

Analysis of Financial Inclusion and Customer Services of the Schedule Commercial banks in India

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Abstract: India boasting economic growth rates higher than most developed countries in recent years, a majority of the country's population still remains unbanked. Financial Inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged, who might not otherwise be aware of or able to afford these services. Global trends have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance. Financial inclusion and customer services of scheduled commercial banks has been measured at various times but very less work on comparison of these two aspects of banking institutions banks was done specially in terms of comparison between these banks in last two consecutive years. This research will provide new insight in banking about financial inclusion of these banks under customer services and development category. The scope of this research is confined to banks in India only. This study is the comprehensive study for analyzing financial inclusion and customer services and developments of banking sector in India. Researcher tried to find the relationship between financial inclusion and its impact on customer services. Researcher found that during rapid financial inclusion customer services like number of ATMS, Prepaid card, Debit card issuance has also risen up. PMJDY has also supported enhancing customer services in the sector.

Keywords: Commercial banks, Customer service, Financial inclusion, Trends, e-banking

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I. INTRODUCTION

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. The central bank granted in-principle approval to 11 payments banks and 10 small finance banks in FY 2015-16. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

1.1 Market Size

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones.

II. RECENT BANKING DEVELOPMENTS IN INDIA

Key investments and developments in India's banking industry include:

- RBL Bank Limited, an Indian private sector bank, has raised Rs 330 crore (US\$ 49.6 million) from a UK-based development finance institution CDC Group Plc, which will help RBL to strengthen the capital base to meet future requirements.
- The State Bank of India (SBI) signed an agreement with The World Bank for a Rs 4,200 crore (US\$ 625 million) credit facility, aimed at financing grid connected rooftop solar photovoltaic (GRPV) projects in India.
- JP Morgan Chase, the largest bank in United States by assets, plans to expand its operations in India by opening three new branches in Delhi, Bangalore and Chennai in addition to its existing branch in Mumbai.

- Canada Pension Plan Investment Board (CPPIB), an investment management company, has bought a large stake in Kotak Mahindra Bank Ltd from Japan-based Sumitomo Mitsui Banking Corporation.
- India's first small finance bank called the Capital Small Finance Bank has started its operations by launching 10 branch offices in Punjab, and aims to increase the number of branches to 29 in the current FY 2016-17.
- FreeCharge, the wallet company owned by online retailer Snapdeal, has partnered with Yes Bank and MasterCard to launch FreeCharge Go, a virtual card that allows users to pay for goods and services at online shops and offline retailers.
- Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.
- Kotak Mahindra Bank Limited has bought 19.9 per cent stake in Airtel M Commerce Services Limited (AMSL) for Rs 98.38 crore (US\$ 14.43 million) to set up a payments bank. AMSL provides semi-closed prepaid instrument and offers services under the 'Airtel Money' brand name.
- Ujjivan Financial Services Ltd, a microfinance services company, has raised Rs 312.4 crore (US\$ 45.84 million) in a private placement from 33 domestic investors including mutual funds, insurance firms, family offices and High Net Worth Individuals (HNIs)).
- India's largest public sector bank, State Bank of India (SBI), has opened its first branch dedicated to serving start-up companies, in Bengaluru.
- Global rating agency Moody's has upgraded its outlook for the Indian banking system to stable from negative based on its assessment of five drivers including improvement in operating environment and stable asset risk and capital scenario.
- Lok Capital, a private equity investor backed by US-based non-profit organisation Rockefeller Foundation, plans to invest up to US\$ 15 million in two proposed small finance banks in India over the next one year.
- The Reserve Bank of India (RBI) has granted in-principle licences to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.
- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The RBI has allowed Indian alternative investment funds (AIFs), to invest abroad, in order to increase the investment opportunities for these funds.
- Bandhan Financial Services raised Rs 1,600 crore (US\$ 234.8 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan, one of the two entities to get a banking licence along with IDFC, launched its banking operations in August 2015.

III. GOVERNMENT INITIATIVES AND INDIAN BANKING SECTOR

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

- In July 2016, the government allocated Rs 22,915 crore (US\$ 3.41 billion) as capital infusion in 13 public sector banks, which is expected to improve their liquidity and lending operations, and shore up economic growth in the country.
- The Reserve Bank of India (RBI) has released the Vision 2018 document, aimed at encouraging greater use of electronic payments by all sections of society by bringing down paper-based transactions, increasing the usage of digital channels, and boosting the customer base for mobile banking.
- The Reserve Bank of India (RBI) has issued guidelines for priority sector lending certificates (PSLCs), according to which banks can issue four different kinds of PSLCs—those for the shortfall in agriculture lending, lending to small and marginal farmers, lending to micro enterprises and for overall lending targets – to meet their priority sector lending targets.
- The Reserve Bank of India (RBI) has allowed additional reserves to be part of tier-1 or core capital of banks, such as revaluation reserves linked to property holdings, foreign currency translation reserves and deferred tax assets, which is expected to shore up the capital of state-run banks and privately owned banks by up to Rs 35,000 crore (US\$ 5.14 billion) and Rs 5,000 crore (US\$ 734 million) respectively.
- Scheduled commercial banks can grant non-fund based facilities including partial credit enhancement (PEC), to those customers, who do not avail any fund based facility from any bank in India.

- To reduce the burden of loan repayment on farmers, a provision of Rs 15,000 crore (US\$ 2.2 billion) has been made in the Union Budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan Dhan Yojna (PMJDY), 250.5 million accounts! have been opened and 192.2 million RuPay debit cards have been issued as of October 12, 2016. These new accounts have mustered deposits worth almost Rs 44,480 crore (US\$ 6.67 billion).
- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don't have additional fresh equity from promoters coming in to complete the project.
- The Reserve Bank of India (RBI) plans to soon come out with guidelines, such as common risk-based know-your-customer (KYC) norms, to reinforce protection for consumers, especially since a large number of Indians have now been financially included post the government's massive drive to open a bank account for each household.
- To provide relief to the state electricity distribution companies, Government of India has proposed to their lenders that 75 per cent of their loans be converted to state government bonds in two phases by March 2017. This will help several banks, especially public sector banks, to offload credit to state electricity distribution companies from their loan book, thereby improving their asset quality.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the Pradhan Mantri Jan Dhan Yojana (PMJDY).
- To facilitate an easy access to finance by Micro and Small Enterprises (MSEs), the Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs up to Rs 1 Crore (US\$ 0.15 million). Moreover, Micro Units Development & Refinance Agency (MUDRA) Ltd. was also established to refinance all Micro-finance Institutions (MFIs), which are in the business of lending to micro / small business entities engaged in manufacturing, trading and services activities up to Rs 10 lakh (US\$ 0.015 million)**Media Reports, Press releases, Reserve Bank of India, Press Information Bureau, www.pmjdy.gov.in, Union Budget 2016-17*

Providing universal access to banking services and improving the forms of credit delivery, especially for the weaker sections of the population, form the basis of the Reserve Bank's financial inclusion agenda. With a view to achieving sustainable and scalable financial inclusion, multiple strategies are being used such as appropriate relaxations in guidelines, provision of new products and other supporting measures.

IV. RESEARCH METHODOLOGY:

4.1 Research Objectives:

1. To analyze comparative financial inclusion of banks in India for two consecutive financial years.
2. To evaluate level of customer services of banks in India for two consecutive financial years.

4.2 Collection of Data

Secondary data: Secondary data related with financial inclusion and customer services of banks were gathered from the official websites and annual reports of RBI. The data were also collected from newspapers, reports, records, policies, government publications, magazines, company publications, journals, books, articles, websites, etc.

4.3 Research gaps:

Financial inclusion and customer services of scheduled commercial banks has been measured at various times but very less work on comparison of these two aspects of banking institutions banks was done specially in terms of comparison between these banks in last two consecutive years. This research will provide new insight in banking about financial inclusion of these banks under customer services and development category. This research differs from other studies in that it undertakes to develop a theoretical framework on financial inclusion and customer services in banks in India.

4.4 Scope of the study:

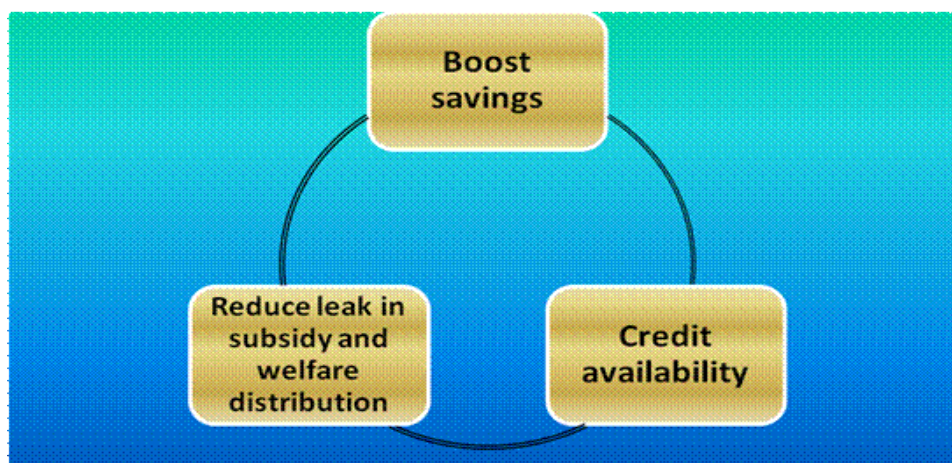
The scope of this research is confined to these two banks only. This study is the comprehensive study for analyzing financial inclusion and customer services and developments of banking sector in India.

4.5 Statistical tools used in the study: Simple tabulation & graphical representation

V. DATA ANALYSIS & INTERPRETATIONS

5.1 Financial inclusion: policy approach and interventions

The Reserve Bank has since the last decade made the following policy interventions in the area of financial inclusion.



The Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and Business Correspondents (BCs). The BC model allows banks to do ‘cash in-cash out’ transactions at a location much closer to the rural population, thus addressing the problems of last mile reach.

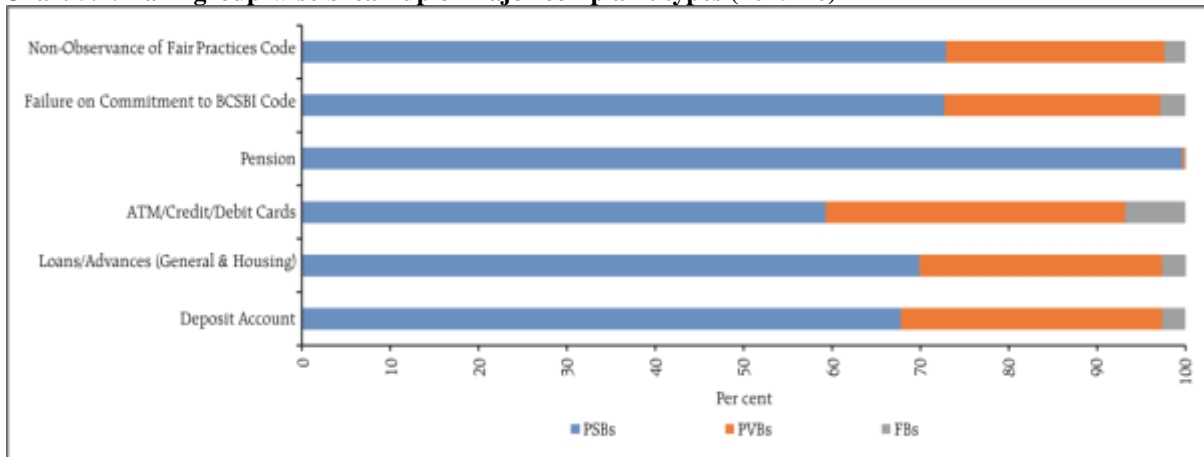
In order to provide door step banking facilities in all the unbanked villages in the country, a phase wise approach has been adopted. During Phase-I (2010-13), all unbanked villages with population more than 2,000 were identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through State Level Bankers’ Committees (SLBCs) for coverage through various modes – Branch or BC or other modes such as ATMs, mobile vans, etc. During Phase-I, as reported by SLBCs, banking outlets have been opened in 74,414 unbanked villages with population more than 2,000. Such newly opened banking outlets comprised of 69,589 outlets opened through BCs and 2,332 by other modes, apart from 2,493 branches. After the completion of the first phase of the roadmap, the second phase (2013-16) to provide banking services in unbanked villages with populations less than 2000 was rolled out. About 4,90,298 unbanked villages with population less than 2000 have been identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through SLBCs across the country for coverage in a time bound manner. As on June 30, 2016, as reported by SLBCs, 4,52,151 villages have been provided banking services; 14,976 through branches, 4,16,636 through BCs and 20,539 by other modes viz. ATMs, mobile vans, etc. thereby achieving 92.2% of the target.

All domestic Scheduled Commercial Banks (SCBs) – both in the public sector and private sector – were advised to draw up board-approved Financial Inclusion Plans (FIPs) as an integral part of their business strategy based on their competitive advantage. FIPs are submitted to the Reserve Bank and are implemented over blocks of three years. These plans broadly include self-set targets with respect to: opening rural brick and mortar branches; Business Correspondents (BCs) employed; coverage of unbanked villages through branches/BCs/ other modes, opening of Basic Savings bank deposit accounts (BSBDAs) including through BC-ICT; issuance of Kisan Credit Cards (KCC) and General Credit Cards (GCC) and other specific products aimed at the financially excluded segments

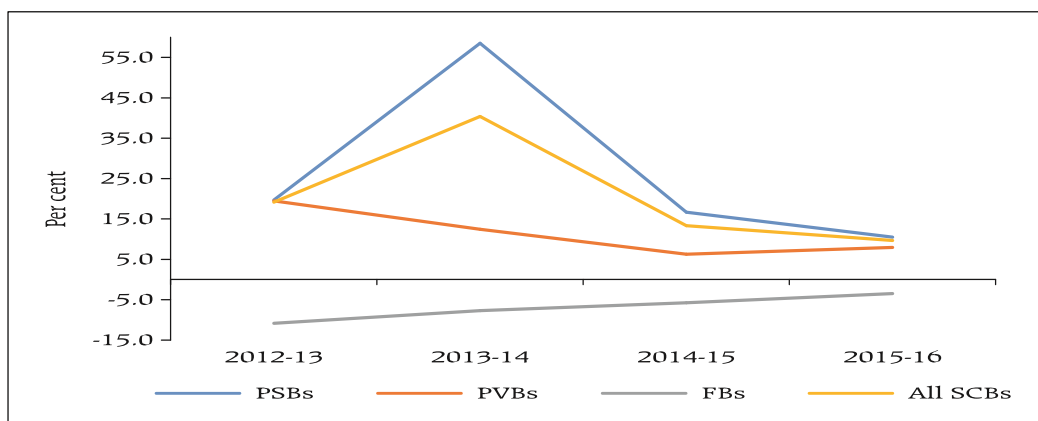
5.2 Customer services

During 2015-16, 95,377 complaints were received against SCBs by 15 regional offices of the Banking Ombudsman as against 85,131 during the previous year. PSBs witnessed a marginal decline in the share of complaints received at Banking Ombudsman Offices to 68.2 per cent from 70.5 per cent in the previous year. PVBs’ share of the complaints increased during this period (Chart 5.1). Population group-wise, urban and metropolitan centres received a majority of the complaints (73 per cent of the total complaints in 2015-16) under the Banking Ombudsman scheme (Chart 5.2).

Chart 5.1: Bank group-wise break-up of major complaint types (2015-16)



Source: RBI.

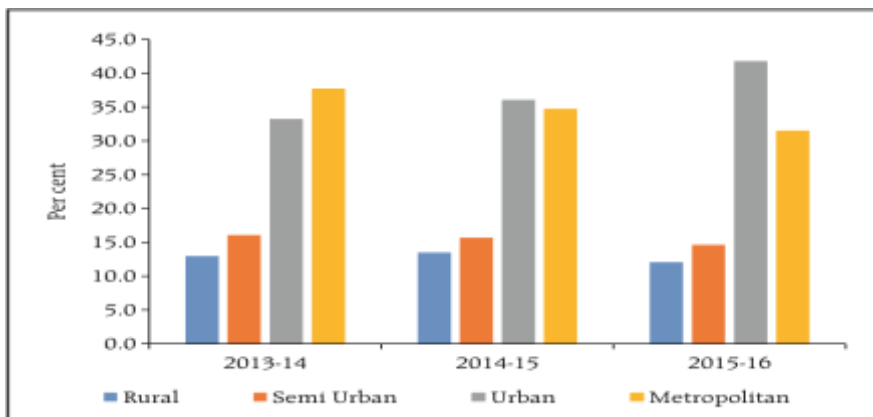


Note: Data excludes WLAs.

Chart 5.2

Chart 5.3

5.2.1 Growth in ATMs



The geographic reach of ATMs increased further as the number of ATMs installed increased to around 0.2 million as at end March 2016, an increase of 9.7 per cent over the previous year. PSBs maintained more than a 70 per cent share in the total number of ATMs. FBs, however, continued to post a decline in the number of ATMs (Chart 5.3).

5.2.2 Distribution of ATMs

Regional distribution of ATMs became more balanced with the share of metropolitan, urban and semi-urban centres in total installed ATMs varying between 26.0 per cent and 29.0 per cent. However, metropolitan centres

witnessed a marginal decline in the share of ATMs to 26.9 per cent in March 2016 from 27.7 per cent during the previous year. Semi-urban and urban centres registered a marginal increase in their share of ATMs (Chart 5.4).

5.2.3 Off-site ATMs

More than 60 per cent of the PVB and FB ATMs are off-site ATMs which are set up on a standalone basis and not on the premises of a bank's branches. However, in case of PSBs the share of off-site ATMs is less than 45 per cent. During 2015-16, the share of off-site ATMs in total ATMs declined in every bank group (Chart 5.5). Given that the Reserve Bank has allowed banks to offer all their products and services through the ATM channel, a decline in the share of off-site ATMs is a disquieting development.

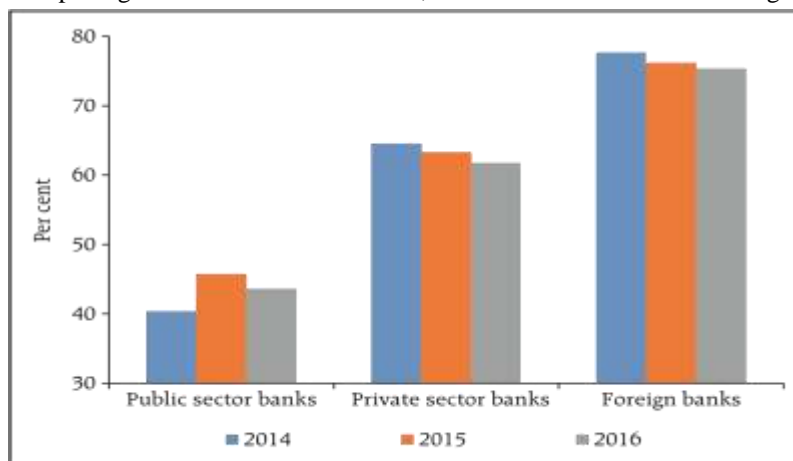
5.2.3 White label ATMs

During 2015-16 the number of white label ATMs (WLAs), which are owned and operated by non-bank entities, increased significantly to 12,962 from 7,881 during the previous year. This spurt in WLAs can be attributed to the entry of new players in the banking space such as payments banks and small finance banks which are collaborating with WLA operators rather than having their own ATMs to minimise costs.

5.2.4 Debit and credit cards

Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. During 2014-15, the spurt in debit card growth was attributed to the Pradhan Mantri Jan Dhan Yojana (PMJDY) under which every account holder under the scheme was issued a RuPay debit card. As the growth in account opening under PMJDY decelerated, Chart 5.4; Geographical distribution of ATMs

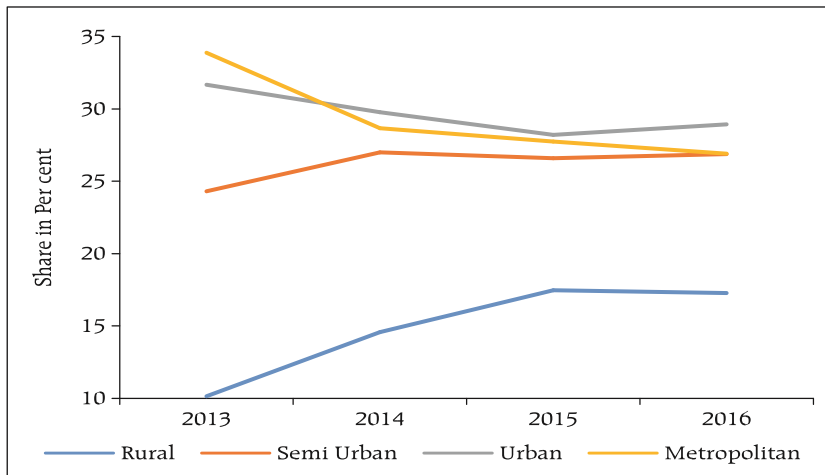
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Note: Data excludes WLAs.

card issuances. However, credit cards registered increased growth of 16.1 per cent during the year as against 10.1 per cent during 2014-15 (Chart). Bank group-wise, PSBs maintained a strong lead in issuance of debit cards with a share of 82.8 per cent. On the other hand, PVBs had a dominant position in credit card issuances with a share of 60.1 per cent (Chart)

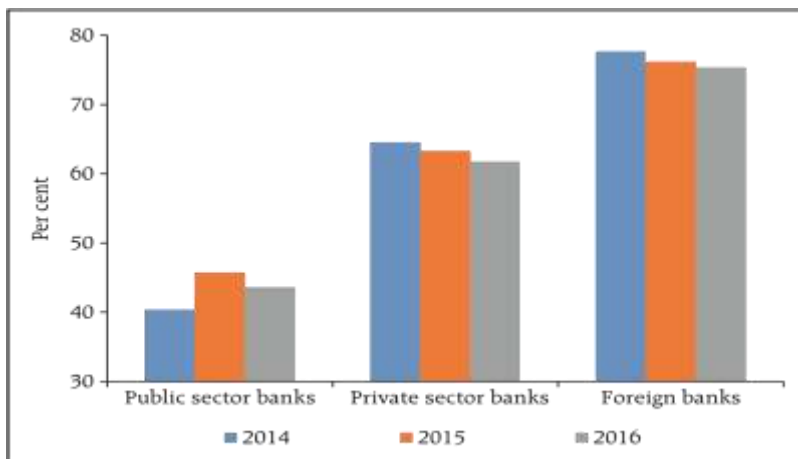
Chart 5.5: Share of off-site ATMs



Note: Data excludes WLAs.

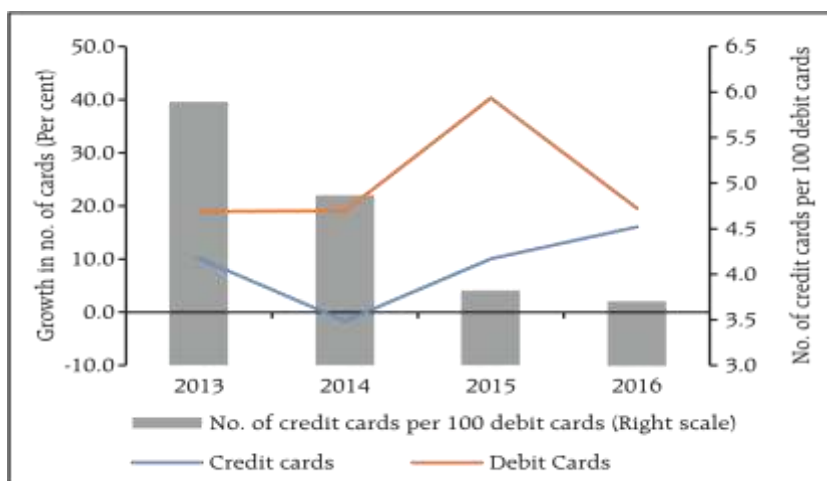
Source: RBI.

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Note: Data excludes WLAs.

Chart 5.6: ATM cards



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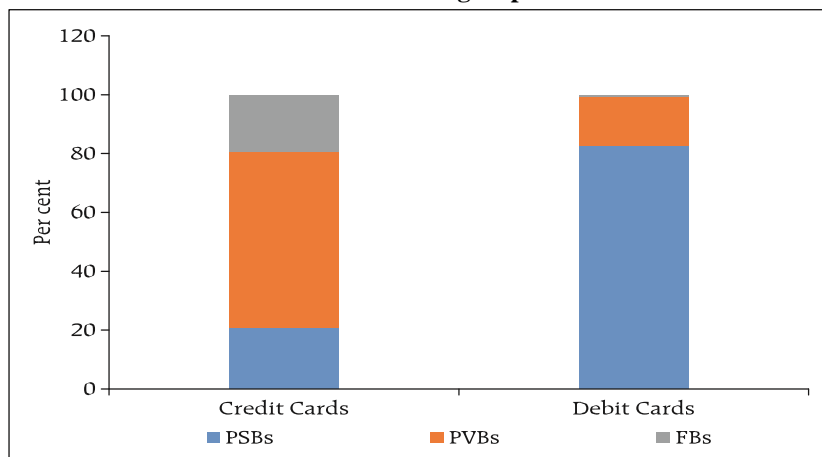
Chart 5.7: Trends in debit and credit cards

Source: RBI.

5.2.5 Prepaid payment instruments

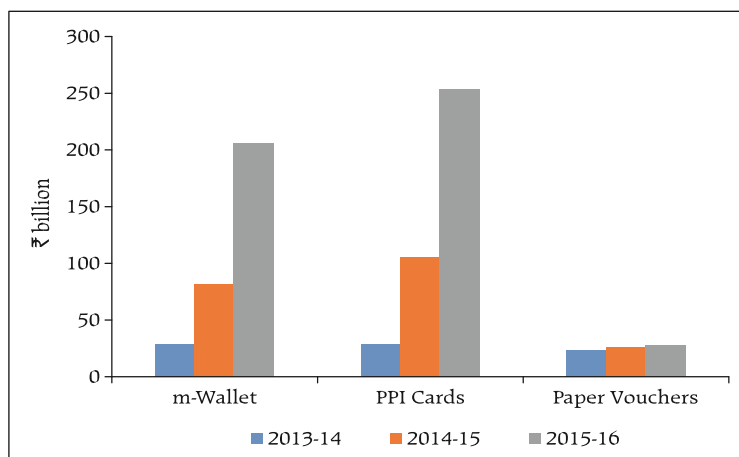
Due to greater use of prepaid payment instruments (PPIs) for purchase of goods and services and for fund transfers, the value of transactions by these instruments has increased considerably in recent years. Among the prepaid instruments, PPI cards (which include mobile prepaid instruments, gift cards, social benefit cards, foreign travel cards and corporate cards) remained the most popular mode followed by mobile-wallets. During 2015-16, the value of transactions through PPI cards and mobile-wallets increased significantly to ₹254 billion and ₹206 billion respectively, against ₹105 billion and ₹82 billion respectively in the previous year (Chart).

Chart 5.8: Share of bank-groups in credit/debit cards



Source: RBI.

Chart 5.9: Progress of prepaid instruments (value)



Source: RBI.

VI. FINDINGS

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

PSBs witnessed a marginal decline in the share of complaints received at Banking Ombudsman Offices to 68.2 per cent from 70.5 per cent in the previous year. PVBs' share of the complaints increased during this period (Chart 2.17). Population group-wise, urban and metropolitan centres received a majority of the complaints (73 per cent of the total complaints in 2015-16) under the Banking Ombudsman scheme

The geographic reach of ATMs increased further as the number of ATMs installed increased to around 0.2 million as at end March 2016, an increase of 9.7 per cent over the previous year. PSBs maintained more than a 70 per cent share in the total number of ATMs. FBs, however, continued to post a decline in the number of ATMs

Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. During 2014-15, the spurt in debit card growth was attributed to the Pradhan Mantri Jan Dhan Yojana (PMJDY) under which every account holder under the scheme was issued a RuPay debit card. As the growth in account opening under PMJDY decelerated,

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Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. As the growth in account opening under PMJDY decelerated, this resulted in a decline in the growth of debit card issuances. However, credit cards registered increased growth.

Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year

As the growth in account opening under PMJDY decelerated, this resulted in a decline in the growth of debit card issuances. However, credit cards registered increased growth of 16.1 per cent during the year as against 10.1 per cent during 2014-15 (Chart 2.22). Bank group-wise, PSBs maintained a strong lead in issuance of debit cards with a share of 82.8 per cent.

On the other due to greater use of prepaid payment instruments (PPIs) for purchase of goods and services and for fund transfers, the value of transactions by these instruments has increased considerably in recent years.

VII. CONCLUSION

Despite India boasting economic growth rates higher than most developed countries in recent years, a majority of the country's population still remains unbanked. Financial Inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged, who might not otherwise be aware of or able to afford these services. Global trends have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance. As a whole, financial inclusion in the rural as well as financially backward pockets of cities is a win-win opportunity for everybody involved – the banks/NBFC's intermediaries, and the left-out urban population. Banks will handle core infrastructure and services while intermediaries known as Business Correspondents (BC's) will be the executors and act as the face of these banking & financial institutions in dealing with end-users. The Business Correspondents (BC's) shall be carrying handheld terminals like Tablets (GSM enabled) coupled with portable biometric scanner, smart card swipe machines as well as thermal Bluetooth printers for carrying out their online banking activities on the field. Authentication and customer information is provided by the UIDA through NPCI or NSDL once the institution becomes an authorized UIDAI user. As income levels and consequently, savings in rural areas increase, it is essential to help earners manage their funds and facilitate incoming and outgoing payments. Allowing people to create simple, no-frills current and savings accounts, relaxing KYC norms and directly crediting social benefits to account owners will bolster an inclusive approach to finance & banking in rural areas.

In many banking institutions excellence in customer service is emerging as the valuable way to differentiate themselves from their competitors. For achieving excellence in customer service, banks need to clearly know detailed understanding of customer needs, expectations and values and based on these they need to develop unified organizational mindset, processes and systems to deliver the service excellence. Organizations that invest the time, energy, and resources required to achieve excellence in customer service will be the ones that will thrive and grow.

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