orissa with example of successful projects in the different parts of the state. He has suggested for active participation of banks and other development agencies to promote micro financing in large scale to accelerate the pace of rural development.

Biswal, D. and Dash, H. (1997) have attempted to study the recovery phenomenon of rural bank credit in Orissa. The banks in financing rural development are of the view that poor recovery and mounting overdue are the major huddles faced by them. They have suggested for adequate development of rural infrastructure in the state to improve the income and financial condition of rural poor which in turn will improve the recovery performance of banks in the state.

Verrashekarappa (1997) in his work on “Institutional Finance for Rural Development” has highlighted the importance of institutional finance on farm sector in a changing perceptive. Taking into account the transaction cost, utilization of loan, repayments and over dues, he has advocated for policy implications to be implemented more cautiously to reduce the gap between bank credit and farm sector and to remove the size of landholding as collateral security against farm credit.

World Bank (2008) financial inclusion is also influenced by specific credit needs of various segment people arises for a number activities such as housing, microenterprises, agriculture difficulties in accessing formal sources of credit, the poor individuals and small savings or internal resources to invest in housing, health and education, and opportunities.

**NEED FOR THE STUDY**

The economy is presently in a phase of rapidly rising income, rural and urban, arising from an expansion of extant economic activities as well as the creation of new activities including corporate profitability which has exhibited sustainable trends and increasing consumer incomes thereby riding on the growth momentum. All of these developments suggest that the demand for financial services, both for savings as well as production purposes, will be greater than has been the case in the past, and there will be many new entrants in need of financial services who have not hitherto been served. Financial inclusion as a topic has attracted global attention in the recent past. For our own country where almost 70 percent of population lives in the rural areas and engages in agriculture and allied activities, financial inclusion assumes paramount importance indeed, and is an utmost necessity for a country where a large number of the world’s highest poverty stricken population resides. The bank provides a no frills Savings Bank Account to all members of the lower income groups. As a next step, small overdraft facilities are allowed in the Savings Bank Accounts in order to cater to the account holder’s general purpose or consumption needs. Those who are engaged in income generation activities were provided with general credit card facility with a flexibility of roll over facility. Opening no frills account with a small overdraft or GCC is only the first step in building the relationship which would require sustained efforts to ensure that the banking relationship with the customer is fashioned to meet his needs. The technology should have a clear focus on relatively unbanked and under reserved areas rather than competing aggressively in already well served areas. There is a clear need to vastly increase the numbers served by existing branches for saving, loan and remittances. It is hoped that the new KYC norms for male value accounts will go a long way in ensuring this. The financial services for rural areas will need to be supplemented by organizing support for ancillary activities and knowledge dissemination. Farmers training centers, village knowledge centers, RUDSET as set up by a few banks will need multiplication for ensuring sustainable development. With the gradual mushrooming of SHG programmers in the rural areas, there is a need for scaling up to cover productive loans while ensuring that the process of group formation and capacity building is given sufficient time to allow social capital and democratic processes to take root.
OBJECTIVES OF THE STUDY

This study has the main objectives:

- To determine the level of awareness of people in various financial products and services and more importantly quality as a factor of financial inclusion.

- To study the impact of SHG bank linkage program & low income people on promotion of financial inclusion in rural and urban areas in term of access to banks, saving and loan by the SHG members.

- To make suggestions for improvement of the present situation which will lead to sustainable development?

STATEMENT OF THE PROBLEM

Financial exclusion is excluding people without of affordable credit, savings, insurance assets and money and bank advices. The financial excluded section largely comprises marginal framers, landless laborers, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior sector and women. To achieve greater financial inclusion, financial services should reach the poor of socially excluded group’s particularly poor people micro finance banks and other financial institution has played a vital role in filling up this gap. This study helps us to know the financial inclusion position, awareness level, towards no frills account and saving and credit behavior of the low income groups.

RESEARCH DESIGN AND METHODOLOGY

The research shall focus on the problems they face with regard to basic banking needs and identify a range of particular difficulties likely to be faced relating to the use of bank accounts, products and services. The study is analytical and exploratory in nature and makes use of Secondary data. The data of the study has been collected mostly from the secondary sources. The secondary data have been collected from various publications and different government and non-governmental sources. The data collected from secondary sources have been suitably edited, analyzed and interpreted according to requirement of the study. The purposes of the study are to provide a critical review of evidence about low-income and at-risk people on how their financial capability is measured, what programs are used to promote their financial literacy, and what evaluations of the programs uncover about them.

THE ROLE OF COMMERCIAL BANKS

‘Banking’ activity involves acceptance of deposits and lending for investment of money. It facilitates business activities by providing money and certain services that help in exchange of goods and services. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. Banks have an important role in helping people to deal with financial distress. People earn money to meet their day-to-day expenses on food, clothing, education of children, housing etc. They also need money to meet future expenses on marriage, higher education of children, a building of their own and other social functions. These are heavy expenses in the long run which can be met if some money is saved out of the present income. Savings is also necessary to meet the exigencies of old age and ill health when it may not be possible for people to work and earn their living. People who wish to borrow money for business and other purposes can also get loans from the banks at reasonable rates of interest. On the basis of their deposit, the banks also grant loans and advances to farmers, traders and business men for productive purposes. The rate of interest is generally higher than the rate of interest allowed on deposits. Fees are also levied for the various other services rendered to the business community and public in general. Therefore banks contribute to the economic development of the country. In order to understand the relationship of banks and the environment, the basic role of a bank is to receive funds from customers by way of deposits and allocate these funds where there is a need or shortage of capital, which is called financial intermediation. However through the evolution of financial services, the role has a broader means so as to include among others, consumer credit, mortgage leasing, treasury, securities trading and insurance. Finance is universally acknowledged as the most important contributor to growth and empowerment in modern day context; financial inclusion has emerged as a concept uppermost before government, planners, financial sector players, socio-economic organizations etc. All across the globe, a definition of financial inclusion, embracing all its essential aspects could be like this. “It is the delivery of financial services at an affordable cost to the vast sections of disadvantaged and low income groups.” In the Indian context, a specialty will be the coverage of rural areas as the main target in view of the concentration of these vulnerable groups in such areas. It is true that financial inclusion and poverty alleviation cannot be separated but components like saving, investment, credit, insurance and remittance should be included in financial inclusion.

Moreover, financial inclusion emphasizes the need to include maximum number of people under formal financial systems. The most important part of financial services in a region is typically measured by the number of people who have access to bank accounts. The financial inclusion in the forms of the growth in bank accounts of scheduled commercial banks and the changes below poverty line population. As a poverty education strategy, developing inclusive financial systems should be given priority, which is financially and socially sustainable.

The role of commercial banks for sustainable development is linked to increased savings mobilization and credit provision in rural areas which allows rural households to better accumulate capital and to obtain loans for longer term productive investments. Interest rates on loans and deposits are attractive relative to those available in informal markets.
THE ROLE OF BANKS IN FINANCIAL INCLUSION

The economy is presently in a phase of rapidly rising income, rural and urban, arising from an expansion of extant economic activities as well as the creation of new activities including corporate profitability which has exhibited sustainable trends and increasing consumer incomes thereby riding on the growth momentum. All of these developments suggest that the demand for financial services, both for savings as well as production purposes, will be greater than has been the case in the past, and there will be many new entrants in need of financial services who have not hitherto been served. Financial inclusion as a topic has attracted global attention in the recent past. For our own country where almost 70 percent of population lives in the rural areas and engages in agriculture and allied activities, financial inclusion assumes paramount importance indeed, and is an utmost necessity for a country where a large number of the world’s highest poverty stricken population resides.

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CONCLUSION

Financial inclusion becomes a major pre-requisite to poverty alleviation. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts and service them through a variety of channels by leveraging on information technology. However, improper repayment need for additional workforce, time consumption, high cost and illiteracy are continued to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting full fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote area. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the Inclusive Growth.

SUGGESTION

- India needs to develop a low-cost bank branch model, possibly attached to village post office.
- Bank should open small extension counters at organization providing public utility services such as local schools, primary health care centre, village mandies, farmers association and bus stops etc.
- Reserve Bank and Government should give the suggestion to commercial banks to promote the financial product and services of banking through all the educational institution (primary, secondary & higher secondary)
- The RBI should mandate that commercial banks have a certain percent of their portfolio in small loans. In addition, important social considerations should be factored into loan decisions. The children have to be attending a school before they are eligible for a loan. Similar conditions should be imposed for eligibility of loans in India. The government could also add extra incentives to lend in Rural areas
- India needs to expand the current business correspondents model to allow microfinance institutions, NBFCs and other profit-powered companies to use correspondents.
- The government of India should help develop financial literacy among the population, particularly in low-income families. That can be done by teaching it in primary schools, high schools and colleges.
- Telecom companies should be allowed to provide payments and money transfer services.
- The community-based financial systems like the chit funds need to be revived and strengthened. They serve as a very useful savings and credit function and result in local growth and employment.
- Post office employees should be trained and given incentives to market savings, investment and pension products. Some of these products have already been developed by the post office but have not been marketed effectively.
- The banks should step up to over whelm all these problems and to disseminate its service to remote area. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness
programme etc. to achieve the Inclusive Growth. 
We must promote the financial inclusion aggressively to serve our own low-income families but also to show ways to improve the life of poor people around the world.

REFERENCES