APPROACHES TO FINANCIAL INCLUSION-
A CASE STUDY OF DELIVERY MODEL OF JAMMU & KASHMIR BANK

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INTRODUCTION

Indian economy in general and banking services in particular have though made rapid strides in the recent past, yet 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. In order 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. Financial inclusion is a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them. In India Financial inclusion will be good business ground in which the majority of her people will decide the winners and losers. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of the efforts to promote inclusive growth. In other words, providing access to finance is a form of empowerment of the vulnerable groups. Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups and the various financial services include credit, savings, insurance and payments and remittance facilities. Financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It means the delivery of banking services and credit at an affordable cost to the vast sections of disadvantaged and low income group in reference to -

- General Saving Accounts
- “Zero” balance Saving accounts under Social pension scheme & NREGA scheme
- Term deposit bank accounts
- Financial Advice
- Affordable Credit
- Payment & Remittance
• Insurance –Life & Non-Life
• Basic “no frills” bank accounts for receiving payments/ saving/ deposits
• Small loans/ overdraft facilities
• Money transfer facility
• “Saving Ujjala A/c” with “zero” balance for saving or receiving payments from Govt. under NREGA Scheme
• Small loans to Self Help Groups
• Small loans to unemployed under government sponsored schemes

It has been observed from the literature review that an inclusive financial system allows broader access to financial services and would lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. Increasingly, with the proliferation of micro finance initiatives, there is evidence that inclusive financial systems can empower poor households socially too, through graduated credit. The inclusion of all sections of society in the financial system has become one of the central planks of financial policy in developed as well as developing countries in recent years. In India, there has been a concerted effort to promote the inclusion of our uniquely termed ”weaker sections” into that system. Micro Finance activity has grown rapidly due to ability to reach out to the poor, promise of financial sustainability, the potential to build on traditional system, provision of informal & flexible financial services to the poor for livelihood needs, availability of financial products as a result of innovation, provision of collateral free micro credit to the poor.

From literature review, it is observed that Microfinance is the provision of thrift credit & other financial services & products of very small amount to the poor in rural, Semi-urban and urban areas for enabling them to raise their income levels and improve living standard. Micro Finance institution (MFI) can be non-profit organization, regulated financial institution or commercial bank- that provides micro finance products and services to low income clients. There exist a number of challenges ahead in proper implementation of Micro Finance, viz. appropriate legal structure for the structured growth of Micro Finance operation, ability to access loan funds at reasonably low rates of interest, ability to attract & retain professional and committed human resource, design of user friendly software to tracing accounts and operations, capacity to provide backward linkages or create support structures for marketing. According to RBI, Bank should not demand for the collateral securities, but B.U.s (Business Units, previously called branches) of Banks insists for these securities for even these small loans .Due to profit target of every B.U of the Bank, B.U. focuses on bigger loans & deposits cases rather than on these cases under Micro Finance. For successful implementation of Micro Finance it is needed to design financially sustainable model. There should be community participation and ownership with increase outreach and scale up operations. It is required to make demonstration that banking with
the poor is viable by building professional system and processes to ensure transparency and enhance credibility through disclosures which will support for capacity building initiatives.

MICROCREDIT

Micro is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor.

Approximately 400 million people in India living below or close to the poverty line, could be roughly translated into 75 million households out of which around 60 million are rural household. So poverty in India has predominantly a rural character. While there are several structural dimensions to the rural poverty it is generally accepted that it arises due to the lack of capital or lack of surplus. The rural poor is perpetuating poverty and is the victims of the "vicious cycle of poverty"

Therefore, the Poverty Alleviation Interventions policy prescription tries to break this cycle of poverty through infusion of credit. It is believed that one, two or three doses of credit infusion could break the cycle. Hence, credit has remained a major policy thrust for rural poverty alleviation. Three major components are common in all institutional rural credit system, which remained constant since the 1950s. The Rural Credit Programme has three important components - institutionalize credit, enlarge coverage, provide timely and adequate finance. Increased involvement of banks in rural credit in post nationalization era is essentially viewed credit as an integral part of the socio-economic developmental efforts in the rural area and the network of
commercial banks were used especially to enlarge coverage. During the period, banking network has reached a spectacular expansion in the rural India. However, the formal financial systems are not been able to benefit more than half of indebted rural households, despite having a vast network of bank offices-125000 branches of commercial, co-operative, rural banks and non-banking financial institutions.

On the institutional front, shortly after independence, the policy makers recognized the criticality of people’s participation in the development process.

- To ensure the peoples’ participation, the Government intensified banking activities by opening large number of co-operatives in rural areas to provide credit inputs and marketing facilities to farmers.

- Other attempt made by the Government was setting up and strengthening of Panchayat Raj Institutions through 73rd and 74th amendment of the Indian Constitution.

However, many of these institutions were being dogged by financial non-viability. Local level politics inconvenienced with bureaucracy saw these institutions relegated to power centers of the local elite. The bureaucratic interference gave rise to corruption; partisan interests and consequently, people were kept away from these people’s organizations.

The picture would not be completed if one does not mention about the largest poverty alleviation programme-Integrated Rural Development Programme (IRDP) in this context. The IRDP was launched in the year 1979-80 with an aim to target group alleviation of poverty in the rural areas. The programme aimed at reaching the people below poverty line in rural areas through subsidized credit for asset creation. Block level governmental machinery played a key role in implementation of this programme to dispense credit through banks.

However, it is estimated that only about 20 per cent of the borrowers have crossed the poverty line after assistance. The main causes of failure could be put to Credit dispensing bodies; (i) in this case the banks did not have any role in identification of activities and borrowers, (ii) Partisan local political interests had dominated the process.

This patronage led to emergence of middlemen at all levels and corruption. In this permissive atmosphere, it is no wonder that repayment ethics goes for a toss. By the time joint identification committees were set up, the bankers lost interest in the programme.

With the introduction of Prudential Norms of Asset Classification since the early 1990s, bankers started citing the default as the major reasons of non-adherence to implementation target of the programme (it is a different matter that a recent study published in the Journal of Rural Development, April-June 1999, has put a very insignificant correlation between poor recovery performance of banks and their exposure to IRDP and weaker section loans).

**TRANSACTION COSTS IN AVAILING A LOAN**: Opportunity cost of foregone wage because of the repeated visits to government offices and the bank neutralizes the cheap credit and capital subsidy. According to a World Bank study on transaction costs in availing a loan of
average size of Rs7000, the poor borrowers incur about 18.9 per cent towards informal expenses and wage loss. Even after considering all the small loans of the banking system, the situation is still in the nascent stage of access to credit by the people. Small loans account for nearly 93.6 per cent (0.56 million accounts in 1994) of total number of loans and 18 per cent of the total amount. Of these, 80.5 per cent of the total accounts loan is loan outstanding less than Rs7500.

By 1998, the total number of small borrowers is 50 million households. The micro loans cover 40 million households in 2000 (assuming percentage of micro loans below 7500 remaining constant). The remaining 35 million households are perhaps meeting their credit needs from informal sector-landlords, moneylenders, pawnbrokers, traders, relatives etc. Apart from a large unreached people, it implies a process failure and as a result the institutions failed to address issues on distributional social justice. There are two critical criteria for success of any credit programme for the rural poor -such programme should be of high reach and the institutional design should be participatory in nature. In this context, the grassroots organization plays crucial role. The governmental and institutional policies need to be geared towards providing a conducive environment to the poor to develop their own organizations. The growing realization during the decade of 1990s has resulted in growth of people’s organization of various types. If one judges them by the reach and proximity to people, Self-help Groups (SHGs) could be termed as the most prominent among them. Both Government and Financial Institutions are now operating through Non-governmental Organization (NGOs) to develop SHGs. However, even before institutional patronage, NGOs had been promoting this grassroot organization as a platform for social interventions.

Microcredit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh. In that country, it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as pre-bankable; thus, microcredit is increasingly gaining credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun. The United Nations declared 2005 the International Year of Microcredit. Microcredit is based on a separate set of principles, which are distinguished from general financing or credit. Microcredit emphasizes building capacity of a micro-entrepreneur, employment generation, trust building, and help to the micro-entrepreneur on initiation and during difficult times. In the past few years, savings-led microfinance has gained recognition as an effective way to bring very poor families low-cost financial services.

FINANCIAL EXCLUSION IN JAMMU AND KASHMIR STATE

Common Reasons for Exclusion are remote, hilly & sparsely populated areas of Jammu & Kashmir state with poor infrastructure and difficult physical access, lack of awareness, low income, social exclusion, illiteracy, distance from bank branch, branch timings, cumbersome documentation/procedures, unsuitable products, language, staff attitude, higher transaction cost,
ease of availability of informal credit, KYC – documentary proof of identity/ address. These are the demand side handicaps which lead to the financial exclusion.

**SUPPLY-SIDE CONSTRAINTS IN FINANCIAL EXCLUSION**: The other reasons for financial exclusion are the lack of a regular or substantial income and less geographical coverage by banks & MFIs. 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 money lender is easier than getting a loan from the bank as they will have to travel 10 to 15 km to reach a branch. (i) 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. (ii) Moreover, banks give more importance to meeting their financial targets. As all branches of banks focus on meeting quarterly targets and then yearly targets, so their workforce try to finance big units to meet their Advance targets, large sum of deposit for Deposit targets. As they have less time to meet their targets so they focus on larger accounts and find it difficult to make an effort for microfinance. (iii) Banks mostly feared from financing them as many poor people come from far furlong areas so the bank officials do not know them and also due to poor condition of the these poor people.

In sum, it can be said that busyness of bank officials, more traveling distance from target customer, more pressure for meeting the financial targets on official, less knowledge to the employee about the borrower are the main reason for financial exclusion.

**Extent of Financial Exclusion of the Farm Sector**: 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). Farm household’s 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.

**FINANCIAL INCLUSION INITIATIVES BY JAMMU & KASHMIR BANK**

Jammu & Kashmir Bank has initiated a two prong strategy: on the one hand the bank is mobilizing deposits of customers by relaxing KYC norms as per the guidelines of RBI for financial inclusion and on the other hand the bank has partnered with the Government for its e-governance drive. Government of India has initiated its plan of E-Governance in which all revenue records, regional transport records, record of date of birth and death will be on computers. In Jammu & Kashmir state, Government of India has made Jammu & Kashmir Bank its partner for the E-Governance. Jammu & Kashmir Bank has introduced the concept of
Common Service Centre (CSC) - Khidmat Centre in various districts of Jammu & Kashmir State.

In Jammu & Kashmir State, Jammu & Kashmir Bank is opening its CSC in the place where there is no branch of J & K Bank. Any person between the age of 18 to 27 who is graduate having knowledge of computer and having a owned or rented premises can become the entrepreneur for the CSC.

These Common Service Centres or Khidmat Centres will offer the following services-

1. one can get his documents photostat,
2. digital photograph,
3. copy of land record,
4. copy of registration,
5. date of birth certificate,
6. death of certificate,
7. lodge FIR,
8. ration card,
9. deposit small sum of money,
10. withdraw small of money,
11. loan application form,
12. saving account opening forms and
13. most important many information about banks schemes and products. It is very beneficial for the customers.

Many old age pensioners has to come to bank premises for withdrawal of just Rs.200/- or Rs.400/- from their old age pension account which was difficult for them and they also to pay transport charges. Now they will get the money from the CSC at their village. Previously if a laborer wanted to deposit the money in the account in the bank he had to make a loss of his one day wages of Rs100/- to Rs.150/-. Inspite this he had to give fare in the bus. But now he has no need to suffer from the loss, he can deposit the cash at the CSC when he find suitable time, may be at lunch break.

So J & K Bank really solve the one of the main problem of financial exclusion. Moreover the entrepreneur who will run the CSC in the village of these financial excluded people can have
more knowledge about them than bank. He after making inquiry from local people can give loan to him or can recommend the bank to do so.

When all these types of large volume, low business work shifted to CSC then Business units can perform better and would have time to listen the problem of the needy people.

LIMITATION OF THE APPROACH OF J&K BANK:

While financial inclusion can be substantially enhanced by improving the supply side or the delivery systems, it is also important to note that many regions, segments of the population and sub-sectors of the economy have a limited or weak demand for financial services.

In order to improve their level of inclusion, demand side efforts need to be undertaken including improving human and physical resource endowments, enhancing productivity, mitigating risk and strengthening market linkages.

A SURVEY RESULTS

A survey was conducted through direct communication with respondent depositors through personal interviews and structure interviews. So, researcher had taken interview method and structure interview method for collecting necessary information. An interviewed schedule was prepared with a number of questions in a specific order at various branches of the J & K Bank in the J&K state.

The basic objective of the survey was to assess the financial inclusion drive of J&K Bank. An explanatory research design was adopted to conduct the survey to provide a better understanding of the people’s perception of the financial inclusion drive, their expectations from the bank and the degree to which the bank has been able to satisfy their needs and expectations. A sample of 200 respondent depositors were taken in the study giving an appropriate representations to the different segment clusters.

It is found from the survey that less than half respondents know about the Financial Inclusive drive of J & K Bank and had knowledge that they can open an account with Zero balance. Half respondents knew about opening of Saving Ujjala account with initial deposit of Rs.50/- only, as J & K Bank had already opened these accounts of the students of their area. Some children of the respondents were also opened these accounts for getting scholarship for the persons belonging to BPL (Below Poverty Line). Most of the respondent had opened their accounts or would open their account due to getting funds from somewhere, it may be wages under NREGA scheme, old age pension, financial assistance for construction of room under Indira Vikas Yojana or collecting a LIC Cheque (very few). Only 30% respondents opened their accounts during the derive. There is better financial inclusive in deposit side than credit side. Though, banks boosts about giving credit also to poor people but only 10% respondents had loans accounts. It is due to wrong concept about loans in the respondents, less interest of banks in microloans than microdeposit. Some respondents said that it was thought by their elders not to take any loan in their life to live without complexity. They thought that once they took loans, it will never be adjusted, it may be due to their bad experience of credit from un-organised sector. J & K Bank
not only took Financial inclusive initiative in opening Saving-Ujjala account but also implemented it very effectively at operational level as 95% respondents had not faced any difficulty in opening these accounts. As most respondents went to business unit for getting the fund they get from Govt, so opening of these accounts had made a habit of saving in only 25% respondents. Most poor people went to business unit for withdrawal of cash, often once in a two month. That was the reason that 90% respondents did only 1 to 5 transaction in the accounts since opening. Due to less income, 58% respondents saves less than Rs.50/- in a week. As J & K Bank had large network of business unit in J & K, half of the respondents had a business unit at feasible distance to them. As in J& K, Bank had a B.U. approximate at a distance of 25Kms so 54% respondents had a B.U. less than 20 Kms. Before the derive of Saving Ujjala account by J & K Bank, 75% respondents had bank accounts, its all due to getting funds like Old age pension etc. The awareness campaigns organised by J & K Bank were very effective as it helped the 90% respondents in any way. Most of the respondents needed consumer loans than production loan as 90% had a demand of consumer loans.

As already mentioned main reason or habit of opening a account by these people is getting funds from Govt., so 51% did not opened Saving Ujjala account due to said reason.

RESEARCH RECOMMENDATIONS

THE RESEARCH HAS RESULTED IN SOME OF THE FOLLOWING STRATEGIC IMPLICATIONS

1. J&K Bank has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, the bank has not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (i.e. SB Ujjala).

2. The Bank should study the causes of this financial exclusion and design strategies to ensure inclusion of the poor and disadvantaged. The strategy could vary from village to village but all efforts should be made in this direction as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged people of Jammu & Kashmir.

3. Although, the bank claims to have attained 83% financial inclusion in the study area, the survey conducted during the course of the study revealed that only 50-55% inclusion has been attained. Out of 200 people / households interviewed, only 60 had opened accounts during the drive. So, it is apparent that the financially excluded constitute a significant share of population, especially amongst the low-income groups. Greater research needs to be done by the Bank to ascertain how targeting techniques can be improved. Furthermore, such initiatives need to be accompanied by extensive marketing campaigns, which publicize these campaigns and its benefits for the people, especially the underprivileged classes.

4. The daily financial lives of low income families of the study area are characterized by the
regular accumulation of savings, of the order of Rs10 to Rs200, and the occasional need to borrow amounts of Rs500 to Rs3,000 to overcome occasional shortfalls in income. The design of no frills SB-Ujala account should conform well to the saving and expenditure pattern of the people of the place where the drive is being carried out. This will make the account more realistic to the needs of the people.

5. In a few villages, the focus of the bank was confined to ensuring a bare minimum access to bank accounts without frills. At the national level, the financial inclusion has been viewed as a much wider perspective. Also, some of the account holders do not recall having opened these accounts since these accounts were opened without any purpose from the beneficiary's perspective. Having a current account / saving account on its own, cannot be regarded as an accurate indicator of financial inclusion. The need of the time is to ensure a proper follow-up of the accounts opened and to generate some activity in these accounts.

6. Large portion of loans is taken by households for meeting financial emergency, medical emergency and social obligations like marriages, etc. These three purposes amount to 53% of the loans availed by the people. More than 60% of people/farmers are indebted to non-institutional sources. In case of emergency, these people find it convenient to approach non-institutional sources for their credit needs. Financial emergencies, for instance include unplanned expenditure on business, consumption, marriage among others, which may not be financed by banks and other institutional organizations. Need specific loans / credit schemes can attract the people towards the banking sphere.

7. J & k Bank should also demand from the Govt. interest subsidy as other nationalized banks are availing to compete with other banks.

8. Bank’s staff who have to deal with these people in particular, should know the need of financial inclusion for real growth of the country. Policy makers at different levels, - at headquarter level, zonal heads and other staff at zonal office level & even staff at operational level should know that how important the subject is for the progress and growth of bank and the country. This sense of patriotism and belongingness can motivate all the citizens at operational level in the implementation of Micro Finance in its true sense.

To sum up, J&K Bank should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically banking services need to be "marketed" to connect with large population segments and these may be justifiable promotional costs. It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the bank in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The bank would have to evolve specific strategies to expand the outreach of its services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with micro finance institutions and local communities. Bank should give wide publicity to the facility of no frills account. Technology can be a very valuable
tool in providing access to banking products in remote areas. ATMs, cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. Bank needs to redesign its business strategies to incorporate specific plans to promote financial inclusion of low-income groups treating it both a business opportunity as well as a corporate social responsibility. It has to make use of all available resources including technology and expertise available with it as well as the MFIs and NGOs. It may appear that taking banking to the sections constituting "the bottom of the pyramid" may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. The suggestions and recommendations if rightly perceived and properly implemented will certainly go a long way to make the overall financial inclusion drive of J&K Bank more effective and efficient and help the Bank to increase its outreach.

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