**Master’s Thesis**

**On**

**“ROLES OF INDIAN COMMERCIAL BANKS FO FINANCIAL INCLUSION"**

**School of Business**

**Galgotias University**

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**Introduction**

As you stroll through the bustling streets of any town or city, you've likely noticed the prominent signboards adorning various buildings: Punjab National Bank, Canara Bank, United Commercial Bank, State Bank of India, and the like. Ever wondered what lies behind these names? Stepping into one of these buildings, you'll find bustling business offices, with employees stationed behind counters, tending to visitors who come seeking financial transactions. Some are depositing money while others are withdrawing it, each counter serving its purpose. Beyond these counters, officers occupy tables and chairs, diligently managing the affairs of the bank. And tucked away in a small partitioned room is the manager, poring over paperwork. This, in essence, is what we commonly refer to as a 'bank'. Let's delve deeper into the world of banks and their myriad activities.

In our daily lives, we earn money to full fill a plethora of needs – from basic necessities like food and clothing to more long-term goals such as education, housing, and significant life events like weddings. Accumulating savings from our current income becomes crucial to meet these expenses, along with provisions for unforeseen circumstances like old age and health issues, when earning may no longer be feasible.

The concept of saving money dates back to ancient times, where individuals used to stash away their earnings within the confines of their homes. While this practice ensured accessibility to savings when needed, it also posed risks such as theft and loss. Hence, arose the necessity for a secure place where money could be safeguarded and accessed when required. Banks emerged as the solution, offering people a reliable avenue to deposit their savings with the assurance of withdrawal at their convenience. Moreover, banks extend their services beyond mere safekeeping, facilitating loans for various purposes to individuals and businesses at reasonable interest rates.

**Literature Review**

The report primarily aimed to speed up the efficient and effective provision of credit to rural farming and non-farming sectors. To achieve this objective, the committee suggested recommendations based on three models: the business facilitator model, the business correspondent model, and the microfinance model. The RBI in 2005 promoted financial inclusion using the business facilitators/business correspondent model, inspired by Brazil's success. Despite attempts to expand banking services through credit facilities in rural areas, a considerable portion of the rural population still lacked access. This gap resulted from various factors, such as the declining performance of rural branches of Scheduled Commercial Banks (SCBs), the divergence of Regional Rural Banks (RRBs) from their social responsibilities, and weaknesses in the cooperative credit system. The RBI report also identified both supply and demand-side reasons for the limited reach of banking services in rural areas.

In 2008, the Government of India (GOI) evaluated financial inclusion as a strategy to provide financial services to disadvantaged and low-income groups affordably. The recommendations outlined in the report emphasized several key areas. Firstly, financial inclusion should ensure access to mainstream financial products. Secondly, banking and payment services should be available to all members of the population without discrimination. Thirdly, there should be an emphasis on promoting sustainable development and generating employment in rural areas. Fourthly, the report suggested establishing a National Mission on Financial Inclusion (NMFI) to lead efforts toward achieving universal financial inclusion within a specific timeframe. Additionally, the committee proposed creating two funds managed by NABARD – the Financial Inclusion Promotion and Development Fund, and the Financial Inclusion Technology Fund. These funds aimed to improve the credit absorption capacity of impoverished and vulnerable segments of society and facilitate the efficient use of technology to promote inclusion. Overall, the report highlighted the importance of financial inclusion as a means to foster inclusive economic growth.

## Financial Exclusion

Financial Exclusion pertains to a segment of the population or specific individuals who lack access to essential financial services. The concept gained attention in the early 1990s in Europe when geographers observed disparities in the utilization of financial services among different regions within a country. These regions were often economically disadvantaged compared to those with greater financial service usage. Over time, the term evolved to encompass individuals who were excluded from financial inclusion, regardless of geographical location.

1. **Insufficient financial knowledge:** The lack of understanding about the advantages of banking, coupled with illiteracy, poses significant barriers to achieving financial inclusion. This lack of financial awareness is particularly risky as newly included individuals must be effectively integrated into the formal financial system.
2. **Accessibility to informal credit sources:** Many individuals with low incomes find the alternative credit options offered by moneylenders and pawnbrokers more appealing and convenient compared to obtaining a loan from a commercial bank. For those without property as collateral, accessing credit from formal institutions becomes exceedingly difficult.
3. **Limited income:** A substantial portion of the impoverished population earns low wages, making the prospect of opening a bank account and making withdrawals seem impractical. Since many low-income individuals do not engage in significant spending that necessitates borrowing from formal sources like banks, they prefer to retain their daily earnings at home rather than depositing them in a bank.

#### The Reserve Bank of India (RBI)

The Reserve Bank of India (RBI), also known as Bhartiya Reserve Bank in Hindi, functions as India's central bank. Established on April 1, 1935, under the Reserve Bank of India Act, 1934, its Central Office was initially situated in Kolkata before permanently moving to Mumbai in 1937. Originally under private ownership, the RBI became wholly owned by the Government of India after its nationalization in 1949.

DR. Duvvuri Subbarao, who assumed office on September 2, 2008, succeeded Yaga Venugopal Reddy as the current Governor of the RBI. The establishment of the Reserve Bank was recommended by the Hilton Young Commission, which submitted its report in 1926, although the bank was not established until nine years later.

**Function of reserve bank of India:**

* Manage currency notes exceeding one rupee.

 • Applicable to governmental, state, commercial, and cooperative banks.

 • Governed by monetary regulations.

 • Guidelines concerning the rupee's exchange rate.

 • India's representation in the International Monetary Fund (IMF).

## Objective of the study

The main focus of this study is to evaluate the level of financial inclusion and awareness within the population. In pursuit of this objective, the research has outlined the following specific goals:

1. Assess the initiatives and strategies implemented by Indian commercial banks to promote financial inclusion.
2. Evaluate the effectiveness of various financial inclusion programs and products offered by commercial banks in reaching the target population.
3. Analyse the challenges and barriers faced by commercial banks in achieving full financial inclusion in India.

**Chapter 3**

**Research Methodology**

The study gathers necessary data from both primary and secondary sources. Secondary sources include published books, periodicals, and journals, which also aid in formulating the questionnaire for collecting primary data. Primary data is acquired through a structured questionnaire administered to a sample of 40 respondents from various occupational backgrounds residing in the NFL Society of Uttar Pradesh State.

**The Indian banking sector has witnessed robust growth in recent years, particularly in credit off-take.**

Credit expansion has sustained its upward trajectory, propelled by consistent growth in retail lending and an increasing demand for corporate loans. This upward trend is expected to persist into FY23, although it may be moderated by inflationary pressures and potential interest rate hikes.

Meanwhile, deposits have also been on the rise, albeit at a slower pace compared to credit disbursement. The significance of deposit growth has been highlighted amid tightening liquidity circumstances, emphasizing the importance of stable deposit accumulation for financial institutions.

**Chapter 4**

# Data analysis and interpretation of questionnaire

**1-When asked about their how many members they have in their family .**

## Family size

FS-4

FS-3

FS-7

FS-6

FS-5

4(42%)

3(7%)

7(10%)

6(18%)

5(23%)

### Interpretation: -

* The majority, comprising 17 individuals (42%), reported having a family size of 4.
* Family size of 3 was the least common, with only 3 individuals (7%) indicating such.
* Family sizes of 5, 6, and 7 were reported by 9 (23%), 7 (18%), and 4 (10%) individuals respectively.

**Top of Form**

**2. How many of them are earning?**

|  |  |
| --- | --- |
| EM  | No. |
| Families having 1 EM | 30  |
| Families having 2 EM | 7  |
| Families having 3 EM | 3  |

**Interpretation**30 families, constituting 75% of the total, had a single earning member.

 Families with 2 earning members accounted for 7, or 17%, while only 3 families, representing 8% of the total, had more than 2 earning members.

30

7

3

number

1

 Earning member

2

 Earning members

3

 Earning members

**3.About Monthly Expenditure**

|  |  |
| --- | --- |
| <20000  | 8  |
| 20000-40000  | 27  |
| 40000-60000  | 4  |
| >60000  | 2  |

**Monthly Exp. Number of**

0

5

10

15

20

25

30

Chart Title

Number of families with this income

**Families**

### Interpretation: -

8 families, comprising 20% of the total, had a monthly expenditure of less than 20000. 27 families, making up 67%, had monthly expenditures ranging between 20000 and 40000. 4 families, accounting for 10%, fell within the expenditure bracket of 40000 to 60000, while only 2 families, representing 5%, had monthly expenditures exceeding 60000.

Top of Form

4. **Do you have any bank a/c:**

19(47 %) of respondent said yes, 21(53

**47**

**%**

**53**

**%**

Yes

No

%) of respondent said no

### Interpretation:-

Out of the 40 respondents surveyed, 19 individuals, or 47%, reported having a bank account, while 21 individuals, constituting 53%, indicated that they did not have a bank account.

5. **Are you interested to have a bank A/C?**

From 40 respondent 28 respondent said yes ,12 respondent said no



### Interpretation: -

Out of the 40 respondents, 28 individuals, constituting 70% of the total, responded affirmatively, while 12 individuals, accounting for 30%, responded negatively.

Top of Form

6.**If yes what tempted you to have a bank A/C?**



### Interpretation: -

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The majority of respondents expressed temptation towards utilizing funds for interest, medical expenses, educational costs, social expenses, and investments for the future.

Top of Form

7. **Do you know about the social security?**

**90**

**%**

**10**

**%**

**yes**

**no**

10% of the respondents, which is equivalent to 4 individuals, answered affirmatively, while 90% of the respondents, totalling 36 individuals, answered negatively.

Top of Form

8. **Do you know about micro insurance?**



69 %( 28) of respondent said yes,

31 %( 12) of respondent said no

1. 9. **Do you think that every bank should have the following things in place to enable financial inclusion?**

Customer service desk/may I assist you counter

Credit advisory centre

Mandatory provision of basic accounts by all banks

Top of Form

The survey results indicate that 53% of respondents favored the compulsory establishment of customer care or "may I help you" counters. Regarding "No Frills accounts," 24% believed that every bank should be mandated to offer them. Additionally, 23% expressed the need for at least one credit counseling or financial education center in their area

 **Compulsory no frill account offering from every bank compulsory customer care center credit counseling center**

**24**

**%**

**53**

**%**

**23**

**%**

10. **What are the most effective means, you feel for financial empowerment:**

**Options Number**

|  |  |
| --- | --- |
| Classifying the difference between needs &wants  | 2  |
| Instructing the habit of regular saving  | 8  |
| Making use of services offered by banks & other financial institutions  | 2  |
| Understanding the importance of consistency in saving and its long term benefit  | 12  |
| Awareness on availability of various financial products and services &its usage  | 16  |

**Interpretation**:

Among the 40 respondents surveyed:

1. Only 2 individuals (5%) believe that distinguishing between needs and wants is the most effective method for financial empowerment.
2. 8 respondents (20%) believe that cultivating the habit of regular savings is the most effective approach.
3. Another 2 individuals (5%) think that utilizing services provided by banks and other financial institutions is the key to financial empowerment.
4. 12 respondents (30%) feel that understanding the significance of regular saving and its long-term benefits is the most effective means.
5. The majority, comprising 16 respondents (40%), believe that awareness of the availability of various financial products and services and their usage is the most effective approach to financial empowerment.

**Suggestion**

* Banks should develop specific strategies to expand their services and promote financial inclusion effectively.
* Improving financial literacy is crucial, targeting the remaining 53% not yet integrated into mainstream banking, through initiatives like offering basic bank accounts.
* Implementing a decentralized banking system can make small banking operations more viable, requiring flexibility and independence.
* Tailoring products and services for excluded segments, such as self-employed individuals and daily wage earners, is essential, with Business Correspondents (BCs) facilitating banking.

**Conclusion**

* Financial Inclusion, a vital concept in today's banking landscape, entails providing financial services to all sectors of society. This involves not only granting access but also ensuring active participation, which is greatly influenced by education levels. Achieving an inclusive economy is imperative for modern globalized economies, requiring enthusiasm and foresight.
* Extending banking services to underserved populations may seem initially unprofitable, but even small margins on large volumes can yield significant profitability. Lack of knowledge and membership in low-income groups are cited as primary reasons for not having bank accounts, alongside concerns about charges and customer service.

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