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Financial Inclusion: A Comparative Study of Initiatives Taken by Indian Government Pre and Post 1991

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Abstract:
Financial Inclusion is the process of ensuring provision of financial services in a transparent and timely way to the vulnerable sections of the society. Provision of such services would thereby help any economy increase saving rate and directly or indirectly increase investment rate and hence contributing to economic growth of a nation. Since, higher saving and investment rate is the key for sustainable economic growth of any nation. Financial Inclusion as a concept was introduced in India in 2005; however Indian Government and The Central bank have been working in this regard since India achieved Independence.
During the time when India achieved independence, People were relying on informal financial system for borrowing and thereby being exploited in form of higher interest rate or higher cost of borrowing. While, formal financial system was perceived to be channel for saving and credit only for the higher sections of the society and the corporate. This distinction was attributed to lack of three dimensions defined by Alliance for Financial Inclusion (AFI) namely access, usage and Quality. To add on to these dimensions "Literacy" played a key role. Present study attempts to explain policy measures adopted by Indian Governement for financial inclusion and success rate of each of the listed measure.

Keywords: *Financial inclusion, Formal and Informal financial system, savings, Investment.*

1. Introduction
According to Reserve bank of India, Financial inclusion is the process of ensuring access to financial services and timely and adequate credit availability to the vulnerable groups such as weaker sections and low income group at affordable cost. Planning commission (2009) further explain it as universal access to a wide range of financial services at a reasonable cost. Financial inclusion was first featured in 2005 (K C Chakraborthy) when the first pilot project was introduced in Managalam Village, Pondicherry. The village became the first in India where all households were covered under the ambit of financial services. The process of financial inclusion otherwise dates back to 1950s, banks played a predominant role in providing financial services to the privileged section of the society, while rural households relied on moneylenders for credit who charged inflated interest rates. Thus, a need was felt to eliminate the monopoly created by moneylenders in giving credit at higher cost to the rural households who could not access the institutional credit due to lack of knowledge, adequate banking infrastructure and mainly because many commercial banks were proportionately giving higher credit to those having good net worth. The main reason for this act on part of commercial banks was low saving rate, lower deposits and inclination of banks towards profit generation which could be achieved only through lending to the individuals and firms having high net worth. Thus the interest of rural households and those having lower net worth was overlooked. Government following socialistic pattern post independence felt a need to bring about a turnaround in the low saving, investment and growth rate. This transformation could only be brought about by contribution from the banking sector and increasing the reach of banking services to those areas which are excluded from the banking and financial services. Thus Government took initiative in form of social control, nationalization, lead bank scheme, Regional rural banks, business correspondents, mobile banking, no- frill accounts etc. The present study attempts to explain the initiatives taken by the Government with respect to financial inclusion and their success rates.

2. Literature Review
C Rangarajan (2009) defined financial exclusion as restricted access to financial services to certain segment of economy which includes individuals or family belonging to low income group who cannot access basic banking like bank accounts, credit, insurance, financial advisory and payment services. Financial inclusion has been the backbone of the banking sector through last seven decades. Although the word was officially used in 2005 in India, however many historic measures support the initiatives taken by Government of India to reach unbanked areas of the economy. A lot of literature support this preposition according to Dan Radcliffe and Rodger Voorhies, Bill & Melinda Gates (2012) poor's immersion in physical cash creates considerable frictions in their financial lives. Cash is considered to be advantageous due to highly liquid however idle cash carries opportunity cost, storage cost, storage risk, transport

cost. The study suggested the many developed countries pension saving rate is high when saving is the default option via automatic enrollment in pension. Charan Singh et.al. (2014) Reserve bank of India and Governement of India initiated many measures since 2005 but many measures produced unsatisfactory results. Mobile banking, banking technologies, Indian post office, fair price shops and business correspondents are the key resources for to provide financial inclusion facilities in efficient and user friendly ways. Garg, Agarwal (2014) categorized initiatives taken by government and RBI into various approaches which includes Product based approach to financial inclusion includes no-fill accounts, Kisan credit card, general purpose credit card, saving account with overdraft facility; bank lead approach includes SHGs and Business correspondents; regulatory approach includes KYC, Bank branch authorization; Technology based approach includes mobile banking, branchless banking, kiosk, Aadhar enabled payment services and Knowledge based approach includes financial stability development council and financial literacy centers. The Brooking report by John d. Villasenor, et.al. (2015) made a comparative study of developing countries in terms of financial inclusion services and their penetration around the globe. The results showed Kenya, South Africa, Brazil, Rwanda /Uganda, Chile, Colombia and Turkey to be the highest performing countries in terms of financial inclusion. They also analysed that digital financial services will accelerate financial inclusion in the years to come. Global Financial Development Report (GFDR, 2014) the proportion of individuals and firms that use financial services varies widely across the world, the report suggested that more than 2.5 billion adults or half of the world's adult population do not have access to bank accounts. The major reasons behind this are no demand for accounts and other barriers like cost, travel distance and increased amount of paper work. It could thus be concluded from literature that developed and developing countries are taking steps towards financial inclusion however developing countries still have proportionately higher number of financially excluded people. Overcoming this barrier will help reduce poverty, generate savings, improve flow of credit and thus will contribute to development and growth of economies.

3. Objective of Study

3.1. To understand the process and measures undertaken by government in pre 1991 era towards financially excluded sections of the economy.

3.2. To analyze the success rate of measures undertaken by the government post 1991.

4. Research Methodology

This research paper is descriptive in nature and is based on the secondary data attained from the various secondary resources such as government data, e-journals, websites, newspapers, working paper, annual reports etc.

5. Government Initiatives pre 1991

The need for penetration of banking services was felt far before the period of Globalization when information asymmetry and lack of adequate infrastructure limited the scope of banking services. An All India rural credit survey (AIRCS) was conducted in the first year of planning period i.e. 1951-52 to study the credit penetration of the banking industry mainly to rural sectors. The results of the survey showed that "92.8% of rural household relied on informal financial sector" (Narayan Chandra Pradhan, 2013). Moneylenders fulfilled about 70% of the credit requirement and they charged high rate of interest for the same. Therefore, RBI felt a need for enhancing the credit penetration by cooperative and commercial banks. Total number of commercial banks in the period 1951-1967 declined from 566 to 91 banks with increase in bank branches from 4151 to 7025 branches according to volume II of history of Reserve bank of India. However, the increase in branches were concentrated more in urban areas while rural areas remained outside the ambit of banking services; agricultural sector, small scale industries and self-employed groups were unable to avail the credit and deposit facilities of the bank. Till 1967 the players in banking industry were privately owned and directed mostly by industrialist with key motive being profit maximization; In order to promote their objective banks limited their loan portfolio's to large and medium scale industries while priority sectors such as agriculture, small-scale industries and exports were neglected.

In December 1954, Parliament adopted a resolution which stated that objective of economic policy would be "socialistic pattern of society" and "Agriculture and Industrial development" were the key objectives of five year plans. The developments needed major contribution from banking industry since credit penetration and promotion of savings and Investment in the economy were the factors which could have brought about turnaround in the then prevailing Hindu growth rate. However, According to All India rural credit survey (1951-52), low unit cost of lending and insufficient resources with banks due to low saving rate limited the loan portfolio of the banks to large and medium industries thus acting as stumbling block to priority sector. As a consequence government had to address the issues of low saving and investment, diversify the loan portfolios of the bank, prevent the monopolistic trend followed by banks in sanctioning loan and eliminate the concentration of economic power and misdirection of resources.

Promotions of economic interest lead to major development in the banking sector with introduction of "social control" of banks in 1967 through Banking Laws (Amendment Act) 1968 which came into force on 1st February1969 and setting up of National credit council in December 1967 to determine priorities of bank credit to different sectors of the economy. Latter appointed a study group under chairmanship of Prof. D. R. Gadgil; results of the committee showed that commercial banks could reach only 5000 villages by the end June 1967 by this time 28% of the credit requirement of agriculture was filled by institutional credit agencies and cooperative banks while only 1% was filled by commercial banks (K. Shivaji,2007). The group further recommended enhancing the role of commercial banks for increasing credit to priority sectors by branch expansion and direct lending. All India credit review committee (1969) founded the need for adoption of multi-agency approach to provide credit to rural areas and suggested primary role of commercial banks. Following social control of banks in 1967; 14 major commercial banks whose deposit exceeded Rs.50 crore were nationalized in 1969 and six other in 1980, banks were advised to treat agriculture as a priority sector. In addition to this other institutions were set up primarily to meet the credit requirement of the priority sector which include Regional rural banks in 1975, Agriculture refinance commission in 1963 which was later (in 1982) merged to form National bank for agriculture and rural development (NABARD). The institution had the main responsibility of agriculture credit and it acts as a refinancing institution for secondary and tertiary sectors in rural areas. According to Figure 1, during 1951, 7.2% of rural credit was sanctioned by institutional agencies while non institutional agencies had a share of 92.8%. The transformation in the rates was only seen after 1981 due to range of initiatives being carried on in last two decades.

Institutional and non-institutional rural credit

(Per cent)	1951	1961	1971	1981	1991	2002
Institutional Agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64.0**	**57.1**
Government	3.3	5.3	6.7	4.0	5.7	2.3
Co-op. Society/bank	3.1	9.1	20.1	28.6	18.6	27.3
Commercial bank incl. RRBs	0.8	0.4	2.2	28.0	29.0	24.5
Insurance	--	--	0.1	0.3	0.5	0.3
Provident Fund	--	--	0.1	0.3	0.9	0.3
Others institutional agencies*	--	--	--	--	9.3	2.4
Non-Institutional Agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36.0**	**42.9**
Landlord	1.5	0.9	8.6	4.0	4.0	1.0
Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10.0
Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6
Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6
Relatives and Friends	14.2	6.8	13.8	9.0	6.7	7.1
Others	1.9	8.9	2.8	4.9	2.5	2.6
Total	***100***	***100***	***100***	***100***	***100***	***100***

*: includes financial corporation/institution, financial company and other institutional agencies.

Figure 1: Source: All India rural credit survey, All India Debt and Investment survey, Narayan Chandra Pradhan, RBI (2013)

Table 1 represents the measures taken by the government to bring about enhancement in the banking services provided and availed by the priority sector and the under privileged section of the society.

	Objectives
Branch Licensing Policy	
1962:	In 1962, banks were compelled to open branches in unbanked/banked centers in a ratio of 1:2. For a coordinated branch expansion, banks were advised to submit a plan for 3 years i.e., 1962 to 1965. During 1962-65, 47 scheduled commercial banks proposed to open 616 new offices of which 231 were unbanked centers. 569 branches were opened with 210 unbanked centers (KC Shekhar, 2009).
1968	In the Ist meeting of National credit council in 1968. The norm of unbanked/banked ratio of 1:2 was altered to 1:1
1970	The ratio of 1:1 was again altered and RBI adopted a rule of 2:1 between unbanked and banked in case where banks have more than 60% of their offices in rural and semi Urban area and ratio of 3:1 of Unbanked/Banked was prescribed for all other banks.
1971	Banks having 60% branches in rural and semi-urban areas were eligible to open “one” branch in urban, metropolitan or port town for every “two” branches opened in rural and semi-urban areas. Other banks were required to have “three” branches in rural and semi-urban area for every “one” branch in urban/Metropolitan/Port town.
1977	RBI adopted a rule that bank had to open “four” branches in unbanked rural areas to get entitlement to open an office in metropolitan/Port town and one office in banked area.
1980-85	Main aim of policy during this period was to open one bank office for an average population per branch office (APPBO) of 17,000 in rural and semi-urban area in each district. Banks managed to do so for an average population of 15,500 by the end of 1985 (DT Pai, 2007).
1985-1990	During this period the country had a network of approximately 60,000 branches which was considered adequate for meeting banking requirements therefore Service area approach to rural banking was adopted under which each bank branch was expected to cover 15 to 25 villages. The allocation of villages was done by lead district officer of RBI, Lead district officer of lead banks and concerned officer of National bank for agriculture and rural development (NABARD).
1965: credit Authorization scheme	Credit authorization scheme initiated in 1965 to regulate the credit availability of big borrowers. All commercial banks had to obtain authorization from RBI before granting loan of Rs. 1 crore or more to a single borrower. This limit was increased to Rs. 2 Crore and Rs. 6 Crore in 1975 and 1988 respectively.

1967: National credit council	22 December 1967, lead to formation of national credit council to access credit demand of various sectors of economy, prioritizing the credit availability to priority sector and coordinating lending and investment policies between cooperative and commercial banks.
1968: Social Control of banks	India had a socialistic pattern of society, Thus government needed to have tight control over the banks in order to promote its economic policy which was majorly socialistic in nature. Main aim of social control of banks was to: a. RBI had the responsibility to restructure, appoint board of directors and chairman of commercial banks. b. Out of the Board of directors so appointed 2% represented agriculture, small scale and cooperative institutions. c. Banks were not allowed to give loans and advances to any business firm run by directors of the bank. d. RBI also prioritized allocation of credit to priority industry.
1969: Nationalization of Banks	According to Banking companies (Acquisition and transfer of undertaking) ordinance 1969, 14 commercial banks having deposit of over Rs. 50 crore and representing 70% of country deposits(Samar Srivastava) were nationalized. However, Later in 1980, six more banks with deposits of over Rs. 200 crore were nationalized.
1969: lead bank scheme	According to a report by Prof. D. R Gadgil, commercial banks lacked in rural presence and thus recommended an “Area Approach”. As a part of social responsibility of public sector banks they were recommended to open branches in various districts where banks would be working as “Lead Banks”. Thus main objective of the scheme was branch expansion, deposit penetration and lending to priority sector. In 1989 Service Area Approach recommended each rural/semi-urban branch to serve an area of 15-25 villages.
1971: credit guarantee corporation of India Ltd.	Credit Guarantee corporation of India Ltd. established to guarantee extension of credit facilities by commercial banks to small borrowers and priority sector which was majorly represented by agriculture, medium and small enterprises.
1972: Differential interest rate scheme	Scheme aims at providing concessional loans at the rate of 4% to low income groups. With a limit of Rs 20,000 per beneficiary on home loan and Rs. 15,000 per beneficiary in other forms of loans.
1975: Regional rural banks	According to the Regional rural act, 1976 RRB’s were owned with a 50% stake of central government, while 15% and 35% of state government and sponsor bank respectively. RRB’s were set up with the main objective of extending banking facilities to the priority sector and the underprivileged section of the society.
1982: NABARD (National bank for agriculture and rural development)	National Bank for Agriculture and Rural development was established on the basis of NABARD Act, 1981 for promotion and facilitation of credit facilities to agriculture, small scale industries and other priority sector.

Table 1: Measures adopted by the government prior to 1991

6. Initiatives by India since 1991

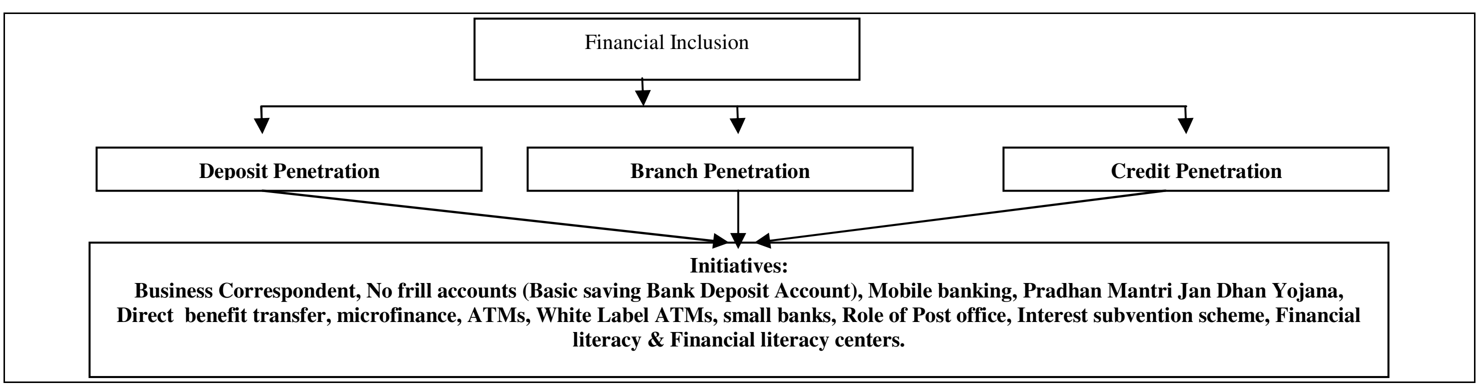

Figure 2

6.1. Mobile Banking

Nation with the world's second largest population of 1.2 billion with 970 million mobile phones and only 700 million inclusive of 180 million accounts under Pradhan Mantri Jan Dhan Yojana as quoted by Bank of America Merill Lynch report. The figures suggest penetration of mobile phones outnumber the branch penetration in the country. Growth of mobile banking will simultaneously lead to growth in complimentary bank products like credit/ Debit cards etc. According to report by IAMAI and KPMG prediction India is expected to have 236 million mobile internet users by 2016. Mobile phones have had their extend to the rural market fig 3 denotes 48% of rural India have access to mobile phones however active internet users only account for 6.7% of overall rural population of 905 million. According to Nielsen, The mobile consumer report 2013 India accounts for only 7% of mobile banking. Therefore, Companies can still take innovative measures in enhancing mobile banking.

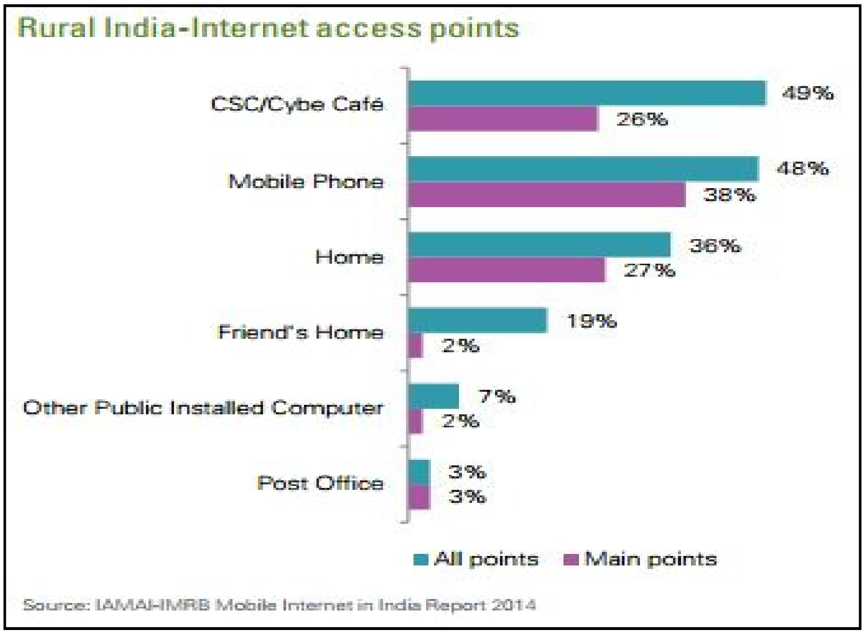

Figure 3: Source: IAMAI-IMRB mobile internet India Report, 2014

Although a great percentage of rural population have access to mobile phones but the major impediment to its growth still lies in literacy and adequate infrastructure and connectivity. Mobile wallets are another step in mobile banking penetration one of the recent step in this regard is taken by ICICI bank's initiative Pockets.

6.2. Interest Subvention Scheme

Interest subvention is a guarantee of financial support from the government in form of loan availability at subsidized rates. For the financial year 2015-16, Government will give an interest subsidy of 3% on the crop loan of upto Rs. 3 Lakh at the rate of 7% provided farmers repay the loan on time. This scheme is applicable to public sector, private sector, regional rural banks, co-operative banks and NABARD.

6.3. Pradhan Mantri Jan Dhan Yojana (PMJDY)

Launched on August 2014, PMJDY is an initiative taken by the government for providing financial services to the excluded section of the economy. Financial services are inclusive of basics saving bank deposit account (BSBDA), Accidental insurance (Rs. 1Lakh), Life insurance (Rs. 30,000) and overdraft facility after the banks are satisfied with operability of the bank accounts (Approximately six months). In order to have wide range impact of transfer of social security benefit provided by central and state government will be initiated from the account and after due diligence credit product could be provided to farm and no-farm sector.

Pradhan Mantri Jan Dhan-Accounts opened (Till September 2015)

S.No		No Of Accounts			No Of Rupay Debit Cards	Balance In Accounts (In Rupees Crores)	% of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Bank	8.07	6.56	14.63	13.13	19695.03	39.37
2	Regional Rural Bank	2.86	0.48	3.35	2.40	4328.16	40.00
3	Private Banks	0.43	0.29	0.72	0.63	1123.79	41.67
	Total	11.37	7.33	18.70	16.17	25146.97	39.57

Figure 4: Source: http://www.pmjdy.gov.in/account-statistics-country.aspx

Pradhan Mantri Jan Dhan-Accounts opened (Till June 2016)

Bank Name	RURAL	URBAN	TOTAL	NO OF RUPAY CARDS	AADHAAR SEEDED	BALANCE IN ACCOUNTS	% OF ZERO-BALANCE-ACCOUNTS
Public Sector Bank	9.71	7.66	17.37	14.60	8.61	30628.53	25.88
Regional Rural Bank	3.38	0.55	3.93	2.78	1.40	6720.64	21.63
Private Banks	0.51	0.31	0.82	0.77	0.34	1430.61	37.54
Total	13.59	8.53	22.12	18.15	10.34	38779.79	25.56

Figure 5: Source: http://www.pmjdy.gov.in/account-statistics-country.aspx

As shown in Figure 4 and Figure 5 above public sector banks capture a larger share out of the total bank inaccounts opened under the scheme thus giving them comparative advantage over other category of banks. However, a comparative analysis of number of accounts in 2015 and 2016 show only a minor increase however % of Zero balance accounts has decreased during the said period. As per the Global Findex report, 2014 by World Bank 72% of the accounts opened in India show zero balance and dormancy rate is as high as approximately 43%.

6.4. Financial Literacy

Literacy of the schemes implemented forms a major challenge in the entire process of financial inclusion. According to RBI guidelines, financial literacy centers and rural branches of banks are required to conduct literacy camps atleast once a month.

Activities undertaken by financial literacy centers

Particulars	2013-14 (April-March)	2014-15# (April-March)
1	2	3
No. of operational FLCs	942	1,181
No. of activities conducted*	56,985	84,089
Total no. of participants*	3,826,068	5,238,358
No. of participants opened accounts after attending the camps	NA	1,442,546
No. of participants already having accounts while attending camps	NA	2,890,204

*: Includes both outdoor and indoor activities. However, indoor activities have been discontinued w.e.f. April 2014.
NA: Not available. #: Provisional.

Activities undertaken by Rural branches

Particulars	2014-15*
1	2
No. of Rural branches	52,934
No. of Rural branches conducted camps	32,509
No. of camps conducted	306,188
Total no. of participants	14,826,647
No. of participants opened accounts after attending the camp	5,657,092
No. of participants already having accounts while attending camps	6,686,518

*: Provisional.

Figure 6: Source: RBI, Annual Report 2014-15

According to Table 2, there has been increase in the number of financial literacy centers operational in India by approximately 239 centers, this increase in complemented with the activities conducted and number of participants. On the other hand, financial literacy program by banks and centers exhibit to have a positive influence on the perception of people to open up the accounts. However, only 61.4% of total rural branches conduct camps. It could thus be drawn on the basis of relation between camps, camps attendance and accounts that there is positive impact of these accounts on perception of rural population but the banks lagging behind in these initiatives could see higher rate of dormancy. Since, Literacy is the key pillar of financial inclusion.

6.5. Small Banks Model

Small banks with an initial capital requirement of Rs. 100 crore could set up their infrastructure with the primary aim of lending about 75% to the priority sector and 50% of loan book of such banks should comprise only of loans Upto Rs. 25 Lakh.

6.6. Business Correspondents

Business correspondents a successful model of Brazil was proposed to be adopted in India by RBI in 2005. While India have been taking initiative to open small and ultra-small branches in rural and semi-urban areas but there have been many villages who cannot avail banking facilities due to inadequate infrastructure ,connectivity and illiteracy. Thus in order to penetrate the banking facilities business correspondents of various banks was authorized to reach to unconnected villages. According to Table 2, Business correspondents alone brought about liquidity amounting to Rs. 74.6 billion in 2015.

6.7. Kisan Credit Card Scheme

Kisan credit card scheme launched in 1998-99 by government of India, reserve bank of India and National bank for agriculture and rural development for providing credit to the farmers at affordable cost, to insure against crop failure and stimulate production of food crops and oil seeds using higher technology. Credit available is for short time period with an increase in 10% limit every successive year from 2nd year onwards. The scheme also provides personal accident insurance. According to Table 2 There has been an increase in the number of KCC from 24.3 to 42.5 million in last five years.

	Year Ended March					
	2010	2011	2012	2013	2014	2015
Banking Outlets in Villages – Branches	33,378	34811	37471	40837	46126	49571
Banking Outlets in Villages – Branchless mode	34,316	81,397	17,282	227617	337678	504,142
Banking Outlets in Villages –Total	67,694	116,208	181,753	268454	383,804	553,713
Urban Locations covered through BCs	447	3771	5891	27143	60730	96847
Basic Savings Bank Deposit A/c through branches (No. in millions)	60.2	73.13	81.20	100.8	126.0	210.3
Basic Savings Bank Deposit A/c through branches (Amt. in billion)	44.3	57.89	109.87	164.7	273.3	365.0
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.3	31.63	57.30	81.3	116.9	187.8
Basic Savings Bank Deposit A/c through BCs (Amt. in billions)	10.7	18.23	10.54	18.2	39.0	74.6
BSBDAs Total(No. in millions)	73.5	104.76	138.50	182.1	243.0	398.1
BSBDAs Total (Amt. in billions)	55	76.12	120.41	182.9	312.3	439.5
OD facility availed in BSBDAs (No. in millions)	0.2	0.61	2.71	4.0	5.9	7.6
OD facility availed in BSBDAs (Amt. in billion)	0.1	0.26	1.08	1.6	16.0	19.9
KCCs (No. in million)	24.3	27.11	30.24	33.8	39.9	42.5
KCCs (Amt. in billion)	1,240.1	1600.05	2068.39	2623	3684.5	4382.3
GCC (No. in million)	1.4	1.70	2.11	3.6	7.4	9.2
GCC (Amt. in billion)	35.1	35.07	41.84	76.3	1096.9	1301.6
ICT A/Cs BC Transaction (No. in million)	26.5	84.16	155.87	250.5	328.6	477.0
ICT A/Cs BC Transactions (Amt. in billion)	6.9	58.00	97.09	233.9	524.4	859.8

Table 2: Progress of banking sector
Source: Compiled from RBI Annual Report, Various Issues

6.8. Direct Benefit Transfer Scheme

The direct benefit transfer scheme was launched under the name of Pratyaksh Hanstantrit labh (PaHaL) in November 2014 in 54 districts which was later expanded to rest of India in January 2015. The scheme aimed to link Aadhar number with the bank account and enable transfer of LPG subsidy through the accounts. There were around Rs. 14.33 beneficiaries and Rs. 26533.93 crore disbursed as per ministry of petroleum and natural gas.

6.9. Digital India Initiative

The government of India initiative aims at providing and setting up infrastructure to connect each and every citizen digitally. Government aims at connecting cities with a population of more than one million with Wi-Fi services, provide broadband services to around 250,000 villages by 2019, facilitation of digital locker. The digital initiative would help create job, connect villages digitally where by rural households would be able to use online banking platforms, distribution of social security benefits thus contributing to transparency in such distribution. However the major challenges to these initiatives are literacy and adequate support infrastructure. According to Figure 7, digital finance would create opportunities like better credit delivery, connectivity, better infrastructure which would facilitate growth and increase savings and investment.

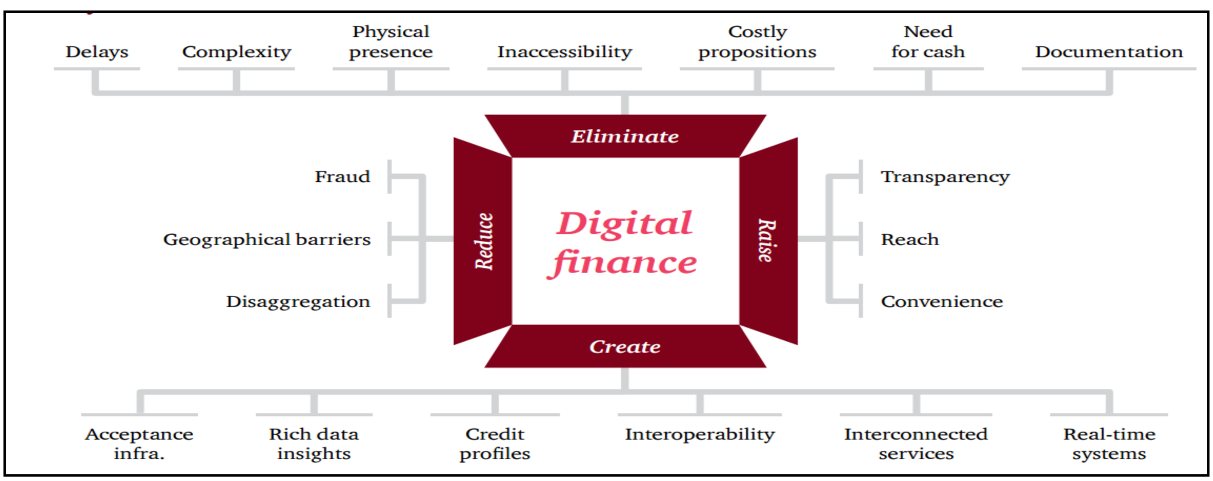

Figure 7: Source: Logging into digital banking creating access: transforming lives; pwc 2015

According to World Bank, 10% increase in mobile and broadband penetration increases per capita GDP by 0.81% and 1.38% respectively in developing countries. The report further suggested that India has huge opportunity for expanding the facilities in rural India which constitutes 65% of population.

7. Conclusion

Financial inclusion is the route map to growth for developed and developing countries. While in developed countries there are proportionately higher numbers of people under the ambit of banking and financial services than in developing countries largely due to trust factor, better connectivity, availability of adequate infrastructure and higher literacy rate.Large part of people do not avail basic banking facilities across the world largely due to lack of knowledge, inadequate infrastructure, additional cost involved, misconception about safety of funds with banks and lack of trust in branchless banking and business correspondents. Thus, Governement need to address all these issues in order to encourage financially excluded section of the society to avail banking facilities. Many South Asian and Middle East nations also sighted lack of compatibility of banking products with religious beliefs. According to Brookings, India has been ranked highest among developing countries to take initiatives in this regard. Although a series of measures have been taken by India since independence to provide "banking for all", it has been successful at some aspects while failed on some. The positive impact of measures have been in terms of higher deposits, higher credit, expansion of bank branches, expansion of banking network not just in terms of banking infrastructure but also enhancement of branchless banking, increase in the number of bank accounts, contribution of banking sector towards growth, cheaper availability of finance and increased flow of liquidity into the economy. However what has been the challenge yet is the high rate of illiteracy, lack of trust, better infrastructure and connectivity this is evident from high dormancy rate of large number of bank accounts in India and improper implementation of schemes. Although banks have undertaken steps to address these issues but a high success has not been received yet. The literacy rate of male adults in India is still 82.14% while that of females is 65.46% according to 2011 census. This differential still depicts lack of knowledge among women to save, borrow, invest and grow. Thus literacy, initiatives and connecting are the core to the success for "inclusion". Higher literacy programs and digital initiatives will help more number of people to avail banking and financial services and thus contribute towards overall development of economy in terms of reduction of poverty, generation of employment and promoting growth and development.

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