

Role of Cooperative Banks in Financial Inclusion Through Digital Financial Services: Indian Perspective

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Abstract

Only in the early 1990s, there has been a start in the non-branch banking services with the help of technology. Now a day, Digitalisation and FinTech have evolved from being a buzzword among technological savvy businesses like banks and financial institutions. Digitalisation holds the potential to take control of your customer-experience ecosystem by managing your entire business from customers' perspective and rethinking the legacy business model especially for banks. The Reserve Bank of India has set up an inter-regulatory Working Group to study the entire scope of regulatory issues relating to Financial Technology and Digital Banking in India. Because of technology helps the banks in impacting facilities to rural masses in getting the same facilities which people are enjoying living in urban India, so, cooperative banks are not untouched with the wave of such tremendous changes in banking functioning and working scenario.

Cooperative sector plays a prominent role in banking sector in India. Co-operative banks earlier had poor network connectivity across branches and were disconnected from other large banking fraternity but now, a large part of this sector has been computerised. Cooperative banks are now allowed to issue prepaid payment instruments like mobile wallets. But only those cooperative banks, which are permitted to install ATMs and issue debit cards, can also issue these instruments. apart from these steps still, cooperative banks and institutions are not come in the main stream of digitalisation facilities. The aim of this paper is to study the present scenario of Financial Inclusion and Digital Financial & Banking Services in India. It elaborates the opportunity for cooperative banks in extending their contribution in financial inclusion by digital transformation of their banking and financial services

Keywords: Digitalisation, FinTech., Cooperative Banks, Information Technology, Digital Financial Services, Banking System.

JEL Code: G21, O33

Introduction

Now a day, technology is working as blood of all socio-economic activities. Banking sector is not untouched with this technological wave. Over the last decade, the banks across the country have consistently used technology to change their operational working. Banks are required different technologies to perform best on its' own housekeeping and MIS or for its customer interface. The expansion of mobile money, the rise of FinTechs and introduction of artificial intelligence, have all changed the face of financial services. Digital transformation is also playing important role in changing banking and financial services, in term of their operations, performance and customer satisfaction. The expansion of digital financial services (DFS) has meant greater financial inclusion. In India, the concept of digital banking is of recent origin. In the early 1990s, there has been a start in the non-branch banking services. With the help of technologies like mobile technology, information technology and digitalisation of services, today, banks are rendering their Core Banking services with digital channel capabilities. Technological innovation is creating new avenues for doing business and revenue generating opportunities globally. Digital Financial Services require a broad range of financial products accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance. The digital disruptors are usually associated with mobile functionality, simplicity, big data, accessibility, agility, cloud computing, contextuality, personalization and convenience. Digital banking comes with

cyber security risk and there is need to have robust IT systems. The customer grievances related to unauthorized electronic banking transactions is a high priority issue. Today, banks are offering financial services through digital channels and the Banks, which do not have the requisite controls, could be a soft target for such unauthorized transactions.¹

Financial inclusion is an enabler for 7 of the 17 Sustainable Development Goals. Financial inclusion is considered as an effective means to sustainable economic growth of any nation. It facilitates day-to-day living, and helps in making families and businesses plans for everything. As accountholders, people are more likely to use other financial services, such as savings, credit and insurance, start and expand businesses, invest in education or health, manage risk, and weather financial shocks, all of which can improve the overall quality of their lives. At the end of 1990s private sector banks introduced information technology enabled non-branch banking services to enhance the customer satisfaction by providing anywhere anytime banking by using online mode of services.

There are lot of studies related to financial inclusion, banking services and digital financial services. Some important of these are strongly indicated about the positive impact of digital banking and financial services on financial inclusion, like, Kumar (2007) examined that the financial inclusion is not a onetime effort, it is an ongoing process. Collective efforts are required from all sides i.e. from stakeholders, society, law makers, financial institutions, government, community etc. In financial inclusion technology is also an important factor. He discussed that the impact of technological aspect cannot be ignored in financial inclusion. Jani and Tere (2015), has discussed the infrastructure required to every citizen to avail the services provided under digital India. They also discussed the new definition of IT that IT (Indian talent) + IT (information technology) =IT (India tomorrow). Sharma and Kukreja (2013), examined that India has to go long way to reach the core poor. They studied the comparison of banking sector country wise. Tamilarasu (2014) studied the role of banking sector in development of financial inclusion in India. He found out that during 2008 to 2013, banks showed an increasing trend. Morgan (2014) has studied the relationship between financial inclusion and financial stability. He found out various positive and negative points related to financial stability.

Aim of the Study

The aim of this paper is to study the present scenario of Financial Inclusion and Digital Financial & Banking Services in India. It elaborates the opportunity for cooperative banks in extending their contribution in financial inclusion by digital transformation of their banking and financial services

Financial Inclusion in India: Recent Trend and Government Initiatives

Globally, two-thirds of adults without an account cite a lack of money as a key reason, which implies that financial services aren't yet affordable or designed to fit low-income users. Other barriers to account-opening include distance from a financial service provider, lack of necessary documentation papers and lack of trust in financial service providers.

The banking sector continued to report high slippages on account of farm loan waivers and default in their corporate loan portfolio. The domestic economy growth remained muted. The growth in the Indian banking sector too remained under pressure in 2017-18 as well. Credit growth at 4.7% in 2017-18 was one of the lowest in over a decade.²

Banking environment in India structurally has become more dispersed than before with the Small Finance Banks, Payment Banks, Postal Bank emerging on the scene. The sector has recently witnessed the roll out of innovative banking models like payments and small finance banks.³ It consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions. India's retail credit market is the fourth largest in the emerging countries. It increased to US\$ 281 billion on December 2017 from US\$ 181 billion on December 2014.

The government of India (Gol) has identified financial inclusion as one of its key priorities to sustain India's economic growth on a high trajectory and ensure equitable growth.⁴ Up to 80% of Indians now have a bank account, the same proportion that have a mobile phone, but financial inclusion levels are still among the world's worst, lower than sub-Saharan Africa on some counts.⁵ After 2010-11, faster implementation of financial inclusion plans, have been seen. Commercial banks opened new rural branches, increased coverage of villages, set up ATMs and digital kiosks, deployed BCs, opened no-frills accounts, and provided credit through Kisan Credit Cards and General Credit Cards.

As part of financial inclusion, the following data related to banking network provide a look progress of banking services in India:

Table No.- 1
Progress of Financial Inclusion

Parameter of financial inclusion	March 2010	March 2017
Number of Bank branches in villages	33378	50860
Number of Business Correspondents (BCs)	34174	543472
Number of other forms of banking touch points	142	3761
Total number of banking touch points	67694	598093
Number of BSBDA* (in millions)	73	533
Deposits in BSBDA (Amount in Rs. Billions)	55	977

Source : Annual Report of RBI 2016-17

*Basic Saving Bank Deposit Account is a no-frill savings account without the need to maintain minimum balance and where no charges are levied

Table No.- 2
Contribution of Important Banks in Financial Inclusion

Name of Banks	No. of Debit cards issued (May 2018)	No. of Credit cards issued (May 2018)	No. of Branches FY 2018
Public Sector Banks			
State Bank of India	28.3 cr	65 lakhs	22,995
Bank of Baroda	5.3 cr	1.3 lakhs	5,469
Punjab National Bank	6.4 cr	3.3 lakhs	6,571
Canara Bank	4.5 cr	2.2 lakhs	6,221
Private Sector Banks			
HDFC Bank Ltd.	2.5 cr	1.1 cr	4,750
Kotak Mahindra Bank	0.9 cr	15.5 lakhs	1,388
ICICI Bank Ltd.	4.3 cr	52 lakhs	4,867
Axis Bank Ltd.	2.3 cr	46 lakhs	3,697
IndusInd Bank Ltd.	0.4 cr	8.2 lakhs	1,402
Yes Bank Ltd.	0.2 cr	3 lakhs	1,101

Source: <https://www.alphainvesco.com/blog/banking-sector-landscape-facts-figure/>

The above table shows the debit cards and credit cards issued by the banks and their total their total branches operated. To assess opportunities and risks arising for the financial system from digitisation and use of financial technology, and how these can be utilised for optimising financial product innovation and delivery to the benefit of users/customers and other stakeholders, and regulatory issues relating to financial technology and digital banking in India, the Reserve Bank of India has set up an inter-regulatory Working Group.⁶

The Government of India launched India Post Payments Bank (IPPB) on September 2018 and has branches across 650 districts to achieve the objective of financial inclusion. As part of government's capital infusion plan of Rs 65,000 crore (US\$ 9.70 billion) in 21 public sector banks during FY19, Rs 11,336 crore (US\$ 1.69 billion) will be infused in Punjab National Bank, Andhra Bank,

Allahabad Bank, Corporation Bank and Indian Overseas Bank.⁷

Gol has demonstrated a strong push to mobile banking and digital finance over the past few years. Through the JAM trinity (Jan Dhan Yojana - Aadhaar - Mobile phones), Gol envisions bringing all Indians into a common financial, economic and digital space, and has been working towards the 'Triple billion' milestone with the objective of linking 1 billion unique Aadhaar numbers with 1 billion bank accounts and 1 billion mobile phones. As of August, 2017, 524 million unique Aadhaar numbers have been linked to 736.2 million bank accounts in India.⁸

The Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in 2014 and has been largely responsible for the rapid increase in opened accounts. As of September 2018, the Government of India has made it an open ended scheme and has also added more incentives.

Table No.-2

Progress of PMJDY Up To May 2018

Group of banks	Number of new savings banks accounts opened (in millions)	Deposits accumulated (in Rs. millions)	No. of debit cards issued (in millions)
Public sector banks	255.3	652182.50	192.00
Regional rural banks	50.7	137170.30	36.80
Private Sector banks	09.9	22681.30	08.20
Total	316.6	812035.90	238.00

Source: <https://www.india.gov.in/website-pradhan-mantri-jan-dhan-yojana-pmjdj>

Digitization is changing various aspect banking and financial services in India. Banks who already equipped with IT, have undergone a massive transformation in the recent years to make transactions hassle-free and make their process much smooth. Government programs like 'Digital India' and upgraded technology initiatives are very helpful behind this change. Universal access to the mobile networks is making it easier for both banks and their customers to communicate. Digital India has the vision of changing the face of a side of India that has so far been under-represented in the benefits of the Digital Revolution. This side of India is often referred to as Bharat – well, with these initiatives there is a

strong possibility that Bharat will embrace the Digital World.

A comprehensive campaign launched in July, 2015, Digital India is by far, one of the most promising initiatives with the potential to help various walks of society. Digital India is for everyone, and the focus is to empower and uplift the people who are in rural areas and villages. Digital India hopes to introduce high-speed internet into rural villages, develop a secure digital infrastructure, and spread digital literacy across the nation. There is an obligation on the part of banks not only to establish the identity but also to make enquiries about the integrity and reputation of the customer opting for

internet banking. Therefore, even though request for opening an account may be accepted over Internet, accounts should be opened only after verification of the identity of the customer and adherence to KYC guidelines. The provisions of the Information Technology Act, 2000, and other legal requirements need to be carefully adhered to while offering internet banking. Now a day, there is a responsibility of the banks to maintain secrecy and confidentiality of customers' accounts/information. Banks are keeping all reasonable precautions, but they may be exposed to enhanced risk hacking / technological failures.⁹

Co-Perative Sectors' Contribution in Financial Inclusion

Co-operative banks provide the middle class and rural population with credit, saving schemes, banking facilities and loans facilities. Nearly 80 percent of our agriculturists are small and marginal farmers. They are dependent on credit for their seasonal agricultural activities. Cooperative Credit System (CCS) has been a major provider of agricultural credit, specially short-term loans for raising crops, serving an estimated 50 percent of all farmers served by credit agencies, with over 75% of its credit disbursal being for small and marginal farmers. The rural cooperative banking system in our country is well over a century old. A large part of cooperative sector has been computerised. The important department have been computerised like major loan accounts, the investment operations and the clearing systems.¹⁰ Co-operative banks earlier had poor network connectivity across branches and were disconnected from other large banking fraternity.

According to the National Payments Corporation of India (NPCI), all co-operative banks in the country would be part of digital transactions. "The Unified Payments Interface (UPI) ecosystem now covers all public sector undertakings and major private banks. We are in the process of extending the service for co-operative bank. All co-operative banks, which computerised their operation, would be part of digital transactions." Bharat Interface for Money (BHIM)¹¹ App has crossed 16 million downloads and four million active customer base by end of June 2017.¹² Now a day, some of the important co-operative banks have gone live with their mobile

Digital India is helping co-operative financial institutions in various ways like BharatNet and Make in India provide employment and entrepreneurship opportunities to this unrepresented class of India. The availability of internet makes it possible for them to study and research their own offerings before bringing them to the markets. Once these products are developed, the common man could approach one of the local co-operative banks or credit societies for a personal loan or line of credit. The digital literacy mission is said to cover over 6 crore rural households which will lead to better accessibility, and a better appreciation of digital banking facilities, eliminating the need to constantly travel to towns for simple transactions.

The rural cooperative credit mechanism in India essentially comprises two parallel structures viz. the three tier short-term credit structure for

dispensation of short- and medium-term credit for crop production and agriculture allied activities; and the long-term credit structure for providing long-term credit for investments in agriculture e.g., land development, farm mechanization, horticulture, etc. These institutions have been supported both by way of policy and refinance supported for a considerable time by the RBI and later by the ARDC and NABARD. The short-term cooperative credit and banking system continues as a potent instrument in meeting the credit and related needs of the farmers. Around 5.5 crore farmers, mostly small and marginal farmers, continue to be dependent on the PACS supported by DCCBs, numbering 380 with around 14000 branches and 32 state coop banks for their agricultural loans. There are around one lakh PACS spread across the rural areas of the country, with over two-third of them being operationally viable.

Large parts of cooperative sector now mark with a Core Banking System developed by the National Informatics Centre (NIC), which has brought them into the technology mainstream. In Co-operative Core Banking Solution (CCBS), NIC takes care of all aspects, except hardware and manpower.

RBI has allocated Rs. 4 lakhs per Cooperative Urban Bank (UCB) for Computerisation and maintenance cost of Rs. 15,000/- per month for a period of 3 years.

There are many examples of contribution in financial Inclusion through digitalisation in cooperative banks like Sarvatra Technologies which has played a very vital role in digitizing small co-operative banks across India. It has enabled lakhs of semi-urban and rural customers to the digital banking world. Sarvatra aims to add another 50 plus co-operative banks by FY 2019. The transaction value on Sarvatra platform has grown ten-fold in the past five years. In 2018, the transaction value is set to touch Rs. 40, 000 crore. In continuation to their digital payment enabling story for India, Sarvatra has provided digital payment platform from the smallest cooperative banks to the largest lenders in India like ICICI Bank, IDBI Bank and new generation clients like Paytm Payments Bank, Equitas Small Finance Bank etc.¹³ Sarvatra is present in Maharashtra, Gujarat, Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Kerala, Uttar Pradesh, Bihar, Punjab etc. Samruddhi Cooperative Bank, Nagpur, based in Maharashtra launched the lender's first ever RuPay Card. The National Payments Corporation of India (NPCI) in a short span facilitated the launch of RuPay Card and it has reached to small co-operative bank like Samruddhi. Mahesh Co-operative Urban Bank, Hyderabad has various techno-enabled initiatives and services this year. It is the first co-operative urban bank in the cooperative sector in South India that is extending tech-savvy services to its customers on a par with the private sector banks. Presently the bank is functioning with a network of 42 branches covering four States viz., Telangana, Andhra, Maharashtra and Rajasthan. After seeing the IT based success in the bank, the RBI has permitted the bank to extend its network to Gujarat State as well. Amreli Jilla Madhyastha Sahakari Bank is using information

technology in the cooperative model to deliver goods to farmers and poor sections of society. It is one of the foremost banks to introduce Kisan Credit Card. The Co-operative Bank of Rajkot is equipped with high technology using Enterprise Banking Solution and Any Branch Banking at all branches for its customers. The bank has also installed Core Banking Solutions and its 11 branches are equipped with onsite ATMs. Tiruchi's Co-operative Banks (TDCCB) has all 52 branches in Tiruchi, Karur, Ariyalur and Perambalur districts under the CBS. With the help of CBS, the bank facilitates the transfer of funds through National Electronic Fund Transfer, Real Time Gross Settlement and Direct Benefit Transfers.

Conclusion

The cooperatives have an important role in deepening financial inclusion in the country. As agriculture will continue to have a dominant role in the Indian economy, the rural credit cooperative system will continue to be relevant in providing financial services. The Cooperative Banks of all levels viz. State, District and Cooperative Urban banks therefore have to also ensure that technologies are continuously updated to achieve a high degree of risk management capability. The cooperative banks have to catch up with the technological backwardness to dive into the future of banking. This would require strategies that involve Asset and Liability Management, and take care of exchange, interest rate, liquidity and operational risks. Cooperative banks would need to take measures to have appropriate technology for access control and security the area of great concern in today's highly competitive environment.

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