

# **A Study on the Initiatives of the Banking Institutions towards Financial Inclusion Drive in the State of West Bengal**

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## **ABSTRACT**

*The ever-evolving concept of financial inclusion in India is all about providing financial services to people who are deprived of banking facilities in the rural areas. The government has endowed this responsibility to the nationalised banks, that have outsourced it to private limited companies. These companies have again outsourced it to various cooperative societies and other Non-Banking Financial Companies (NBFCs) known as 'Business Correspondents'. These Business Correspondents appoint hundreds of Customer Service Providers (CSPs) who oversee the opening of bank accounts of the people in their respective villages. One of such companies, named Atyati Technologies Pvt Ltd based in Bangalore has outsourced this job to Nabadiganta Service Cooperative Society Ltd (NSCS). A random sample of fifty CSPs of NSCS, are taken into consideration. With this vision in mind this paper is an attempt to justify how much of the government's endeavour is successful from the perspective of opening of bank accounts for individuals with low income. A questionnaire, regarding financial inclusion and the problems faced for such inclusion, is asked to the CSPs to observe, and highlight the actual scenario. Certain branches of this Co-operative Society with the Districts of West Bengal are considered in the study. This project is an attempt to focus the problems which might arise while carrying on the process of financial inclusion and to suggest constructive measures to improve the situation.*

*Keywords: Financial Inclusion, Co-operative Society, Customer Service Providers*

“Financial inclusion will be an important element in ensuring access and equity - the necessary building blocks for sustainable growth of our country.”

- Raghuram G. Rajan

## A. Introduction

The former Reserve Bank of India (RBI) chief during his lecture at Financial Inclusion Conference in 2015 shared his ideas on building blocks for sustainable banking through financial inclusion. In 2008, after the recommendations of the Rangarajan Committee [2], banks felt the need for financial inclusion as an effort towards sustainable banking [3]. A constructive step for opening no-frill account was undertaken to reach the rural sectors of the economy in order to inculcate banking habits among the people. The initiative was taken to stop the exploitation of the moneylenders who still forms a major part of the unorganised financial sector. As per Business Standard, approximately, two hundred and sixty million deposit accounts were opened between 2014 and 2016 and the major reason for this was the initiation of schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY), a tool constituted towards financial inclusion. These schemes were made reachable to the rural population through several cooperative societies, non-government organisations and financial awareness programmes organized by the banks. However, such initiatives faced several challenges due to prevailing geographical outreach, absence of bank branches in rural areas, financial illiteracy among the rural people and active participation of unorganised sector.

The study therefore focuses on the critical analysis on the initiatives taken by the cooperative societies to open no-frill account and induce banking habits on the rural population.

Several literatures have been accessed to get an overview of the ideas of researchers towards financial inclusions.

## B. Literature Review

Several enriching ideas on financial inclusion and its economic impacts are discussed below.

Dixit, R., Ghosh, M., (2013), mentioned that states with higher Gross Domestic Product (GDP) have higher rate of financial inclusion and employment, with the only exception of Gujarat where GDP per capita and financial literacy is high, but the rate of financial inclusion is low along with the rate of employment. It also proved that there is no significant connection between the rate of employment and the rate of financial inclusion as the states with higher rate of financial inclusion might not have enough employment opportunity.

Garg, S., Agarwal, P., (2014) analyzed the performances of the past years in order to verify how financial inclusion has been successful in reaching the unbanked areas of India. They were of the opinion that out-of-the-box

service models, and how bank led initiatives, technology-based approach, knowledge- based approach would give suitable results of the Financial Inclusion Program. Kumar, N. (2011) discovered the negative effect of population on bank deposits. He stressed about the fact that there has been a steady increase in the opening of deposit accounts, but the rate of increase is less than the rate of growth in population. Singh, C., Naik, G., (2017) conducted a survey on a rural area near Bangalore, to examine the impact of measures initiated by the Indian government, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD), in recent years. It showed that 96% of the farmers had bank accounts and 25% of them availed loans from banking systems. 75% of the farmers preferred to take loans from money lenders.

Singh, N., (2017) highlighted the recent studies for India, sponsored by the International Growth Centre, which focuses on the various aspects regarding financial inclusion. He focused on specific dimensions of inclusion which included agricultural credit, credit for SMEs, health insurance for the less fortunate people, etc. to show how financial inclusion has been effective in shaping the banking sector of the country.

The above literatures have helped in identifying the research gap, where the paper has majorly focused on.

### C. Research Gap

This project attempts to draw a conclusion from the viewpoint of the institutions who are responsible for opening the bank accounts, i.e., the Customer Service Providers (CSPs). Based on it, the analysis is done which highlights the problems faced by them while fulfilling their duties.

This area has not been addressed in any of the above literatures.

### D. Objectives

Based on the research gap identified above, the following are the objectives drawn for the project.

- To study the growth in the financial inclusion from 2012-2022.
- To ascertain the role of the financial institutions in promoting financial inclusion with the help of the case study of Nabadiganta Service Cooperative Society Ltd (NSCS).

- Analyzing the problems faced by the CSPs and suggesting constructive measures that can be taken by them for smooth functioning.

To fulfil the above objectives, the following methodology has been drawn.

## E. Methodology

The methodology has broadly been categorised as follows.

### a) Time frame

The time-period considered in the project ranges from 2012-2022. Such time period has been chosen because NSCS took this initiative from 2012 onwards.

### b) Data collection

Both primary and secondary data were collected for the purpose of meeting the objectives of the study.

- Primary data

A primary survey of 50 random CSPs of NSCS was done through telephonic conversations with the help of a structured questionnaire. The questionnaire focuses on the extent and range of financial inclusion in rural areas of the state of West Bengal in India. The CSPs were from the districts of South 24 Parganas, Paschim Burdwan, Murshidabad, Hoogly, East and West Midnapore, and Jalpaiguri district branches of NSCS.

List of districts with distribution of respondents:

Districts	Number of Respondents
South 24 Parganas	19
Paschim Burdwan	11
Murshidabad	5
Hoogly	5
East and West Midnapore	5
Jalpaiguri	5

- Secondary data

The general information regarding the importance and extent of financial inclusion was collected from various websites, articles, newspaper reports and the CSP records of NSCS.

### c) Statistical tools used

Following are the brief descriptions of the tools used.

- Descriptive statistics

Bar diagrams are used to compare between different groups of data. Microsoft Excel has been used to form the diagrams.

- Pearson's Chi Square Test

Pearson's Chi square is used to determine the difference of opinion between two responses. Statistical software SPSS Version 20 has been used to test the data.

d) Implications of the study

The study has farfetched implications regarding the change in the scenario of financial inclusion in India. After demonetisation, when the entire financial system of India is moving towards digitalisation, including the unbanked population under the proper banking setup. This study addresses the problems faced while including the unbanked population under the banks and also identifying the need for spreading financial awareness among them.

F. Conceptual framework

Financial inclusion ensures that money in the economy is used judiciously in the production sectors of the economy. This in turn can boost the GDP of the country and will also help in the channelization of financial resources for developing various enterprises.

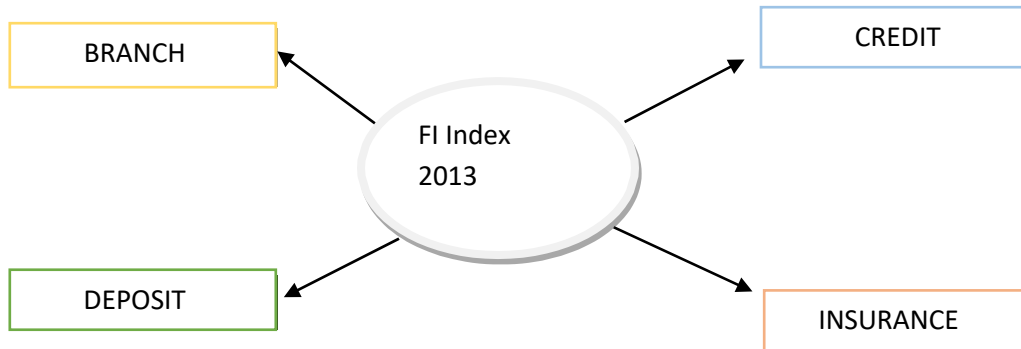
In the year 2005-06, the RBI took the initiative to signify the importance of FI in its annual statement of 2005-06. Later, in 2008, it was taken up as a policy initiative through the recommendation of the Rangarajan Committee. The most noticeable change came with the advent of PMJDY in August 2014.

Many zero balance bank accounts were opened in the rural areas and camps were held in villages to provide them the basic knowledge regarding the benefits of opening a bank account. The government further ensured the operation of these accounts when all the subsidies and allowances were credited directly to the accounts of these account holders.

To make FI more comprehensive, India's first FI index was launched in 2013 which listed four critical aspects:-

- i) Branch Penetration.
- ii) Deposit Penetration.
- iii) Credit Penetration.
- iv) Insurance Penetration

The index was based on the data provided by RBI, Micro-finance Institution Network and the Indian Insurance Information Bureau of India. For the consecutive years, many deposit accounts were opened and small industries started with the help of the credit facilities provided by the people also started to realize about the benefits of insurance which also boosted the insurance companies to establish their identity in the economy.



There are always pros and cons of undertaking a particular project. Similarly, FI has its own set of advantages and disadvantages. So, in order to get a better picture, some of these advantages and disadvantages are mentioned below.

#### Benefits

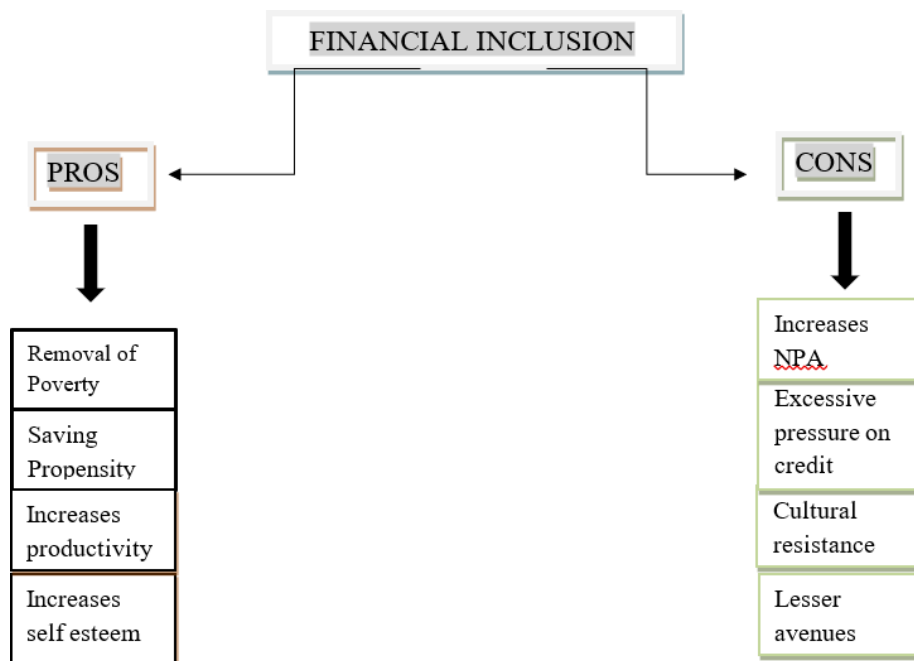
- FI has always aimed at increasing productivity and growth in the economy.
- It helps in reduction of poverty and also increases employment opportunities.
- It facilitates direct distribution of subsidies rather than indirect distribution of the same.
- It helps in implementation of social security schemes, such as old age pensions, widow pensions and so on.
- It gives the accountholders freedom from moneylenders.
- It helps in improving self esteem gives a sense of economic independence and security.
- The low cost deposits results in increased profits which is beneficial to the banks.
- It increases the propensity to save.

#### Challenges

- More than 50% of the accounts under PMJDY remain transaction less which causes a huge financial and operational burden to the banks for maintenance.
- The locals who are still not under the umbrella of FI resists adapting to the

new changes and the developments in these areas also face cultural resistance.

- Latest scenario reveals that excessive pressure on credit facility can drive farmers to commit suicide if they unable to repay the debt due to crop failure or any other unforeseen event.
- There are lesser avenues for utilization of loans for productive results which helps in increasing the GDP of the economy.



## G. Analysis and Findings

The analysis has been made in two steps.

### Step I

For discovering the reach of financial inclusion in rural areas of West Bengal, a survey of 50 Customer Service Providers (CSPs) of Nabadiganta Service Co-operative Society Limited (NSCS) was conducted. The areas covered under the research are the districts of South 24 Parganas, Paschim Burdwan, Murshidabad, Hoogly, East and West Midnapore, and Jalpaiguri. Following results are arrived at:

- The accounts of only nationalised banks are opened. In majority of the places only 50 to 75% of the population is covered till now. Males are having bank accounts which fall under the category, 50 to 75%. Majority of the females are having bank accounts which fall under the category 50 to 75%.

- Since the whole concept of financial inclusion is a government initiative, there is no political interference for any undue advantages in most of the branches.

<b>What types of accounts are usually opened?</b>	<b>Frequency</b>	<b>Percent</b>
FI Account	44	88.0
Savings Bank Account	6	12.0
Total	50	100.0

Table 1: Types of accounts usually opened

Majority of the accounts opened are Financial Inclusion (FI) Account as the income level of the people living in the rural area is significantly low and also because the majority of the people living in the rural area do not have PAN card for opening Savings Bank Account. The following table 2 provides the details of the KYC derived from the respondents. Previously the minimum amount necessary for opening this account was Rs. 100/- and presently it is Rs. 500/-.

<b>KYC (Aadhar Card)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	50	100.0
<b>KYC (PAN Card)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	14	28.0
<b>KYC (Voter ID Card)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	31	62.0

Table 2: KYC requirements for opening such an account

As per government regulations, Aadhar Card is the minimum requirement for opening any type of bank account and hence every person possesses it. In case of opening Savings Bank account, PAN card is compulsory and here it can be seen that majority of the people do not possess a PAN card and hence they are unable to open Savings Bank Account. Voter ID card is just an additional document proof that is taken from the prospective account holders.

<b>Financial Illiteracy</b>	<b>Frequency</b>	<b>Percent</b>
Yes	12	24.0
<b>KYC Complaint</b>	<b>Frequency</b>	<b>Percent</b>
Yes	13	26.0
<b>Income Level</b>	<b>Frequency</b>	<b>Percent</b>
Yes	9	18.0
<b>Internet connectivity problem</b>	<b>Frequency</b>	<b>Percent</b>
Yes	38	76.0
<b>Others</b>	<b>Frequency</b>	<b>Percent</b>
Yes	12	24.0

Table 3: Problems faced while opening the bank accounts



The major problem while opening bank accounts is the internet connectivity problem. Since the bank branches are situated in the rural areas, connection with the server is often found to be faulty and, more often than not, there is link failure. The other problems that follow are KYC Complaint, financial illiteracy and income level of the account holders.

In most of the branches, 5 to 10% of the accounts are becoming inoperative day by day, followed by more than 10% in many branches. One of the main reasons for this is that one person is having more than one account in the same bank but is operating with only one account of his. Hence the other accounts of the same person are automatically becoming inoperative. The following tables disclose the steps taken for further inclusion of the people under KYC.

<b>Steps taken for further inclusion of these people (Financial literacy programs)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	13	26.0
<b>Steps taken for further inclusion of these people (Personal informal contact)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	38	76.0
<b>Steps taken for further inclusion of these people (Personal formal contact through notice, telephonic conversation)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	12	24.0
<b>Steps taken for further inclusion of these people (Others)</b>	<b>Frequency</b>	<b>Percent</b>
Yes	2	4.0

Table 4: Steps taken for further inclusion of these people

<b>Do you think 100% financial inclusion can be achieved through the initiative taken by your institution?</b>	<b>Frequency</b>	<b>Percent</b>
Yes	36	72.0
No	14	28.0
Total	50	100.0

Table 5: Possibility of attaining 100% financial inclusion

Here it can be seen that majority of the CSPs believe that it is possible to achieve Financial Inclusion with the help of this initiative taken by the government.

## Step II

For observing a difference between two sets of samples, a statistical test known as the Pearson's chi-squared test is used. The p Value of 0.05 is called the significance level. Here the samples whose p Value is less than 0.05 shows a significant difference of opinion between the subcategories. The sample is divided into two broad categories:

- On the basis of Service:-
  - i. Less than, equal to 2 years of experience.
  - ii. From 2.1 to 5 years of experience.
  - iii. More than 5 years of experience.
- On the basis of Gender:-
  - i. Male.
  - ii. Female.

Majority of the CSPs are more experienced and the number of male CSPs are more.

ON THE BASIS OF SERVICE	on Chi-Square(p Value)
Target population covered	0.565
Percentage of males having bank accounts	0.217
Percentage of females having bank accounts	0.369
Political interference	0.791
Types of accounts usually opened	0.188
KYC requirements (PAN Card)	0.925
KYC requirements (Voter ID Card)	0.222
Problems faced (Financial Illiteracy)	0.461
Problems faced (KYC Complaint)	0.48
Problems faced (Income Level)	0.448
Problems faced (Internet Connectivity)	0.958
Problems faced (Others)	0.284
Percentage of inoperative accounts	0.063
Steps taken for further inclusion (Financial literacy programs)	0.171
Steps taken for further inclusion (Personal formal contact)	0.666

ON THE BASIS OF SERVICE	on Chi-Square(p Value)
Steps taken for further inclusion (Others)	0.382
Time required to achieve 100% financial inclusion	0.389
Possibility of attaining 100% financial inclusion	0.206

Table 6: On the basis of Service

	Service (Years)			Total
	<=2	2.1-5	>5	
No	5 55.6%	3 20.0%	4 15.4%	12 24.0%
Yes	4 44.4%	12 80.0%	22 84.6%	38 76.0%
	9 100.0%	15 100.0%	26 100.0%	50 100.0%

Table 7: Steps taken for further inclusion (Personal informal contact)

	p Value
Pearson Chi-Square	0.047

In this case, the p Value is less than 0.05. So, we can say that significantly larger portion of agents with more years of service use Personal Informal Contact as a step for further inclusion.

ON THE BASIS OF GENDER	Pearson Chi-Square (p Value)
Target population covered	0.411
Percentage of males having bank accounts	0.076
Percentage of females having bank accounts	0.143
Political interference	0.581
Types of accounts usually opened	0.828
KYC requirements (PAN Card)	0.529
KYC requirements (Voter ID Card)	0.19
Problems faced (Financial Illiteracy)	0.619
Problems faced (KYC Complaint)	0.629
Problems faced (Income Level)	0.269
Problems faced (Internet Connectivity)	0.741
Problems faced (Others)	0.246
Percentage of inoperative accounts	0.982
Steps taken for further inclusion (Financial literacy programs)	0.259

ON THE BASIS OF GENDER	Pearson Chi-Square (p Value)
Steps taken for further inclusion (Personal formal contact)	0.246
Steps taken for further inclusion (Others)	0.47
Time required to achieve 100% financial inclusion	0.629
Possibility of attaining 100% financial inclusion	0.875

Table 8: On the basis of Gender

	Gender		Total
	Male	Female	
What are the steps taken for further inclusion of these people (Personal informal contact)	No	0	12
	Yes	10	38
Total	30.0%	100.0%	24.0%
	28	10	38
	70.0%	100.0%	76.0%
	40	10	50
	100.0%	100.0%	100.0%

Table 9: Steps taken for further inclusion (Personal informal contact)

	p Value
Pearson Chi-Square	0.047

Here the p Value is less than 0.05 which indicates that all the female agents (100%) are more comfortable to use Personal Informal Contact as a step for further inclusion than the male agents (70%).

#### H. Summary of Observations

While conducting the survey the following observations were made regarding the problems faced by the CSPs while opening bank accounts:-

- Majority of the people are devoid of PAN cards in the rural areas and hence any other account apart from FI account cannot be opened.
- Accounts cannot be opened for children below the age of 10 years and hence they are a part of the population which falls under financial exclusion.
- The name in the Voter ID card does not match with the name mentioned in the Aadhar Card, which makes it hard for verifying the actual name and identity of the person.

- Surnames of married women are different in different documents which make it hard for the CSPs to verify.
- Technical problems are faced while printing the passbooks and often wrong information is printed.
- The servers used for opening the bank accounts are slow due to technical errors.
- Many people have two accounts and only one of them is active, as a result the number of inoperative accounts has increased.
- Fingerprints of the people opening the accounts are not matching in a few cases.
- People are showing signs of financial illiteracy, which includes disbelieving the CSPs and accusing them of fraud.
- The salaries of the CSPs are low and hence their motivation to work is not being boosted.

#### I. Recommendation for Improvement

Following are the ways in which the CSPs can improve the quality of work alongwith motivating the accountholders to develop the habit of savings:

- The scheduled banks who offer the work to the Business Correspondents must give more emphasis on FI scheme.
- The number of scheduled bank branches must increase to cover more such areas where people are below the poverty level.
- The BC should employ educated and trained CSPs for the job and give sufficient remuneration for their work along with job security.
- The Government should launch programmes and camps to educate villagers to open bank accounts. They should also create awareness through newspapers, televisions, radio, etc.
- The BC should improve their technology and also ensure that the current equipments used by the CSPs are up-to-date for efficient performance.
- The Central Government should assimilate statistical information and periodical publication of the same about the inclusion of the new villagers in different districts of various states, so that more people are inclined to open bank accounts.
- The appropriate authority (NSDL) should ensure that the name and address of the prospective accountholders must match with Aadhar card, Voter ID

card and PAN card.

- The Central Government must ensure severe punishment if any FI accounts are being used by rich and corrupt people to convert their money from black to white.
- Multiple accounts FI accounts of the same individual should not be allowed to continue.

#### J. Limitations of the study

- The biggest limitation of the study is time constraint and lack of accessibility of sufficient data. Apart from that, the research project focused on mainly six places covered under the supervision of NSCS and the places which were not covered under it were left accounted for.
- Data collected from secondary sources may include biasness.
- Primary data collected are dependent on the individual perceptions.

#### K. Conclusion

The core objective of this project was to ascertain the growth of financial inclusion since the inception of NSCS, and from the charts given above, it can be concluded that a significant number of bank accounts have been opened. Even if 100% financial inclusion was not achieved in the districts, the initiative was a major step towards ascertaining a better and brighter future of the financially weaker section of the society. From inculcating savings habit among people to making them aware of the benefits of financial inclusion, the CSPs have done a tremendous job to make sure that the people understand the value of opening bank accounts. So, from this analysis we can conclude that H<sub>0</sub> is being proved. Finally, it can be derived that opening of bank accounts in rural segments of West Bengal has helped in the process of achieving financial inclusion.

#### L. End Notes

- Raghuram G. Rajan is a professor of finance at University of Chicago. He was the Governor of RBI between 2013-2016 and served as Vice-Chairman of the board of the Bank for International Settlements. Dr. Rajan was the Chief Economist and Director of Research at IMF from 2003 to 2006.
- The Rangarajan Committee set up to look into the poverty line estimation in India.
- Sustainable banking integrates environmental, social and governance (ESG) criteria into traditional banking and sets ESG benefits as a key objective.

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## Annexure I

### CSP SURVEY OF NSCS

#### Questionnaire

Instructions: Please tick the most appropriate option

Name \_\_\_\_\_

Branch Name \_\_\_\_\_

Village Name \_\_\_\_\_

Total service period in present organisation \_\_\_\_\_ Gender \_\_\_\_

Educational Qualification \_\_\_\_\_

1. Which banks' account do you normally open?

i. Private Banks ii. Nationalized Banks iii. Both

2. What percentage of the target population has been covered till now?

i. Less than 50 ii. 50 to 75 iii. 75 to 90 iv. More than 90

3. Based on gender, what percent of individuals have bank accounts?

a. Males --- i. 25 to 50 ii. 50 to 75 iii. 75 to 90 iv. More than 90

b. Females --- i. 25 to 50 ii. 50 to 75 iii. 75 to 90 iv. More than 90

4. Is there any political interference?

i. Yes ii. No iii. Upto a certain extent

5. What types of accounts are usually opened and what is the percentage?

i. FI Account

ii. Savings Bank Account

6. What are the KYC requirements for opening such account?

i. Aadhar Card ii. Pan Card iii. Voter ID Card

7. What problems do you face while opening the bank accounts? (more than one option can be selected)

i. Financial Illiteracy

ii. KYC Complaint

iii. Income Level

iv. Internet connectivity problem

v. Others



8. What is percentage of accounts which remain inoperative?  
i. Less than 5    ii. 5 to 10    iii. More than 10
9. What are the steps taken for further inclusion of these people? (more than one option can be selected)
- i. Financial literacy programs
  - ii. Personal informal contact
  - iii. Personal formal contact through notice, telephonic conversation
  - iv. Others
10. How much time, do you think, is required to achieve 100% financial inclusion?  
i. Less than a year    ii. 1 to 5 years    iii. More than 5 years
11. Do you think 100% financial inclusion can be achieved through the initiative  
i. Yes                      ii. No