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Financial Inclusion: The Road Traversed and the Way Ahead

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Abstract:

The world has been a small place to compete and it is true that development has reached a stalemate where each nation has tried to win points at the cost of others. The depleting resources and rising costs have meant that efforts are radicalized to lift up the engines of development. The development has always been a priority regardless of the levels achieved and the existing saturation levels. The levels of anticipated and expected development levels forecasted and planned will always be a miracle to achieve reality unless financial inclusion is implemented across the nation far and wide. Tangible progress has been made over last three years, but still the enormity of the task is such that it still leaves the countries with a lot to achieve over the next few years. The situation in India is no different and the patterns are very similar compared to other nations. It has made a remarkable progress and the resurgence in the entire financial machinery seems noticeable. But still the issue of financial inclusion seems conspicuous by its absence. This paper is divided into three sections. The first section analyses the progress of India compared to other nations on financial inclusion. The second section provides an outline of Indian states on determinants shaping up the index of financial inclusion. The third section provides a roadmap ahead for Indian economy attempting to stage a full financial inclusion over a period of time.

Keywords: Financial Inclusion, Index of Financial Inclusion, Inclusive growth, Rural Market

1. Introduction

Most countries have a major chunk of their population living beyond means falling into the poverty trap. Such a trap implies the struggle to live even on the basic necessities of life. The large numbers of Rural and semi-Urban are required to be infused with financial help, knowledge and resources to smoothen their standard of living conditions. Hence, there is a need for policy makers to bring about a paradigm shift in policy making so that economic resources reach the most deserved sections of the nation.

2. Literature Review

2.1. Financial Inclusion and Development Policy

A World Bank Report (2008) defines financial inclusion as a “Broad access to financial services, which is further defined as non-existence of price or non-price hindrances in the consumption of financial services.”

Rangarajan Committee (2008) on financial Inclusion further states that it is 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.” The financial services include a range of services like savings, loans, insurance, credit, payments, etc.

Michael Chibba (2009) elaborated that Financial Inclusion is one such strategy that could speed up the achievement of millennium development goals.

Mandira Sarma and Jesim Paise (2008) states that financial inclusion has been a priority in many countries. Financial inclusion and human development are positively correlated and move in same direction most often. Hence, the better is the level of financial Inclusion; the better will be the chances of speedier growth and development.

2.2. Financial Inclusion and Growth

There are enough evidences to prove and justify that a sound and well established financial system can act as major poverty alleviating tool. A poorly developed financial system means huge costs, lesser economies to the common man, investor and a budding entrepreneur.

Beck and de la Torre (2006) indicate that a mature financial system is able to allocate resources to newcomers.

King and Levine (1993) mention that access to finance is also an important incentive for new ideas and technologies.

Rutherford (1996) suggested that the provision of financial services to poor people need not only be for increasing income, empowering women, or starting small businesses – it may actually help them in better financial management.

Burgess and Pande (2003) show that the rural bank expansion programme, mandated by the Indian government from 1977 – 1990, can explain approximately half of the drop in poverty from 61% in 1967 to 31% in 2000. Further, they find that rural bank expansion was associated with non-agricultural growth. These results demonstrate that an increase in bank branches and the resultant improvements in physical access were critical in reaching out to remote areas and decreasing poverty.

Roshny Unnikrishnan et. al (2012), analyzed in their study “Enabling Financial Inclusion at the bottom of the Economic Pyramid”, the importance of financial inclusion in economic empowerment.

3. Objectives of the Study

- To compare India with other countries on financial inclusion.
- To ascertain the progress of financial inclusion in India
- To suggest possible measures, as well as evaluate & analyze the contributions of these initiatives to the Economic development of the nation.

4. Research Methodology

The Research Design is conclusive in nature and secondary data has been used to arrive at various interpretations. The secondary data has been availed from the World Bank, IMF, RBI sources. The sampling procedure is convenient sampling.

5. Results and Discussions

5.1. India and the World

The level of financial exclusion in India is indeed very high when compared to many developed and some of the major developing economies. The reach of financial exclusion can be ascertained by considering the determinants which usually provide an indication of financial inclusion.

India still needs to achieve a lot on the forefront of financial inclusion. It is still very much rural in its economy and hence a major focus needs to be towards radical redesigning of financial inclusion measures. The needs of the Indian people are different and are in marked contrast with the needs of other people overseas and hence the policy priorities need to be customized accordingly. The people still fail to get an access to a basic savings account whereas the developed countries fail to capitalize on the prolific uses of plastic money. Further, people fail to use credit for their advantages and credit turnover remains conspicuously low in major Indian sections. The credit turnover is dismal which slows up the rate of growth and development. People in India however still view the banks as a safe harbor where one could save. The credit disbursed is miniscule and the major financial services like insurance are left unused. A major chunk of Indian population still feels hassled while visiting a bank branch. Most of the bank accounts remain unused which only adds to the burdening of the overall administrative process and cost.

Country	Geographic Penetration		Demographic Penetration	
	No of bank branches per 1000 sq km	No of ATMs per 1000 sq km	No of branches per 100,000 people	No of ATMs per 100,000 people
Korea	65.02	436.88	13.40	40.03
U.K	45.16	104.46	18.35	42.45
India	22.57	-	6.30	-
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.80
Russia	0.19	0.53	2.24	6.28

*Table 1: Parameters of Financial Inclusion
Source: World Bank, Financial Access Survey (2010).*

The above table indicates that India lacks with respect to geographic and demographic penetration. On the other hand countries like USA, Korea and U.K and hence there is a strong case of further growth. People in any part of the world should have an access to at least a basic savings product and a bank branch.

Sl. No.	Country	(Per 0.1 Million Adults)		(As per cent of GDP)	
		Number of Branches	Number of ATMs	Bank Credit	Bank Deposits
1	India	10.91	5.44	43.62	60.11
2	Austria	11.81	48.16	35.26	32.57
3	Brazil	13.76	120.62	29.04	47.51
4	France	43.11	110.07	56.03	39.15
5	Mexico	15.22	47.28	16.19	20.91
6	UK	25.51	64.58	467.97	427.49
7	US	35.74	173.75	46.04	53.14
8	Korea	18.63	250.29	84.17	74.51
9	Philippines	7.69	14.88	27.57	53.02

Table 2: Parameters of Financial Inclusion

Source: World Bank, Financial Access Survey (2010).

Some of the basic determinants making up the score of financial inclusion are the number of branches per 0.1 million adults, number of ATMs per 0.1 million adults, bank credit as a percent of GDP, Bank credit as a percent of GDP. India stands nowhere when compared to countries like France, USA, UK. The bank credit turnover as percent of GDP still lags behind the benchmark countries and hence slow and sluggish rate of growth doesn't seem to be a surprising feature in India. While taking a look at some of the countries following different as a part of their inclusive policy, countries like USA and UK had started the financial policy as early as 1990s. Hence, this attributed to the faster and speedier growth in those countries. Countries like France and Australia had their own ways to ensure that citizens were never denied of a basic bank account. They made it a fundamental right and also incorporated in their banking legislation. Financial inclusion however started as late as 2005 in India which meant that most countries already had a lead and a built in platform from where they could unleash and launch their second stage of development.

	Share with an account at a formal financial institution			Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All Adults	Poorest income quintile	Women	Using a formal account	Using a Community based method	From a formal financial institution	From family or friends				
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Table 3: Financial Inclusion at a Glance:

Source: Asli Demirguc - Kunt and KlapperL. (2012): 'Measuring Financial Inclusion', Policy Research Working Paper, 6025, World Bank, April

The world average hovers around 50 percent of the total population having an account with a financial institution while only 35 percent of Indian population has an account. Only 2 percent of the Indian population have a credit card and only 7 percent pay for their health insurance as compared to the world averages of 15 and 17 percent respectively. Considering the widespread use of mobile technology, it is surprising to find that only 4 percent Indians use it for their financial transactions. The new accounts added in last years have shown an average growth of only 12 percent which is low as compared to the 22 percent gauged in the world. (Source: World Bank, Financial Access Survey, 2010)

Considering the dimensions of the credit system, insurance and the payment, it is again found that India is still behind countries such as USA, UK, Germany, Brazil, China and Russia. Compared with the progress of other nations and world averages, it is clear that India still lags behind and a lot needs to be achieved to keep up with the world pace.

5.2. Extent of Financial Inclusion in India

Even a lot of disparity exists among the different states and regions with respect to financial inclusion. A possible reason is the difference in levels of income and financial literacy. Also political ideologies and geographical patterns necessitate a different blueprint altogether for achieving inclusive growth.

States	2002		2009	
	Rural	All branches	Rural	All branches
Andhra Pradesh	2,434	5,152	2,393	6,536
Arunachal Pradesh	56	68	50	76
Assam	816	1,229	786	1,377
Bihar	2,503	3,546	2,350	3,825
Chhattisgarh	715	1,043	654	1,217
Goa	158	326	161	407
Gujarat	1,550	3,666	1,487	4,339
Haryana	700	1,519	690	2,149
Himachal Pradesh	657	779	729	950
Jammu & Kashmir	576	816	547	973
Jharkhand	983	1,445	973	1,705
Karnataka	2,199	4,737	2,166	5,768
Kerala	346	3,297	331	4,053
Madhya Pradesh	1,940	3,445	1,756	3,958
Maharashtra	2,306	6,281	2,148	7,555
Manipur	43	78	35	80
Meghalaya	130	179	125	201
Mizoram	61	78	55	93
Nagaland	37	70	36	86
Odessa	1,613	2,223	1,653	2,689
Punjab	1,115	2,534	1,123	3,255
Rajasthan	1,886	3,310	1,756	3,900
Sikkim	36	47	46	71
Tamil Nadu	1,809	4,740	1,708	5,890
Tripura	120	179	110	213
Uttar Pradesh	4,874	8,121	4,807	9,658
Uttarakhand	526	837	571	1,083
West Bengal	2,277	4,415	2,311	5,023
All-India	32,588	65,906	31,695	79,779

Note: All-India includes figures for UTs.

Table 4: Growth in branches state wise

Source: Branch Banking Statistics, vols 2 and 4, Reserve Bank of India (2002 and 2009)

The above figure point out those north eastern states hasn't made a lot of progress. Hence speeding up the banking of these regions should be a policy priority in case of most governments. It becomes necessary to open up more branches and services in these areas because a large part of the area is still inaccessible and needs to be connected to avail and achieve the benefits of inclusive policy.

States	Proportion of Rural Households Availing Banking Services (%)
Andhra Pradesh	50.4
Arunachal Pradesh	43.1
Assam	38.3
Bihar	42.3
Chhattisgarh	46.1
Goa	84.9
Gujarat	51.3

Haryana	65.9
Himachal Pradesh	89.1
Jammu & Kashmir	65.4
Jharkhand	47.4
Karnataka	58.9
Kerala	73.9
Madhya Pradesh	40.7
Maharashtra	62.9
Manipur	23.5
Meghalaya	28.2
Mizoram	35.9
Nagaland	23.1
Odisha	41.0
Punjab	62.8
Rajasthan	68.2
Sikkim	63.5
Tamil Nadu	45.2
Tripura	78.2
Uttar Pradesh	73.6
Uttarakhand	80.3
West Bengal	39.8
All-India	54.4

*Table 5: State-wise Proportion of Rural Households Availing Banking Services (Per cent) (2011)
Source: House listing and Housing data, Census of India, 2011*

The above table points out that most rural areas are unaltered since not even fifty percent of the rural population has failed to get a suitable bank account for them. Hence, it reveals that if this segment is well catered, the growth process can be again revived and can attain speed considering that rural areas in India hold a lot of promise with respect to capital and investment.

5.3. The Road Ahead

- Financial inclusion is an increasing priority for developing countries. Accordingly,
- Financial inclusion must be continued as a policy priority for India in order to bring in the vast unbanked rural people into the process of speedier economic development.
- Evidence points to the role of government in setting standards for disclosure and transparency, regulating aspects of business conduct, and overseeing effective recourse mechanisms to protect consumers.
- Competition is also a key part of consumer protection because it creates a mechanism that rewards better performers and increases the power that consumers can exert in the marketplace.
- Governments can also subsidize access to finance and undertake other direct policies to enhance financial inclusion, but more evidence on the effectiveness of these approaches is needed.
- Financial exclusion is often a result of high debt levels, especially in rural economies. Debt restructuring may be preferable to unconditional debt relief to minimize the incentives for moral hazard and restore financial inclusion.
- The bank credit system should be properly catered for rural households. Most are covered by unorganized financial players.
- It is difficult for the regulators to chalk out an easy way of procuring the documents for opening of bank accounts and availing loans. The present formalities are complicated and lengthy.
- State governments should play a proactive role in facilitating financial inclusion.
- Post offices in rural areas may also be asked to play an active role in speeding up financial inclusion process given their massive reach and extent.
- Information Technology (IT) applications would help banks to manage huge volumes of data easily and with seamless ease. Banking facilities at the doorstep holds the potential for achieving scalability of the financial inclusion initiatives which could be attained with the help of information technology.

6. Conclusion

Financial inclusion has measurable results which can definitely guide people to get an access to formal financial system which will help them to get out of the poverty trap. The focal point will always revolve around the common people as they form the most important medium for the transfer of economic surplus. This would however require concerted efforts on the part of financial

institutions and government to streamline and synchronize efforts to synergize the existing efforts intended to bring an all-inclusive society.

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