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Extent of Financial Inclusion in India

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Abstract:
Financial inclusion aims at providing financial services at affordable costs to the section of disadvantaged and low income of the society especially the people who are deprived of banking facilities due to non-availability of such facilities in their areas or may be the services are available but they are not taking advantage of such provisions merely due to their illiteracy especially in financial matters. Thus the availability of banking and credit facilities to all sections of society in particular the deprived classes is the major important objective of Financial Inclusion. Financial Inclusion has been embedded as an objective of economic policy in our country and the Government of India and the Reserve Bank of India have been making concerted efforts to ensure universal financial access. This paper highlights some of the initiatives taken by the government and Reserve Bank of India to achieve the target of Comprehensive Financial Inclusion. It also attempts to study the progress of financial inclusion in our country and also critically analysis the facts. The paper also draws attention to some of the challenges in the path of financial inclusion and suggest some measures to tackle such hurdles and achieve comprehensive financial inclusion.

Keywords: *Banks, Financial inclusion, financial services, Reserve Bank of India (RBI)*

1. Introduction

Financial inclusion is considered as an important tool for economic development as it enables greater channelizing of public savings into the financial system and creates lendable resources for the banks. It also helps in promoting enterprise and helps in reducing illiteracy and poverty. Financial Inclusion creates greater ability of banks to provide finance to entrepreneurs and help the economy to spur multi-sectoral growth (Rao, 2015). Financial Inclusion has been embedded as an objective of economic policy in our country since independence. Indian government and the Reserve Bank of India have been making concerted efforts to ensure universal financial access. Some of the various policy initiatives taken in the last five decades include - nationalization of banks, building up of branch network of scheduled commercial banks on large scale, setting up of co-operatives and regional rural banks, introduction of priority sector lending targets, lead bank scheme, creation of self-help groups(SHGs), permitting Business Correspondents (BCs) to be appointed by banks to provide door step delivery of banking services, zero balance Basic Saving Bank Deposit accounts (BSBD). The basic objective of all these initiatives is to reach the large sections of the financially excluded Indian population. The access to financial services like money deposit, loan facilities, money transfer and insurance to poor and low income group households will help them to insure themselves against shocks such as illness of self or other members of family, loss of employment etc. and prepare them to meet eventualities in a better and confident way. It will also enable them to increase their income level in their productive endeavours with help of bank credit at cheaper rates (Pai 2014).

Traditionally Financial inclusion used to be regarded as just opening up of new bank branches in rural and unbanked areas. But now-a-days this term has been taken in broader perspective. It refers to universal access to a wide range of financial services at a rational cost. These include banking products along with other financial services such as insurance and equity products.

2. Global perception of Financial Inclusion

In the words of World Bank, Financial inclusion has been defined as broad access to financial services that implies an absence of price and non-price barriers in the use of financial services; though it is difficult to define and measure it because access has many dimensions.

Asian Development Bank defines Financial Inclusion as provision of broad range of financial services like deposits, loans, payment facilities, money transfers and insurance to poor and low-income households and their micro-enterprise.

3. Financial Inclusion in Indian context

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 (The Committee on Financial Inclusion, Dr. C. Rangarajan 2008).

Financial inclusion is to give access to suitable financial products and services needed by all members of the society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players (Chakrabarty 2012).

Reserve Bank of India states that Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

Thus the spirit of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings, withdrawal, low cost credit for commercial, personal and other purposes, remittances and payment services, mortgage, financial advisory services, insurance services etc.

4. Financial Inclusion-Early Initiatives in India

The history of financial inclusion in India is quite old. To achieve the target of covering the excluded people, the government of India and RBI has taken many initiatives from time to time which can be summed up as:

- Nationalization of banks in 1969 and further in 1980
- Introduction of Lead Bank Scheme
- Incorporation of Regional Rural Banks in 1975-76
- Priority sector lending guidelines in 1980
- Service Area Approach in 1989
- Formation of Self-Help Groups to provide micro finance
- Liberalisation, privatisation and globalization policy introduced in 1991-92 for more accessibility of foreign and private banks, customers' benefits, new technologies and liberal branch licence policies

All these initiatives aimed at taking banking services to the masses. These steps helped in increasing the number of bank branches covering the all parts of the country substantially. But National Sample Survey data (2002-03) revealed that nearly 51 per cent of farmer households in the country did not seek credit from either institutional or non-institutional sources of any type. A number of rural families have no access to banks. They are not taking advantage of even basic banking services like a savings account or minimal credit facilities, which highlights the urgent and dire need for more focused and structured approach for financial inclusion.

5. Recent Initiatives

In order to increase the pace of financial inclusion, RBI initiated firm steps more particularly from 2005 when it advised all banks to align their policies with objective of financial inclusion and it directed banks to open no-frill accounts (renamed as Basic Saving Bank Deposit Accounts).

- In 2006, the Government of India constituted a Committee on Financial Inclusion, which made recommendations on the strategies for building an inclusive financial sector and gave a National Rural Financial Inclusion Plan (NRFIP) to provide access to comprehensive financial services to financially excluded households across country.
- Banks were permitted to use infrastructure of civil society organisations, rural kiosks and adopt Business Correspondent models to provide door step banking in all unbanked areas. Banks were allowed to deploy certain individuals and entities as business correspondents which included NGOs, SGHs, MFIs, co-operatives, retired government and bank employees, teachers, ex-servicemen, fair price shops, owners of kirana and medical shops, PCOs, agents of small savings schemes of govt. Organisations and insurance companies, petrol pump owners etc.
- RBI launched multi-lingual website in 13 Indian languages to provide information on banking services to common man in their regional or local language.
- Financial Literacy Centres or Credit Counselling Centres were set up.
- In February, 2011 Government of India launched 'Swabhiman' campaign to extend banking facilities to unbanked villages with population above 2000 within three years. By the end of March, 2013, the target was fully achieved.
- In order to accelerate the process of Financial Inclusion, the Government of India launched a grand scheme under the name of Pradhan Mantri Jan Dhan Yojna (PMJDY) on August 28, 2014. The main objective of this plan is to enable universal access to banking facilities to all households in the country, providing Basic Banking Accounts with RuPay debit card, overdraft facility and in-built accident insurance cover of ₹ 1.00 lac to every household by August, 2015. The account would be linked with the Aadhar number of the account holder and would become the single point for receipt of all Direct Benefit Transfers (DBTs) from the Central government/State Government/Local Bodies including LPG/Gas delivery. In this scheme, households have been targeted instead of villages as targeted in earlier schemes. Moreover scheme is based on incentives.

6. Progress in Financial Inclusion

With the concerted efforts and initiatives taken up by government of India and RBI, there has been sustantial increase in opening of accounts and providing banking services since 2010.

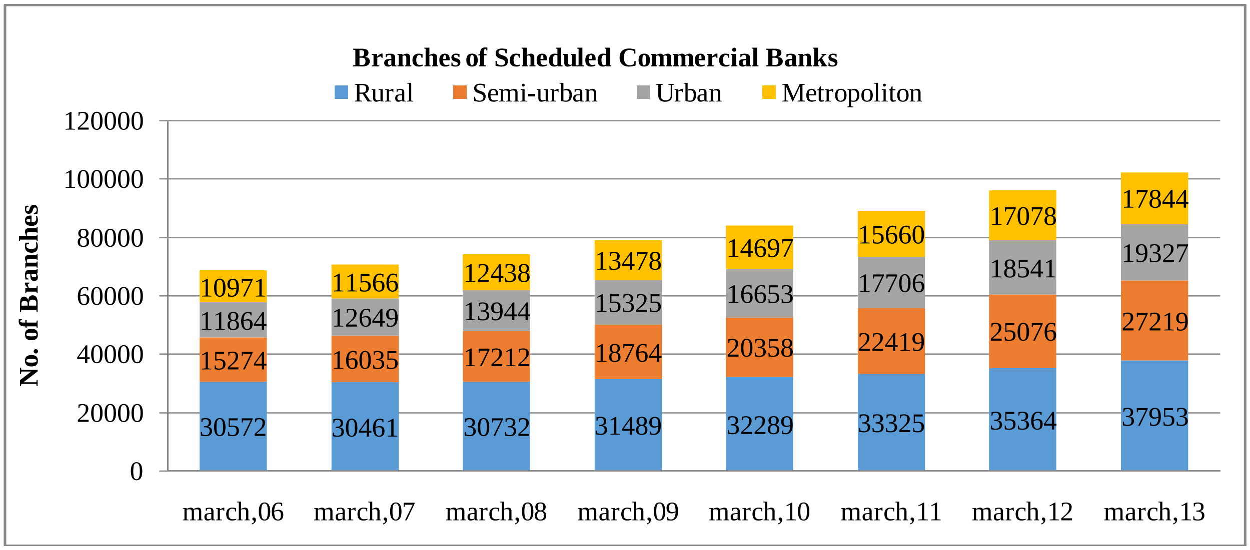

Figure 1: Branches of Commercial Banks from 2006-2013
Source: Annual reports of RBI

The number of total branches of Scheduled Commercial Banks (rural, urban, semi-urban and metropolitan) are showing an increasing trend from March 2006 to March 2013. Further, the number of bank branches has increased to 1,15,082 on March 31, 2014. No doubt the number of branches has increased in rural areas from 30,572 to 37,953 (almost 24% increase) during March 2006 to March 2013, but the number of branches in semi-urban areas have increased more rapidly from 15274in March 2006 to 27219in March 2013(about 78%).

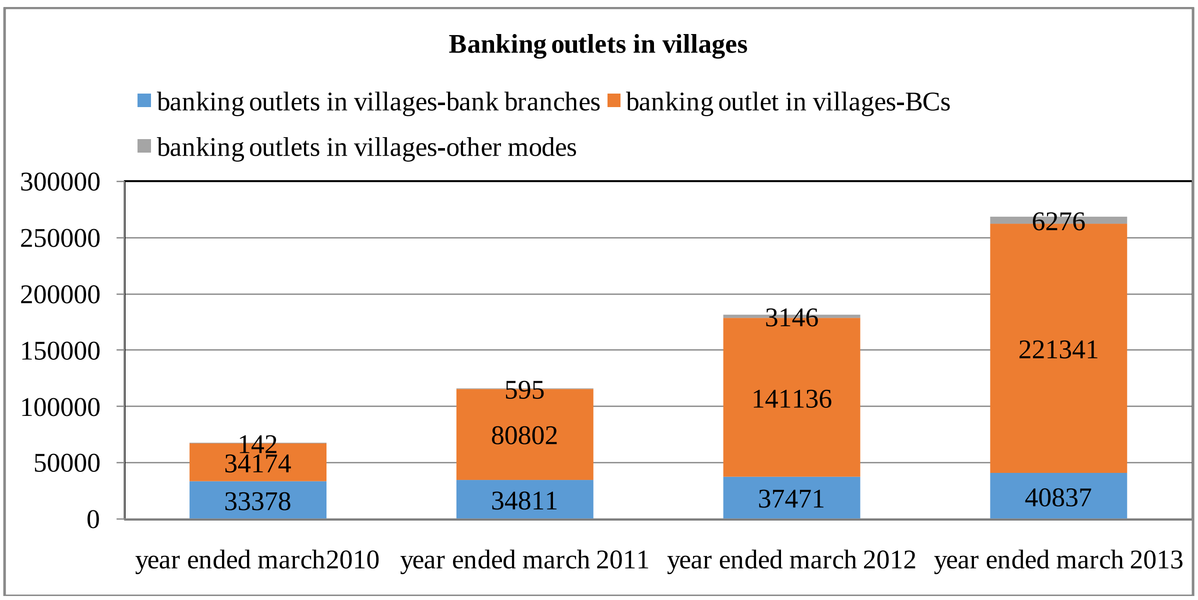

Figure 2: Progress of Banking outlets in villages from year 2010-2013
Source: RBI Annual report 2012-2013

If we analyse financial inclusion in villages, we find that the total Banking outlets in villages have increased from 67694 in march, 2010 to 2,68,454 in March, 2014. The data covers banking outlets in villages-branches, BCs and other modes. If we analyse the position in percentage form, we find that there is 4.29 percent increase in number of bank branches in year 2011 over the year 2010, 7.64 percent increase in number of bank branches in year 2012 over the year 2011and 8.9 percent increase in number of bank branches in year 2013 over the year 2012, thus showing good performance. In case of Bank correspondents,variation in percent form is 136.44 percent increase in year 2011 over the year 2010, 74.7 percent increase in year 2012 over the year 2011and 56.83 percent increase in year 2013 over the year 2012, showing slow progress in recent years.

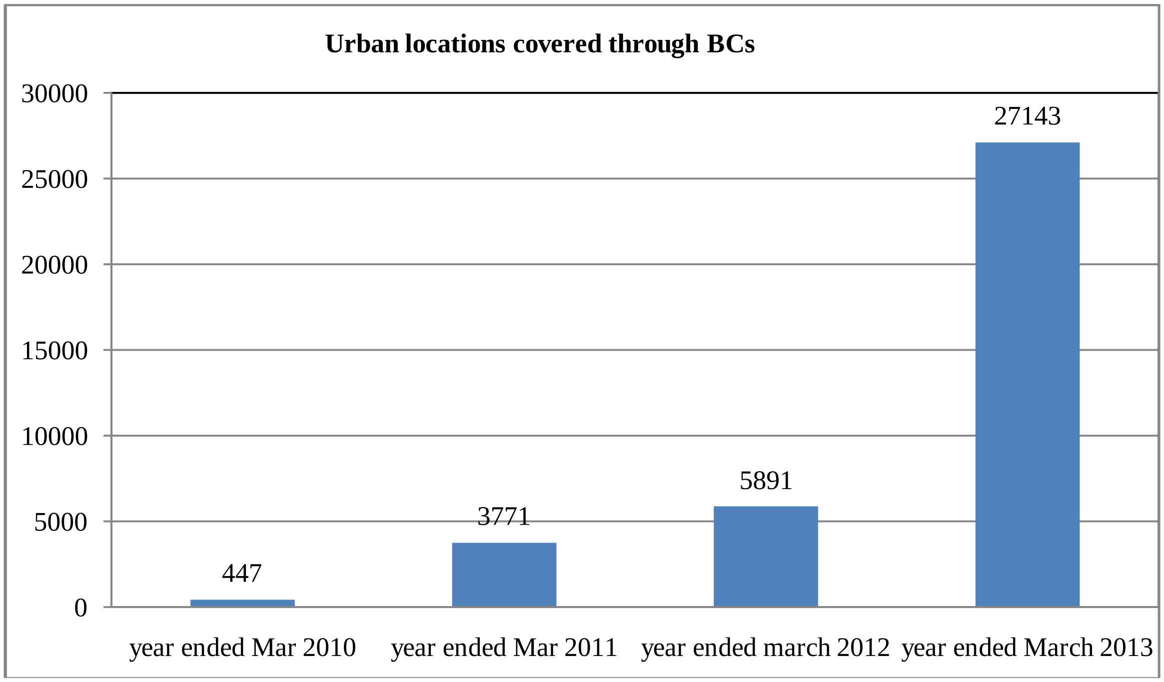

Figure3: Urban locations covered by Business Correspondents
Source: RBI Annual report (2012-13)

The role of business correspondents in urban areas has increased with respect to financial inclusion which is clearly visible in above figure. The number of BCs in urban area has increased from 447 in the year 2010 to 27143 in March, 2013.

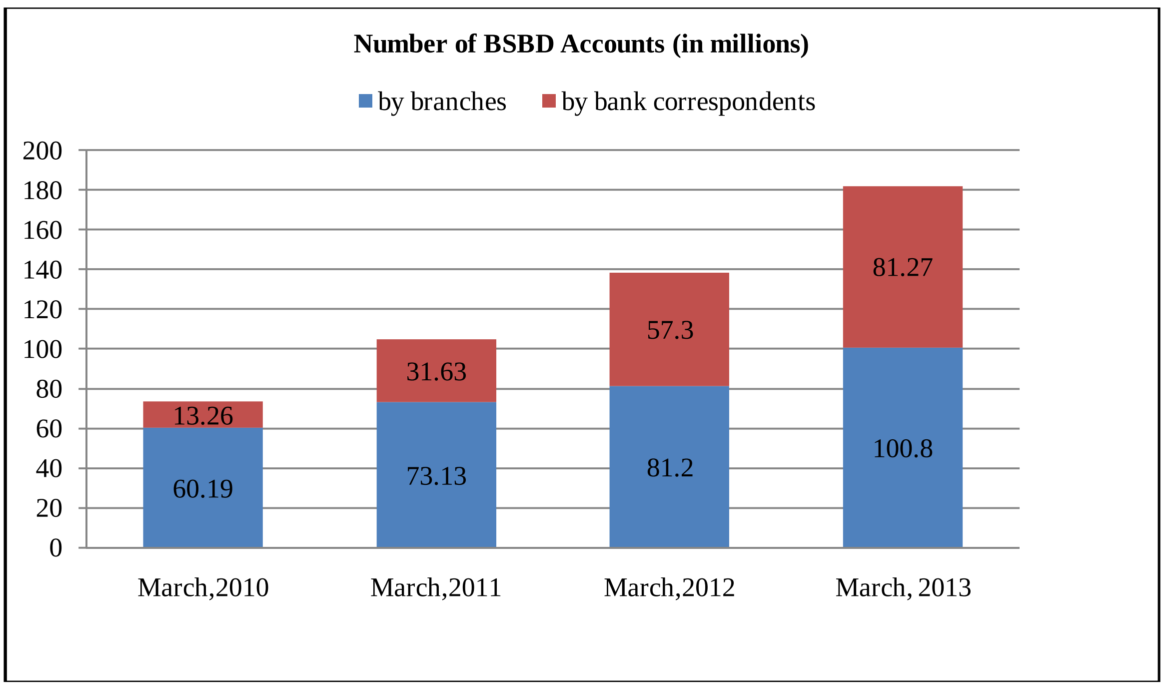

Figure 4: Number of Basic Saving Bank Deposit Accounts
Source:RBI Annual Report 2012-13

There has been significant increase in number of basic saving bank deposit accounts from 73.45 million (total) in year 2010 to 182.06 million (total) in year 2013. Bank Correspondents handled only 81.27 million basic saving bank deposit accounts as compared to 100.8 million basic saving bank deposit accounts by bank branches in March, 2013.

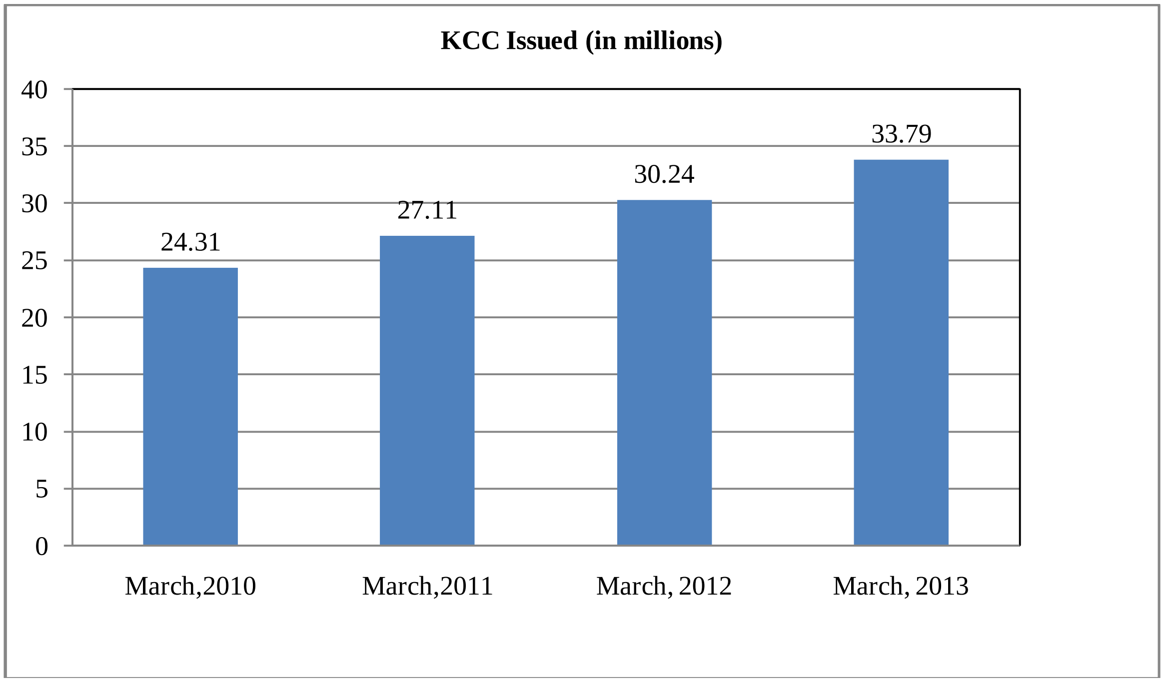

Figure 5: Number of Kissan Credit Cards from 2010-2013
Source:RBI Annual Report 2012-13

Banks have been advised to issue KCCs to small farmers for meeting their credit needs. The total number of Kissan Credit Cards issued to farmers were 33.79 million in March, 2013 which shows an improvement over the year 2010 in which the number of Kissan Credit Cards were just 24.31 million.

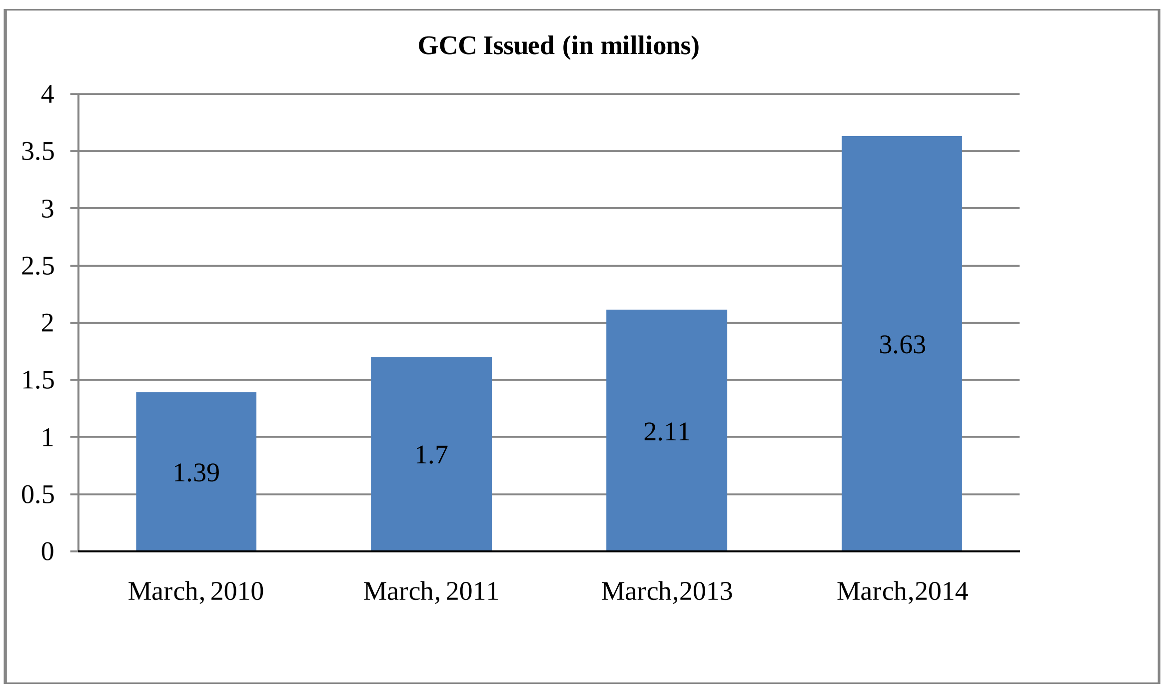

Figure 6: Number of General Credit Cards (GCC) from 2010-2013
Source:RBI Annual Report 2012-13

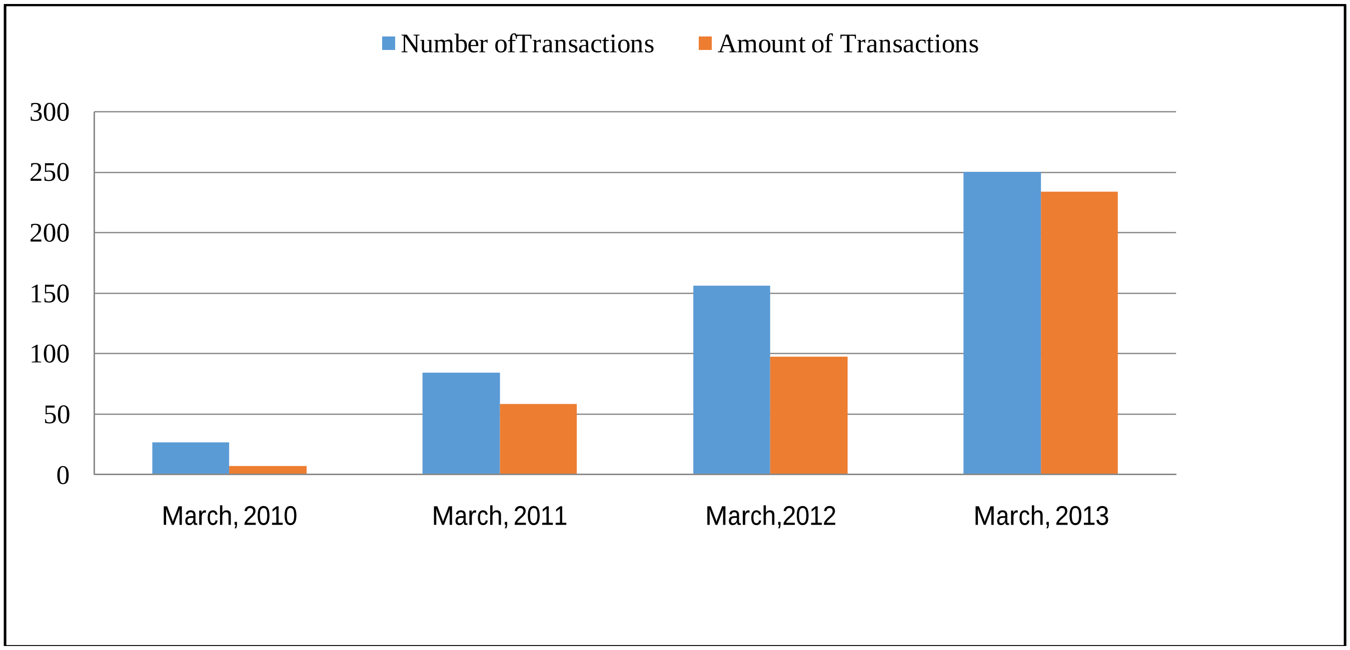

Figure 7 : ICT based Accounts-BCs
Source: Annual Reports of RBI

Reserve Bank of India has directed the commercial banks to provide ICT based banking services through BCs so that benefits of efficient and cost effective banking services may reach in the unbanked and remote areas of the country. ICT model would enable banks to overcome the barriers of geography and ensure efficient financial inclusion. If we analyse the above graph, we see the number of ICT-based transactions through BCs has increased from March 2010 March 2013, both in number of transactions as well as volume of transactions, which speaks of the success of BC model.

7. Critical Assessment of Financial Inclusion in India

From 2001to 2011, there was a 23 percent increase in number of household services by banks and this increment has been achieved more in rural areas where share of such households increased from 30 percent to 54 percent which is really remarkable. During the period from 2007 to 2013, one fourth of all the new branches formed in the country were in rural areas or areas with population less than 10,000 (RBI 2013).

In June, 2013, CRISIL published a comprehensive financial inclusion index (viz, Inclusix). In order to measure financial inclusion, CRISIL identified three critical parameters of basic banking services namely branch access, deposit and credit penetration. The CRISIL Inclusix indicates that there is an overall improvement in the financial inclusion in India. CRISIL –Inclusix (on a scale of 100) increased from 35.4 in March, 2009 to 40.1in March, 2011, which indicates a good sign.

Despite such active collaborative expansion of banking network, introduction of new and innovative methods, access to core banking technology and creation of alternate delivery channels, still merely half of Indian population could be covered by banking services, leaving a vast stretch unbanked (Rao,2015). The extent of financial exclusion is staggering.

As per Census data 2011, 102 million households out of a total of 247 million in India are not covered by the banking system. 63 percent of these households are in rural areas. According to Census data, the coverage of urban household by banks is more i.e. 69 percent of all households, as compared to rural households which is just 54 percent.

According to Global Findex (2011), only 35 percent of adults in the country have a formal account and 8 percent have a formal loan. Among the bottom 40 percent of the population in terms of income only 27 percent have accounts with financial institutions. Only 12 percent adults save with banks, while 2 percent use their accounts to receive remittances and 4 percent use their accounts to receive government benefit transfers (Nair, 2014).

Thus the above statistics indicate that there is still a very long road ahead to cover to reach our ultimate destination of financial inclusion. Account penetration in India is just below that in rest of the developing world and is significantly lower than the average of the other BRIC countries -Brazil, Russia, China and South Africa which works out to 61 percent (Rao 2015).

8. Challenges of Financial Inclusion

Financial Inclusion is imperative for over all development of the economy but there are certain issues and challenges which are necessary to be tackled some of which have been discussed here:

8.1. Financial Illiteracy

The biggest challenge in achieving the target of Comprehensive Financial Inclusion is the illiteracy of people in the country especially in rural and remote areas. It is very essential to bring the changes in financial behaviour of persons. When people know about the financial products available and when they are able to evaluate the merits and demerits of each product and the suitability of the product for their specific needs, they are in better position to decide what they want and feel empowered in meaningful way. They will be able to ask for better and improved services and also seek redressal of grievances (Pai,2014). Financial literacy is the engine while Financial Inclusion is the vehicle and in order to achieve greater and faster Financial Inclusion, the engine needs to be fuelled (Agarwal, 2014). Financial Literacy should be a national campaign and it should target the illiterates, weaker sections and unbanked areas of the society.

- There is need to launch Financial Awareness Programmes and Credit Counselling Centres at Gram Panchayat level and increase the scope of Financial Literacy Centres.
- Financially Literacy Counsellors must be trained enough to use technology for training through Video Conferencing and using other audio-visual modes.
- Various innovative teaching learning tools can be used to make information understandable and effective and to cover large masses and bring them under the umbrella of financial Literacy like use of posters, charts, painting walls, animated films, games, nukkad nataks (drama shows), discussions in informal gatherings, announcements on moving vehicles on mikes etc. Effective use of media can make the things possible.
- Media can popularise the banking concept in masses. T.V. documentaries and radio chat shows can bring fruitful results in achieving the target of Financial Inclusion.
- Persons must be addressed to in their Vernacular or local languages in Financial Literacy campaigns only then they will feel attached and involved in such campaigns and understand the concept of financial literacy.

8.2. Active Bank Accounts

The challenge is to cover every household in every village and remote area under Financial Inclusion and the greater challenge is to ensure that accounts which have been opened remain active. Financial Inclusion is about transactions and savings and not just opening accounts without operating them. For this various financial incentives must be attached catering to needs of a particular group.

8.3. Coordination At Various Levels

Financial inclusion aims at to have at least one account of all financially excluded households. This target can't be achieved without coordination with village level government machinery, gram panchayats and NGOs. All bodies will have to join hands and work together to fulfil dream of Comprehensive Financial Inclusion. For taking Financial Literacy programme at grass root level, existing infrastructure of schools, angandwadis can be used. For this task, help can be sought from social workers, retired teachers or selfhelp groups.

8.4. Aadhar Cards

Aadhar Cards can be used as powerful tool for Financial Inclusion as through this customers can get direct cash transfers while taking advantage of electronic means. Thus the necessity and the greatest challenge is to provide each and every citizen of the country Aadhar numbers-the unique identity.

8.5. Mass Awareness

There is dire need for branding and bringing awareness of Business Correspondent model for providing basic banking services, banking products available and Rupay Cards. Customers must be aware of credit facility which they can avail under the scheme.

8.6. High Cost

Apart from reaching out to unbanked people, banks will have to incur huge amount for maintenance of accounts. CRISIL stated the three challenges in the path of financial inclusion were high cost involved in reaching the masses, lack of sophisticated technology and lack of awareness and while these challenges are significant, they are not undefeatable.

8.7. High Work Pressure on Bank Branches

Work pressure on bank branches will increase in the name of financial inclusion especially banks which are functioning on manpower constraint could see their other functions (sanctioning loans and recovery of NPAs etc.) being adversely affected.

9. Conclusion

Financial inclusion programmes run by central government and Reserve Bank of India will certainly achieve the target of financial empowerment and independence and will make dream of banking for masses true if financial literacy initiatives are taken to be as a very important tool. Moreover, a greater degree of coordination with rural branches of banks, rural level government agencies and NGOs is required to ensure effective financial literacy and credit counselling to the target group. New initiatives taken by government like Jan Dhan Yojna will impact the unprivileged people for smooth and quick access to financial system and lead to economic empowerment and liberalisation. But to implement this yojna effectively, financial literacy needs to be taken as a mission on a continuous basis and this mission will yield fruitful results only if it is taken with great enthusiasm, strong will power and commitment.

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