

CHAPTER -1

*Introduction,
Research Methodology and
Review of Literature*

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INTRODUCTION, RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

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CHAPTER -1

INTRODUCTION, RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

1. Introduction :

The Reserve Bank of India was set up a Commission (Khan Commission) in 2004 to look into Financial Inclusion. It is implemented by the Reserve Bank of India and Central Government Since 2005. Financial Inclusion is the inclusion of Vast Sections of disadvantaged and low income groups under banking services at an affordable cost. Government of India constituted a committee to enhance financial inclusion in India on 22th June 2006. The Committee presented its report in January 2008. Committee on financial inclusion has initiated a mission called National Rural financial inclusion plan. It has set targets to increase financial inclusion (FI) in the country across regions and across institutions (Bank, Rural Regional Bank etc.)

A Committee on Financial Inclusion (2008). Under the Chairmanship of Mr. C. Rangarajan was set up to suggest measures to increase financial inclusion (hence called the Rangarajan Committee on financial inclusion). Financial Inclusion first featured in 2005 as a pilot project in Union Terrorist (UT) of Pondicherry by K.C. Chakrabarty, the Chairman of Indian Bank. Under the Financial Inclusion programme, the Mangalam village became the first village in India Where all households were provided banking facilities. In addition, Know Your Customers (KYC) Norms were relaxed for people intending to open accounts with annual deposits of less than Rs.50, 000. Reserve bank of India's vision for 2020 Stress then opening nearly 600 million new accounts and services through a variety of channels by leveraging on it. RBI's latest currency and finance section released recently points out that globally over two billion people are excluded from access to financial services.

2. Meaning of Financial Inclusion :

The Rangarajan's Committee has defined the term 'Financial Inclusion' as:

“Financial Inclusion may be defined as 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”.

No universally accepted definition of financial inclusion is available in general:

“Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups”.

3. Co-operatives and Financial Inclusion :

The Co-operative movement has developed indifferent forms under different social-political and economic environment. The first co-operative societies Act was passed in India in 1904 and Second Act passed in 1912. It is clear that co-operative society is an association of people. It originates among the weak. It is prompted by a desire to do service to one's fellow beings 'Each for all and all for each' is the motto of co-operative movement.

According to Co-operative planning Committee, 1946 – “Co-operative is a form of organization in which persons voluntarily associate together on a basis of equality for the promotion of their economic interests”.

Co-operative Banks and Regional Rural Banks being local level institutions are well suited for achieving financial inclusion. The financial inclusion agenda being pursued vigorously by the Government of India cannot be accomplished without the involvement of rural co-operative institutions. Rather, they have the biggest role to play in this regard. Leveraging information technology is a must for achieving financial inclusion and delivering efficient service to the people, full computerization of all tiers of the co-operative institutions along with use of information and communication technology and issue of biometric cards to members has to be achieved to enable to serve the people.

3.1 Co-operative Banks :

Co-operative Banks are the outcome of poor farmer's struggle who encourage similarly situated people to become members of the banks for mutual benefits. Co-operative banks invite the operation of co-operative from a similar class people such banks preserves common rights, common laws and common objectives to become common to all equal financial holders.

3.2 Urban Co-operative Banks :

The urban co-operative credit movement originated in Germany when Herman schultze started such societies in 1849 for the benefit of artisans in the cities. The first urban co-operative bank was established on 5th February 1884 at Baroda co-operative societies Act of 1904 provided for the establishment of both rural and urban credit societies.

3.3 Functions of Urban co-operative Banks:

- 1) To accept deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise for the purpose of lending or investment.
- 2) To borrow or raise money.
- 3) To lend or to advance money either upon or without security to members and others as permitted by the Registrar.
- 4) To draw, make, accept, discount, buy, sell, collect and deal in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, certificates and other instruments and other securities whether transferable or negotiable or not.
- 5) To grant and to issue letters of credit, travelers' cheque and circular notes.
- 6) To buy and sell foreign exchange including foreign bank notes.
- 7) To acquire, hold, issue on commission, underwrite and deal in stocks, funds, shares, debentures, stocks, bonds, obligations, securities and investments of all kinds.
- 8) To purchase and sell bonds, scrips, and other forms of securities on behalf of constituents.
- 9) To receive all kinds of bonds, scrips, valuables on deposit or for safe custody or otherwise.
- 10) To provide safe deposit vaults and ancillary services.
- 11) To collect and transmit money and securities.
- 12) To negotiate loans and advances.
- 13) To carry on and to transact every kind of guarantee and indemnity business on behalf of constituents.
- 14) To effect, insure, guarantee, underwrite, participate in managing and carrying out any issue, public or private or state, municipal or other loans or of shares, stocks, debentures, debenture stock of any company, cooperative society, corporation or association and lend.
- 15) To manage, to sell and to realize any property which may come into the possession of the bank in satisfaction or part satisfaction of any of its claims.
- 16) To open branches and pay offices, with the permission of the Registering Authority and the Reserve Bank of India within the area of operation of the bank so as to provide banking services to the public.

- 17) To acquire manage and undertake the whole or part of the business of any other cooperative society with the prior permission of the Registering Authority.
- 18) To establish, support or aid in establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit member, employees/ex-employees of the bank or the dependents or connections of such persons and grant pensions.
- 19) To provide financial and technical assistance to small- scale and cottage industries and help self-employed persons for setting up their own business.
- 20) To enter into participation, consortium arrangement with any other bank or banks or financial institutions with the object of making loans and advances with the permission of the Reserve Bank of India wherever necessary.
- 21) To do any other form of business as specified in clause (1) of section 6 of the Banking Regulation Act, 1949 (as applicable to cooperative societies).
- 22) To act as agent for collection of monies of government, quasi-government and statutory bodies.
- 23) To grant loans to Cooperative Housing Societies for temporary period pending reimbursement from the Maharashtra Cooperative Housing Finance Society Ltd., Life Insurance Cooperation, government and semi- government institution or other financing agencies with the prior permission of the Registering Authority.
- 24) To undertake any other form of business, which the Central Government may specify as a form of, business in which it is lawful for a cooperative banking institution to engage.
- 25) To do all such other things as are incidental and conducive to the promotion of advancement of the objects and business of the bank.

3.4 Urban Co-operative Banking in Maharashtra:

The first urban co-operative bank was established in Bombay on 20th December 1906 Named Shamrao Vitthal Co-operative Bank.

4. RBI Initiatives:

- I) No frill accounts.
- II) Issue of General Purpose credit card.
- III) One time settlement scheme.
- IV) Use of Business facilitators and correspondents.

- V) Credit counseling centers.
- VI) Use of information Technology to external outreach.
- VII) Introduction of customer friendly products.
- VIII) Development of suitable Manpower at Branch level.
- IX) Establishment of village knowledge centers.

5. Objective of the study:

Following are the objective of the present study:

- I) To study the initiatives taken by the RBI with regard to financial inclusion.
- II) To review the role of urban co-operative banks in the financial inclusion.
- III) To examine the performance of selected Urban Co-operative Banks (UCBs) in Kolhapur District in the process of financial inclusion.
- IV) To examine the extent of coverage and use of an innovative products introduced by selected UCBs in Kolhapur District in the process of financial inclusion.
- V) To analyse the problems of urban co-operative banks in the process of financial inclusion and to suggest appropriate measures to solve their problems.

6. Hypothesis:

The overall hypothesis of the study is as under:

“Urban co-operative banks in Kolhapur District are playing a significant role in the process of financial inclusion in urban and semi urban area”.

7. Research Methodology:

This study is conducted with the use of following methodology:

7.1 Sources of Data:

The analysis is mainly based on secondary sources of the data. The statistical data on relevant information were collected from the annual reports of sample banks, publications by the banks, additional information were also collected from the reference books, journals government publication, internet, study articles, seminars as well as major research study reports, magazines and internet literature etc.

7.2 Sample Design:

In order to examine the financial inclusion of the urban co-operative banks in Kolhapur District, the researcher has selected 5% sample size of UCBs in Kolhapur District i.e.-2 banks for the study.

Out of two sample bank one has been selected from urban area and one from semi urban, while selecting bank highest deposit criteria has been use.

7.3 Data Interpretation:

Keeping in the view, the objective of the study, the appropriate statistical techniques such as average, Compound growth rate, percentage were used to get relevant statistical inferences required for the study. Moreover, some graphical data were also used for the data analysis. The data were processed with the help of computer software viz. MS-Excel etc.

7.4 Period of the Study:

The Indian Government has adopted the policy of financial inclusion in the year of 2005. Therefore, the Present study covers Five years period from 2006-07 to 2010-2011.

8. Chapter Scheme:

The chapter scheme of the present research work given below:

1. Introduction, Research Methodology and Review of Literature

- 1.1 Introduction
- 1.2 Meaning of Financial Inclusion
- 1.3 Co-operatives and Financial Inclusion
- 1.4 RBI Initiatives
- 1.5 Objective of the study
- 1.6 Hypothesis
- 1.7 Research Methodology
- 1.8 Chapter Scheme
- 1.9 Review of Literature

2. Reserve Bank of India and Financial Inclusion

- 2.1 Introduction
- 2.2 History of Financial Inclusion in India
- 2.3 Strategy for Financial Inclusion

2.4 Committees to prepare strategy / plans

2.5 RBI Initiatives

2.6 Government Initiatives

3. Urban Co-operative Banks and Financial Inclusion

3.1 Introduction

3.2 Connotation of co-operative banking

3.3 Need for Urban Co-operative Banks in India

3.4 Financial Inclusion for an Inclusive Growth

3.5 Financial inclusion in urban co-operative bank

3.6 Untapped potential of the UCBs for Financial Inclusion

3.7 The Profile of Kolhapur District

3.8 Urban Co-operative Banking in Kolhapur District

4. Financial Inclusion through Urban Co-operative Banks in Kolhapur District

4 Introduction

4.1.1 History of Kolhapur Urban Co-operative Bank (KUCB)

4.1.2 Financial Performance of the Bank

4.1.3 The Number of Borrowers in KUCB

4.1.4 The Loan Amount Sanctioned

4.1.5 The Number of Account Holders in KUCB

4.1.6 The Deposits Amount in the Bank

4.1.7 The Number of Borrowers Units in Priority Sector

4.1.8 The Number of Borrowers Units of Weaker Section

4.1.9 The Number of Borrowing Units of Priority Sector SC

4.1.10 Number of Borrowing Units of Priority Sector Women

4.1.11 Comparison between Borrowing Units of Weaker Section, SC And
Women

4.1.12 The Number of Borrowing Units of Other Categorized
Under Weaker Sections

4.1.13 Use of Innovative Products by the KUCB

4.2 History of Kallappa Anna Awade Ichalkaranji Janata Sahakari Bank

4.2.1 Financial Performance

- 4.2.2 Classification of No Frill Saving Accounts of KAIJSB
- 4.2.3 Loan activities for SHGs
- 4.2.4 Social Profile of SHGs
- 4.2.5 Deposits of Account holders
- 4.2.7 Classification of deposit wise account holders of proprietor
- 4.2.8 Classification of Deposits partnership accounts
- 4.2.9 Classification of Deposits wise societies accounts
- 4.2.10 Priority Sector Lending
- 4.2.11 Classification of priority and Non-priority sectors
- 4.2.12 Priority Sector wise Account Holders
- 4.2.13 Use of Innovative Products by the KAIJSB

5. Findings, Problems and Suggestions

- 5.1 Introduction
- 5.2 Major findings of the study
- 5.3 Problems
- 5.4 Suggestions

9. Review of Literature:

A review of some of the research studies relating to my research topic is as follows.

Rupambara's¹ (2007): Study gives attention on “Urban Poor and Poverty” in the context of financial inclusion. In his research article published by RBI Mumbai, he regards that with the rapid growth of big cities, slums, the breeding grounds of urban squalor and poverty, swell primary due to increased migration of the poor from the villages in search of better employment opportunities and improved standard of living. He found that financial inclusion should not begin and end with opening of bank accounts. In fact, product innovation in financial services keeping in view their life cycle needs is the need of the hour.

Amol Agrawal² (2008): focused on “The need for Financial Inclusion with an Indian Perspective”. In his research paper published by the IDBI Gilts – Mumbai, he considered that finance has come a long way since the time when it wasn't recognized

¹. Rupambara's (2007) “Financial Inclusion of the Urban Poor : Issues and Options” in his research article published by RBI – Mumbai.

². Amol Agrawal (2008) “The Need for Financial Inclusion with an Indian Perspective” in his research paper published by the IDBI – Mumbai.

as a factor for growth and development. He found that there is another very important point to the entire exercise – the spirit of financial inclusion. The commentators have also pointed to the similarity between sub-prime crisis and financial inclusion. The sub-prime market was originated to provide finance to people with weak credit histories (financial inclusion) enabling them to buy their homes (real-sector inclusion). In emerging markets as the population is largely financially excluded some analysts have commented that financial sector need to be careful.

Minakshi Ramji³ (2009): Studied “Financial inclusion in Gulbarga: Finding Usage in Access”. In her research article published by the Centre for Micro Finance, New Delhi, she considered a well-developed financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development.

The study finds that the number of households with bank accounts doubled over the duration of the financial inclusion drive. However, 36% of the sample remained excluded from any kind of formal or semi-formal savings accounts. It is concluded that while government programmes like NREGP have the potential to include large numbers of low-income households, access to accounts does not often lead to usage.

D. Subbarao⁴ (2009): in his article entitled “Financial inclusion: challenges and opportunities” Published by Reserve Bank of India at the bankers, club in Kolkata, he explained that Financial inclusion is the best opportunity for the poor, for the banks and for the nation, because of growing incomes, and improving awareness levels, aspirations of the poor are on the rise. It is for the banks to convert what they see as a dead-weight obligation into an exciting opportunity and move on aggressively on financial inclusion

K. C. Chakrabarty⁵ (2009): in his speech on “Technology, Financial inclusion and role of urban co-operative banks”, on the occasion of foundation day and inauguration of the ‘core banking solution projects’ of the Andhra Pradesh (AP) Mahesh Co-

3. Minakshi Ramji (2009) “Financial Inclusion in Gulbarga : Finding Usage in Access” in her research article published by the Centre for Micro Finance, New Delhi.

⁴Subbarao (2009) “Financial inclusion: challenges and opportunities” in his research article, published by, RBI at the bankers, club in Kolkata.

⁵K. C. Chakrabarty (2010) “Strengthening co-operative credit institutions in India” in his research article, published by the national federation of state co-operative banks (NAFSCOB) New Delhi.

operative Urban Bank Ltd. Hyderabad, he expressed that, the technology solution to the business need should be user-friendly. The bank needs to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a social responsibility. He also opined that the optimum utilization of the micro financial institutions (MFIs) NGOs and self-help groups are geared towards including more & more people under the banking net. Banking services need to be “marketed” to connect with large population segments. Mobile phones, pos terminals, simple to use cash dispensing & collecting machines akin to ATMs etc. with operating instructions & commands in vernacular language would greatly facilitate the financial inclusion of the semi-urban populace at affordable cost and co-operative banks with a local touch and feel can address issues in a big way.

Shobha V. Bhimsen⁶(2010): Studied about “Financial Inclusion Role of Urban Co-operative Banks”. Inclusive Growth in India, edited by P. Arunachalam. She explained this issue in to five sections. The concept and scope and majors of financial inclusion presented in first three sections. Financial inclusion and steps taken by bank industry in India has discussed in fourth section. The role of UCB’s has shown in fifth section. This study concluded that in the world of global competition in the banking, the urban bank’s and societies are playing an important role in helping the small borrowers who are needy of funds and deprived of services of commercial and other private banks, further. The author has stated that 90% of the advances by the urban banks are to the priority sector and small and needy borrowers. The RBI should also provide a level playing field to UCB’s by relaxing some of its norms in their favor so that they can compete with commercial banks and private sector banks.

The consultative group to assist the poor, Peru Report⁷(2010): studied “Financial Inclusion and Consumer Protection in Peru”. In joint assessment report, the first part of the report outlines the financial inclusion efforts currently being undertaken by the superintendence. The Second part of the most important points of the legal and regulatory framework for financial consumer protection pointing out any specificity

⁶ Shobha V. Bhimsen (2010) “Financial Inclusion Role of Urban Co-operative Banks”. Inclusion Growth in India, Edited by P. Arunachalam, Serial Publication, New Delhi, Pg. 465-471.

⁷ Superintendence of Banks, Insurance and AFPs Consultative Group to Assist the Poor, Peru Report (February 2010) “Financial Inclusion and Consumer Protection in Peru” in his joint assessment report.

of branchless banking. The third part describes the branchless banking business in Peru and describes the issues and problems identified in the relationship between branchless banking clients and providers, and the supervisory and enforcement implication. The report concluded that the regulatory and supervisory framework for financial consumer protection in Peru is well advanced. The considerations regarding the efficiency of retail payment system in the country and possible measures to address weaknesses are a necessary step for faster and effective financial inclusion.

Jose Anson and Joelle Toledano⁸ (2010): Studied about “Between Financial Inclusion and Postal Banking”, in their research article, Published in the 18th conference on Postal and Delivery Economics, Porvoo, Finland, the study provides a quantitative overview of the evolution of the market share of posts in the retail banking industry over the last decade (2001-2008), which is consisted with a greater diversification of postal income towards finance. Moreover, it compares different dynamics in postal finance that were identified and stylized through (Brazil, Russia, India and China) BRIC countries cases. It compares with the (New Zealand, Italy, France, and Switzerland) NIFS case or developed countries case. The links with financial inclusion policies are developed.

The study has provided new insights on the economic models of postal finance. It has also identified a significant recent towards diversification of posts in this area in a period of structural declines of mail volumes, further intensified by the last global economic and financial crisis. Internal and external factors frame the model and what the latter can achieve in terms of financial inclusion and economic development goals.

Smt. Usha Thorat⁹(2010): Studied about “Market in motion : Financial Inclusion”, the achieving higher rates of financial inclusion calls for higher financial savings and much greater penetration of banks and other financial intermediaries like insurance companies, mutual funds, and pension funds. The Indian government is taking proactive steps such as rural employment under the National Rural Employment

⁸Jose Anson and Joelle Toledano (2010) “Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There?” in their research article, published in the 18th conference on Postal and Delivery Economics, Porvoo, Finland.

⁹Smt. Usha Thorat (2010) “Market in motion: Financial Inclusion”, in her research article, published by FT Knowledge Management Company Limited, Mumbai. (Vol.1/No.28)

Guarantee Act (NREGA), in which payments are made through bank accounts, with job cards serving as document of identity. The Unique Identification Cards (UICs) planned to be provided to residents will facilitate financial penetration as these will serve to meet the Know Your Customer (KYC) norms for account holders with small value transaction.

Smt. R. H. Chavan¹⁰ (2012): studied about 'Role of urban co-operative banks in financial inclusion', in her research article published by International Journal of management and economics, Chetan publication, Aurangabad. She examined that the current year 2012 is declared by United Nation (UN) as the 'international year of co-operative'. After 1991 banking structure underwent sea changes initiation of financial sector reforms also created a competitive environment and various challenges for the efficient allocation of limited financial technical & human resources in co-operative banking sector. UCBs are already contributing to financial inclusion.

UCBs have been playing important role in socio economic development of the country by making available institutional credit at affordable cost particularly in the urban & semi urban areas. UCBs increase their business and also participate in national mission of financial inclusion.

¹⁰Smt. R. H. Chavan (2012) 'Role of urban co-operative banks in financial inclusion' in his research article, published by International Journal of Management and Economics, Chetan publication, Aurangabad (vol.1/No.4)

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