

## **Role of Indian Banking Sector in Promoting Financial Intermediation**

- (i) Archana Barabde, PhD Scholar, Mansarovar Global University, Sehore , Madhyapradesh
- (ii) Prof. Dr. Gurdip Singh, Professor and Director , Department of Management , faculty of commerce and management Mansarovar Global University, Sehore , Madhyapradesh

### **Abstract:**

Banking sector plays a cardinal role in the development process of a nation's economy. Their effort in enhancing the financial literacy cannot be ignored, as financial inclusion boosts the confidence in our rural community. The extent of financial intermediation in the economy can be gauged by examining financial development, structure, and pattern of savings amongst the class of people, particularly the households. The main purpose of this study is to examine the role of Indian banking sector in promoting financial intermediation. To understand a little bit more, in this study two schemes viz., PMJDY and PMMY were taken. Data were analyzed and results were reported zone wise. Among all the zones, East seem to have taken the lead in promoting the scheme. Further in terms of PMMY too, all the financial intermediaries have played their role in going to the grass roots and really making it happen. Even though it's a great achievement for an country with very vast and diverse population, we have more to achieve before we make tall claims.

*Keywords: Financial Intermediation, Banking sector, Efficiency, Policy initiatives, Inclusive banking*

### **Introduction:**

It has been well documented in the literature that a well- functioning financial system is the one of the main drivers of an economy. In an emerging economy like India, the banking industry seems to be the dominant player in the financial service sector. Over the last three decades, the Indian banking sector seems to have played an active role in channelizing the funds from parties with surplus to those who need capital. In other words, banks seem to have efficiently performed the role of financial intermediaries, thus allocating the funds from savers to lenders. However, the extent of coverage does not seem to be encouraging. On review, it has been reported that a large portion (50%-60%) of citizens seem to be far away from having access to a formal banking system.

Majority of our population resides in rural areas and overtime the presence of banking in backward areas seem to have grown manifold. However, one of the main roadblocks seems to be the economic participation at the grass root level. Therefore, to accelerate growth, it is important to figure out the bottleneck and address the same, thereby ensuring that access to formal banking system is made available to every citizen at the appropriate time.

This chapter focuses on stressing the importance of inclusive banking which is a major challenge faced in an emerging economy like India. Further this study also provides suggestions to enhance the efficiency of Indian banking

## **II. What is Financial Inclusion?**

Financial inclusion has been defined as “Process of promoting affordable, timely & adequate access to a wide range of regulated financial products & services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education, with a view to promote financial well-being as well as economic and social inclusion.” (OECD).

### ***Inclusive Banking***

Inclusive banking refers to providing access to financial services to all the sections of the society. In other words, the focus will be on enhancing the reach of the financial services to lower strata of the society at an affordable cost. Sustainable growth can be achieved through inclusive banking as the bank have presence in rural areas.

The cooperative movement has been one of the good initiatives to reach out the banking activities to remote places. This had taken a long way in reaching out to a large section of people and providing them with funds for farming activities. However, this alone could not completely solve the problems of needy borrowers, as the moneylenders were providing quick funds on hard terms.

### ***What banks can do?***

The banks have a major role in tackling financial exclusion. They need to facilitate access to banking and providing affordable credit and effective counseling to deprived sections of the society. In order to achieve this, productive investment must be made in the sectors like agriculture, health care, education, sanitation etc.

## **III. Importance of inclusive banking in economic development**

- (i) Easy access to formal channels of finance which are safe and convenient.
- (ii) Encourage financial institutions to come up with new products and services at an affordable cost.
- (iii) Empower rural population to benefit from low cost source of finance from the formal banking system.
- (iv) To develop an extensive network of credit delivery among the borrowers.
- (v) To support and promote alternative sources of saving the surplus funds by collaborating with systematic investment, Non-banking financial companies and other institutions.

## **IV. Policy initiatives**

The Government of India has been introducing several schemes to provide social security to the less fortunate sections of the society. After a lot of planning and research by several financial experts and

policymakers, these schemes have been launched over different years. Some of the initiatives include (i) Micro finance, (ii) Kisan credit card, (iii) Pradhan Mantri Jan Dhan Yojna, (iv) Pradhan Mantri Mudra Yojna etc. to name a few. Among these the last two deserves special attention and its high time to examine the effectiveness and the reach in an emerging economy like India.

### (i) Micro finance

Microfinance programs have enabled thousands of women to use small sums in creative and successful ways to develop livelihoods, improve their families' well-being, and build up savings.

### (ii) Kisan Credit Card (KCC)

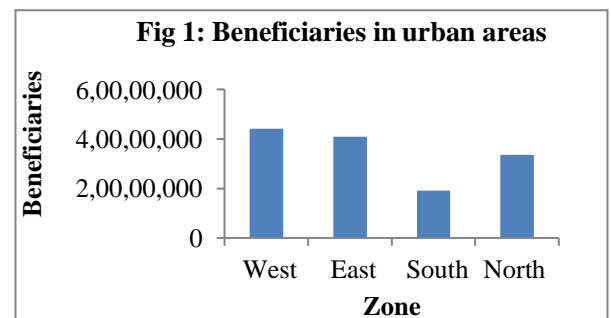
The KCC scheme has been introduced to ensure that the credit requirements for farmers in the agriculture, fisheries and animal husbandry sector were being met. This has been done by helping them avail short-term loans and provide them with a credit limit to purchase equipment and for their other expenses as well.

### (iii) Pradhan Mantri Jan Dhan Yojna (PMJDY)

Pradhan Mantri Jan Dhan Yojana introduced on 15th August 2014, focuses on providing inclusive banking to all households, access to credit, insurance, and pension facility. Since its almost seven years in existence, its imperative to examine the coverage and the impact of PMJDY. The zone wise number of beneficiaries in rural areas is reported in Table 1. It is found that among other zones, East seem to have had the highest number of beneficiaries, while South seem to be least covered. However, on comparing the beneficiaries in urban areas, the results seem to be different.

Table 1: Beneficiaries (Zone wise)		
Zone	Number of beneficiaries in rural areas	Proportion
West	67758571	24.46%
East	119253386	43.04%
South	24031998	8.67%
North	66011927	23.83%
<b>Total</b>	<b>277055882</b>	<b>100.00%</b>

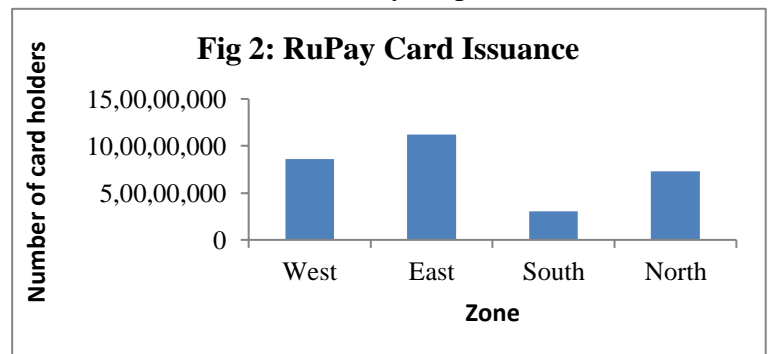
West zone had the highest beneficiaries followed by East with 30%. South zones seem to be the lowest even in the case of beneficiaries in urban areas, even though the numbers seem to higher as compared to the rural base. Going by the percentage, West zone had 32%, followed by East (30%), then North (24%) and finally South (14%). While comparing the beneficiaries(rural and urban areas



As is known, PMJDY purpose has been to facilitate the people from all walks of life to access and avail the formal banking system. Accordingly, data from the number of beneficiaries alone will not be meaningful unless we do not see the average bank balance maintained in such accounts. The results are reported in Table 2. It is found that East zone seem to be better off as compared to the rest. The total amount came to 49471.18 crores which is 35% of the total. The North zone seem to be in the second position as far as this dataset is concerned. It had 40123.83 crores which amounted to 28.48% of the total amount. Similar trend has been reported in the South zone which had the lowest balance too.

Table 2: PMJDY account balance (Zone wise)		
Zone	Account balance (in crores)	Weightage
West	37151.74	26.37%
East	49471.80	35.11%
South	14154.15	10.05%
North	40123.83	28.48%
Total	140901.52	100.00%

Finally to examine whether RuPay card issuance and reach have had any impact on the number of beneficiaries, data were collated zone wise. Results are reported in Figure 2. Results report that East zone had the highest number accounting to 37% of the total, followed by West Zone (28%). One of the arguments for lower number of beneficiaries in South zone could be the lower penetration of RuPay cards.



#### (iv) Pradhan Mantri Mudra Yojna (PMMY)

PMMY schemes are aimed at increasing the confidence of young, educated, or skilled workers who would now be able to aspire to become first generation entrepreneurs; existing small businesses, too, will be able to expand their activities. Under PMMY, there are three classifications (i) Shishu, (ii) Kishore and (iii) Tarun. The classifications are based on the ticket size. As for Shishu, the loan amount is upto 50000, while for Kishore it is

between 50000 to 5 lakhs. Finally, for Tarun the ticket size ranges from 5 lakhs to 10 lakhs. The data were collated zone wise and had been analyzed to examine the number of accounts and the amount disbursed for each (Shishu, Kishore and Tarun). The results are reported in Table 3. Going by the first

Zone	Table 3: PMMY -Shishu Scheme (Zone wise performance)			%
	Number of Accounts	%	Disbursement Amt (in crores)	
West	6756909	10.7%	13491.38	11.2%
South	9458234	15.0%	18928.57	15.7%
North	5183085	8.2%	9970.58	8.3%
East	41704494	66.1%	78286.09	64.9%
Total	63102722	100.0%	120677	100.0%

scheme, it is found that, East zone has been dominating both in terms of number of accounts as well as disbursement. Among the lot, the least seem to be reported in the North zone. Further it was also found that NBFC's have played a significant role as financial intermediaries in promoting this scheme.

The performance of PMMY Kishore Scheme is reported in Table 4. On a general note, it can be stated that the results do not seem to vary much. East zone seems to be the dominating one as compared to all other zones. Further consistency also is seen in terms of accounts as well as disbursement, which seems to be different in all other zones.

Zone	Table 4: PMMY -Kishore Scheme (Zone wise performance)			
	Number of Accounts	%	Disbursement Amt (in crores)	%
West	331913	8.6%	7134.61	9.3%
South	623470	16.1%	11446.59	14.9%
North	331365	8.6%	7369.8	9.6%
East	2584012	66.8%	50801.12	66.2%
<b>Total</b>	<b>3870760</b>	<b>100.0%</b>	<b>76752.12</b>	<b>100.0%</b>

Among the four, North zone seems to stand out for one reason that the disbursement amount seems to be marginally better off as compared to the number of accounts opened under Kishore scheme. Further it was also found that Public Sector Banks (PSBs) have played a significant role as financial intermediaries in promoting this scheme.

Finally, the performance in terms of accounts opened as well as loan sanctioned under the PMMY Tarun scheme is reported in Table 5. It is seen that as is seen for all other schemes; East zone is having higher

numbers in both aspects. One of the striking features of this scheme as compared to the rest is that, the proportion of both indicators (number of accounts as well as loans seem to be

Zone	Table 4: PMMY -Tarun Scheme (Zone wise performance)			
	Number of Accounts	%	Disbursement Amt (in crores)	%
West	91657	11.8%	6835.1	12.1%
South	98208	12.7%	6868.55	12.2%
North	93004	12.0%	6950.93	12.3%
East	492016	63.5%	35635	63.3%
<b>Total</b>	<b>774885</b>	<b>100.0%</b>	<b>56290</b>	<b>100.0%</b>

more or less closer for all the three zones apart from the East. Probably one can infer that, Tarun- scheme which

provides a higher ticket size has been accepted by all the zones in a similar manner. Further it was also found that like in the case of the earlier scheme (Kishore), here also PSBs have played a significant role in promoting this scheme.

## V. Five ways to improve the effectiveness of the schemes

- Do not follow “one size for all approach”. In other words, offer tailor made schemes to suit the target segment.
- Women entrepreneurship can certainly go a long way in enhancing usage of the schemes. Accordingly, introduce differentiated services to attract women into the main stream business.
- Allocative efficiency can be certainly enhanced by organizing financial literacy programmes on a continuous basis.
- Equip, empower and educate the larger masses on the role of digitization in financial services.
- To encourage the usage of mobile/app based application, provide financial incentives, as it makes life simpler and easier both for consumers as well as business people.

## VI. Conclusion

Inclusive finance is the only way to have an organic growth in an emerging economy like India. For which role of banking sector in economic development cannot be undermined. With a clear focus and a planned strategy, the GoI has initiated a series of schemes to promote financial development. Without any doubt it can be said that the intention is clear and on the right track. The analysis of two new schemes viz., (i) PMJDY and (ii) PMMY reveals the zone wise distribution. In all cases, East zone seems to have been doing very well as compared to all other zones. Further the role of NBFC's also cannot be undermined. Certainly, it's a great achievement, however there is more to go. It is high time to do a self-evaluation for the financial intermediaries in other zones and see where they lack and why.

This being an introductory chapter, has not delved into the state wise performance and their role in promoting these schemes, which certainly shall be the direction for future research.

## References

Financial Inclusion URL: <https://www.bankbazaar.com/personal-loan/financial-inclusion.html> (Accessed on Jun 01, 2021)

URL: <https://www.empowerwomen.org/en/resources/documents/2016/11/financial-inclusion-and-womens-economic-empowerment?lang=en> (Accessed on June 02 2021)

URL: [Department of Financial Services, the Ministry of Finance, GoI](#) (Accessed on May 12 2021)

PMJDY scheme Url: <https://pmjdy.gov.in/statewise-statistics> (Accessed on June 15 2021)

URL: [https://www.researchgate.net/publication/348252006\\_THE\\_IMPACT\\_OF\\_FINANCIAL\\_INCLUSION\\_ON\\_GROWTH\\_OF\\_THE\\_BANK\\_IN\\_INDIA](https://www.researchgate.net/publication/348252006_THE_IMPACT_OF_FINANCIAL_INCLUSION_ON_GROWTH_OF_THE_BANK_IN_INDIA) (Accessed on June 5 2021)

Financial Inclusion URL: <https://www.bankbazaar.com/personal-loan/financial-inclusion.html> (Accessed on June 10 2021)