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ROLE AND EXTENT OF FINANACIAL INCLUSION IN INDIA

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ABSTRACT

The developing nation era is based on inclusive growth and the key of inclusive growth is financial inclusion. Financial inclusion is the delivery of financial services to the vast section of the society including the vulnerable group such as weaker section and low income groups. Since 2005 Government of India and RBI has taken many steps towards the financial inclusion but the impact does not yet to give satisfactory result. The majority of the rural population is still not included in financial inclusion. For the sustainable economic development there is need of strong financial system on the underdeveloped nation, developing nation , and developed nation apart from this there is also need of other sources like technologies, literacy etc. This paper aim to focus on utilising existing resources such as mobile phones, Banking Technologies, Indian post office, Business Correspondent (BCs) there by it makes a more suitable and friendly environment for the rural as well as formal section of the society to use the government and RBI initiatives towards the financial inclusion with a great effort .

Keywords: Financial inclusion, Financial Exclusion , BCg, KCCs, GCCs, Financial Stability, Indian Economy.

Introduction: The banking industry has played very vital role for the developing of the nation through financial inclusion The progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit as provided by banking industries . This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking.

Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms.

The government of India recently announced "Pradhan Mantri Jan Dhan Yojna,"[a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it's important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at the district level. MIX designed the FINclusion Lab India FI workbook to support these actors as they craft strategies to achieve these goals.

Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, Easing of Know Your Customer (KYC) norms, Electronic benefit transfer, RTGS, NEFT, Engaging business correspondents(BCs), separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role for increasing the use of formal available loan or credit at anaffordable cost. Measures taken by the towards financial inclusion includes Kisan credit card schemes (KCCs), Opening customer service centre, Customer counselling centre, Pradhan mantri jhan dhan yojana (PMJDY).

Definition of financial Inclusion:

According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

GOI (2008) defines Financial inclusion 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 meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities.

Objective of the Study :

1. To Study the extent of financial inclusion in India .
2. To find out the approaches adopted by bank, steps taken by regulatory bodies, and various government initiatives to achieve financial inclusion.
3. To explore opportunities and challenges faced by the government of India during stimulating financial inclusion.
4. To evaluate in the practices of government and awareness of population towards financial inclusion in India.
5. To give appropriate suggestion for better financial inclusive practices in India.

Relevance of the study:

To achieve balanced growth the economy it become necessary to include each and every individual in financial system through financial inclusion. As per World bank report only 35% of Indian population have bank account , that's why it become necessary to study extent of financial exclusion and try to eradicate the vicious circle of poverty.

Data Collection

The study is mainly based on secondary data but where it needed primary data has been collected with the aid of survey and questioners through discussion and personal interaction with the Villagers people and Business Correspondents (BCs). The secondary data has been collected through the websites of RBI and Ministry of Finance , journal, article and consider the various reports of committee submitted to the government on financial inclusion .

Review of Literature : A selected issues

Kamath (2008) attempted to understand the impact of Micro-Finance Institution (MFI) loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The Financial diary methodology was used to collect the data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of the households of Ramanagar area, Karnataka, India, and the Principle Component Analysis (PCA) methodology was used IIMB-WP N0. 474 10 to analyze the data. The findings of the study highlighted some critical issues. First, repayment of one MFI loan was done by using other MFI loans. Second, maximum repayment of MFI loan exceeded the average income of the households (as the loans were taken before September 2008). Third, none of the loans were used for productive purpose instead they are used for consumption purpose. Fourth, the households (MFI and non-MFI) did not find right option to save excess liquidity. Fifth, during the pre-ban, indebted households spent majority of income on loan repayment, food, fuel, etc. and very little was being spent on non-food items. Whereas, non-indebted households spent their income on clothes, accessories, cosmetics, travel, etc. after the food expenditure. Sixth, there was a shift in the expenditure pattern during the post ban, indebted and non-indebted households started spending more on non-staple food such as meat, snacks, rice, jewellery, medical expenses, and travel. Seventh, the expenditure pattern of households with multiple MFI's during post ban has provided the opportunity to buy more rice and grain. Eighth, majority of the indebted households found difficulty in repaying the loans. As a result, multiple MFI loans were taken to repay the debt. Ninth, tacit pressure was placed by loan officers on the group members to avoid potential default of loans. Tenth, MFI's did not adopt fare mechanism for charging interest rates. Eleventh, MFI had lent money without assessing borrowers' debt coverage ratio (credit worthiness). In short, the MFI crisis occurred due to indebtedness of the households to the multiple MFI's, and MFI repayments came at the cost of food and travel.

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data, additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit; CRISIL Inclusix at an all-India level stood at a relatively low level of 40.1 for 2011 (on a scale of 100). In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country's rural and also in urban areas.

Financial Exclusion :

To understand the roots of financial inclusion and its importance towards the economy of the country it is better to know financial exclusion . The word of financial exclusion first time used in 1993 by Leyshon and thrift who were concerned about limited access on banking services as a result number of bank branches were closed. In1999, kempson and whyley defined financial exclusion in border sense which refers to those people who have excluded access to mainstream financial services and product till now numbers of analysts added their views to define financial exclusion.

Financial exclusion" describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly home insurance, education loan.

The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as restricted access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. So basically, financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

Major Milestone of Financial Inclusion in India:

- Nationalization of Banks (1969,1980).
- Establishment of Priority sector lending bank (1971).
- Establishment of RRB(1975) , NABARD (1982) and SIDBI (2000).

Recently the government of India and RBI has taken many steps towards financial inclusion in India they are :-

- Pradhan Mantri Jhan Dhan Yojana (PMJDY)

- Gold Monetization Scheme
- MUDRA Bank
- Direct Benefit Transfer (DBT)
- Swabhimaan Campaign
- Swavalamban Yojana.

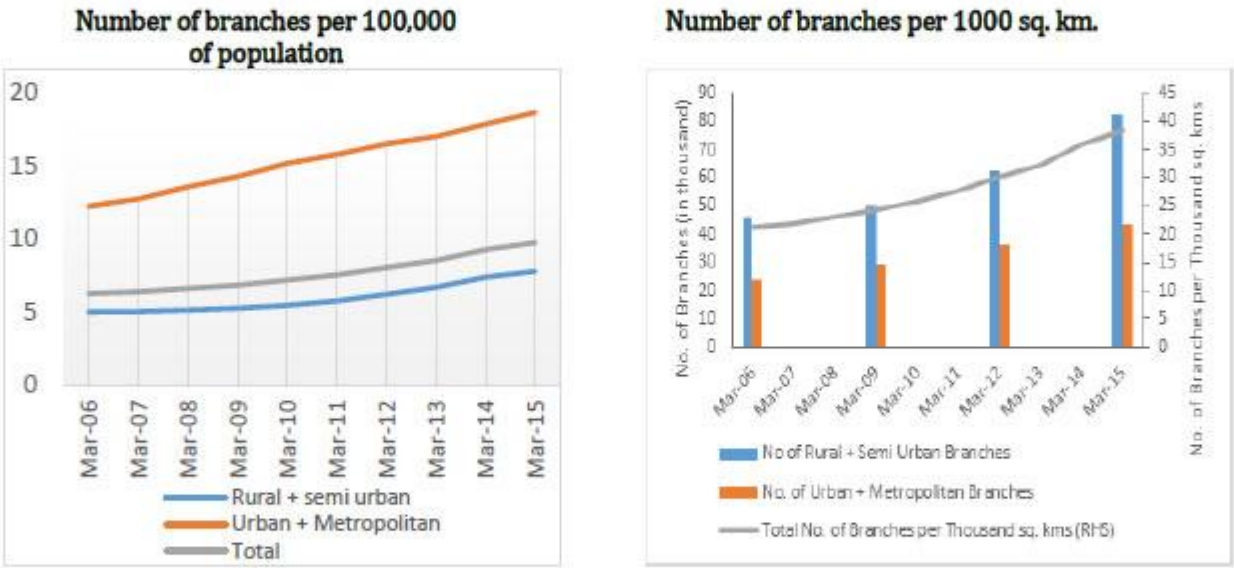
Though number of steps has taken by the GOI,RBI and many other institution towards the finanacial incliusion but still it needs more support for better financial inclusive growth. The low penetration of formal banking led the Reserve Bank to look at financial inclusion as a major policy drive. The slew of measures that followed were the introduction of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while ensuring sufficient coverage to hitherto unbanked areas. Concurrently, relaxations in the BC model were made to bridge the 'last mile' problem. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Notwithstanding this development, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas.

Table 1: Branch Expansion of SCBs

As on March	Number of Branches			Estimated population* (in million)			Branches/ 100,000 population		
	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total
2001	44,905	20,713	65,618	851	177	1,028	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1,115	5.0	12.3	6.2
2010	53,086	31,072	85,158	980	211	1,191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1,044	228	1,272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1,061	233	1,294	7.8	18.7	9.7
June 2015	82,794	43,910	1,26,704	1,065	235	1,300	7.8	18.7	9.7
*Population estimates are based on CAGR between Census 2001 and Census 2011 data									

Source: RBI website

Chart 1.1: Penetration of branch network of SCBs



Source: RBI website

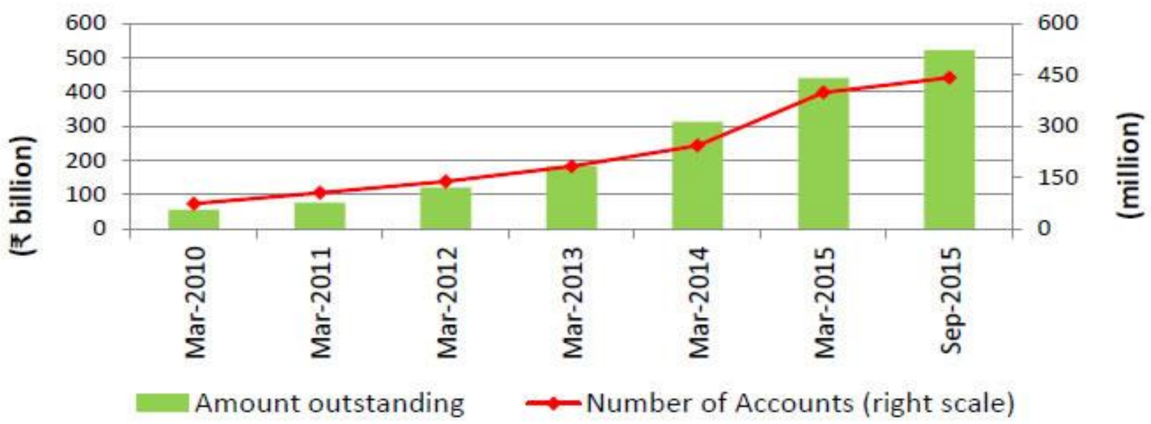
Concurrent with higher branch expansion in semi-urban and rural areas, the compound annual growth rate (CAGR) for both the number of individual saving bank deposit accounts as well as deposit amounts outstanding therein was the highest for semi-urban regions followed by rural, urban and metropolitan regions (Table 2).

Table 2: Growth in Individuals' Savings Bank Deposits Accounts with SCBs								
Population Group	Number of Individual Saving Bank Deposits Accounts (million)				Individual Saving Bank Deposits' Amount Outstanding (₹. billion)			
	2006	2010	2015	CAGR (%)	2006	2010	2015	CAGR (%)
Rural	104	167	384	15.6	962	1,703	3,601	15.8
Semi-urban	85	136	320	15.9	1,124	2,155	4,470	16.6
Urban	68	97	186	11.8	1,246	2,381	4,541	15.5
Metropolitan	71	100	180	10.9	1,838	3,731	6,476	15.0
All India	329	500	1,070	14.0	5,170	9,970	19,088	15.6
CAGR is for all scheduled commercial banks (SCBs) including regional rural banks (RRBs) during 2006-15.								

Source: RBI website

Apart from the regulatory thrust on branch expansion, in order to provide basic banking services to the marginalised sections of society, banks were advised to open 'no-frills' accounts, which were subsequently labelled as Basic Saving Bank Deposit Accounts (BSBDA). In the past five and a half years, these BSBD accounts have risen more than six-fold and nearly half of these accounts were opened through Business Correspondents (BCs).

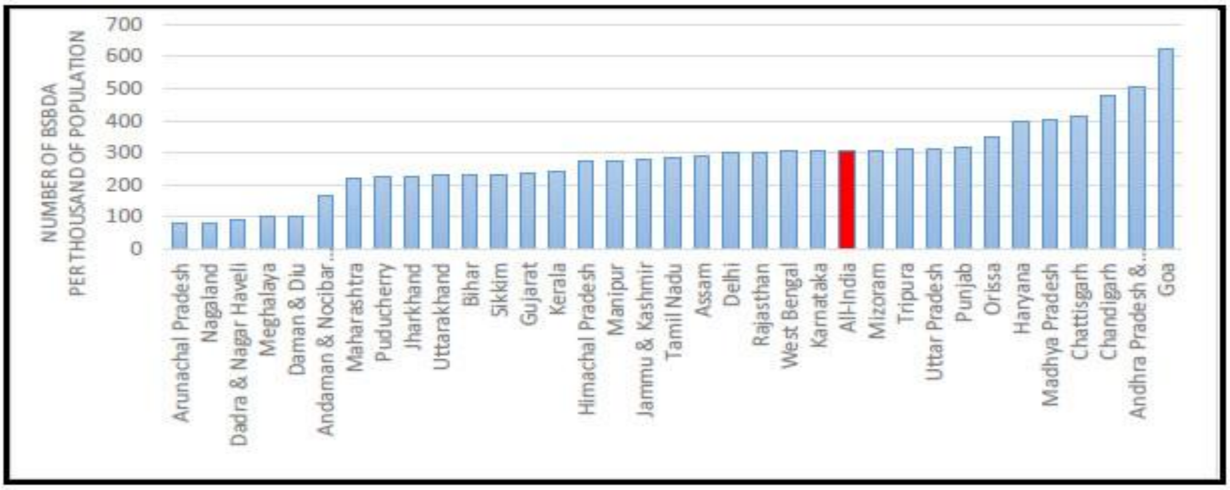
Chart 1.3 : Progress in No Frills/ Basic Savings Bank Accounts



Source: RBI website

While demographic penetration has increased one-and-a-half times during 2006-15, the north-eastern states as also states such as Bihar, Jharkhand, Uttar Pradesh, West Bengal and Madhya Pradesh are less penetrated in terms of the number of branches in relation to their population. Even the state-wise numbers for BSBD account density as on March 2015 suggest that several north-eastern and eastern states lag behind.

Chart 1.5: Number of BSBDA per thousand of population



Source : RBI website

The Magnitudes of ATM developed by PSBs and SCBs during the last five years are :-

Numbers of ATMs of Public Sectors Banks(PSBs) :

Table 3:

Year	Off-site ATMs	On-site ATMs	Total ATMs
31-03-2011*	20032	30201	50233
31-03-2012	24181	34012	58193
31-03-2013	29411	40241	69652
31-03-2014	44504	65920	110424
31-03-2015	58763	69902	128665
30-062015**	59245	71979	131224

*The data pertains to ATMs deployed as mon April 30 2011

**** Data for june2015 is provisional**

Numbersd of ATMs of Scheduled Commercial Banks(SCBs)

Table 4:

Year	Off-site ATMs	On-site ATMs	Total ATMs
31-03-2011*	34377	41268	75645
31-03-2012	48141	47545	95686
31-03-2013	58254	55760	114014
31-03-2014	76676	83379	160055
31-03-2015	92191	89061	181252
30-06-2015**	92735	91486	184221

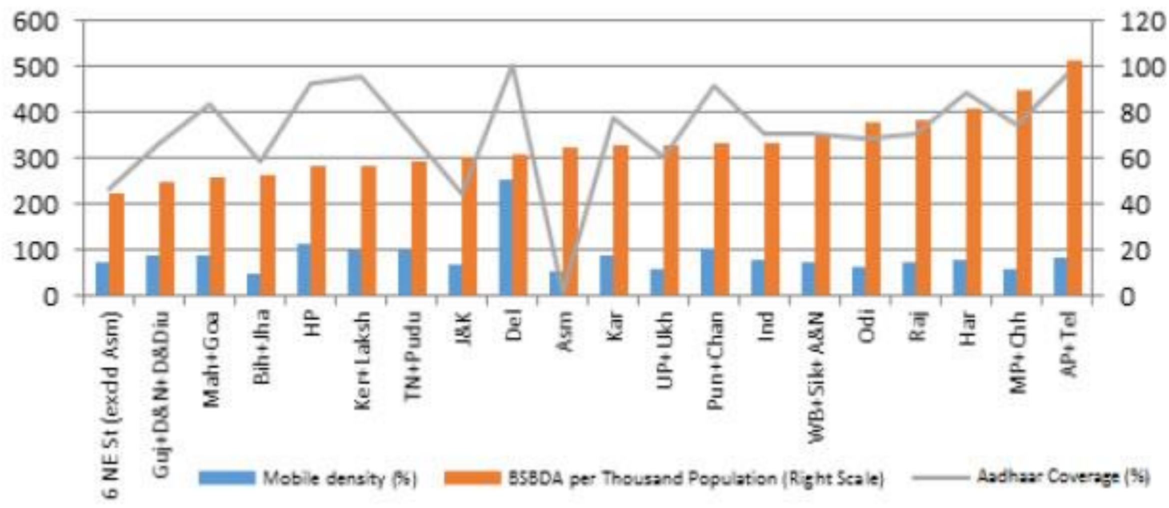
*The data pertains to ATMs deployed as mon April 30 2011

**** Data for june2015 is provisional**

Technology Role in Financial Inclusion:

As per the latest Census of House Listing and Housing Survey data 2011, the proportion of households availing of banking services has increased to 59 per cent in 2011 from 35 per cent in 2001. It also indicates that 59 per cent of households possess mobile phones. Subsequently, mobile penetration, Aadhaar coverage and BSBD accounts have accelerated sharply . Empirical evidence suggests that basic banking services could be delivered at low cost through mobile technology and the security of transactions could be enhanced through biometric identification.

Chart 1.6: Mobile density, Aadhaar coverage and BSBDA accounts

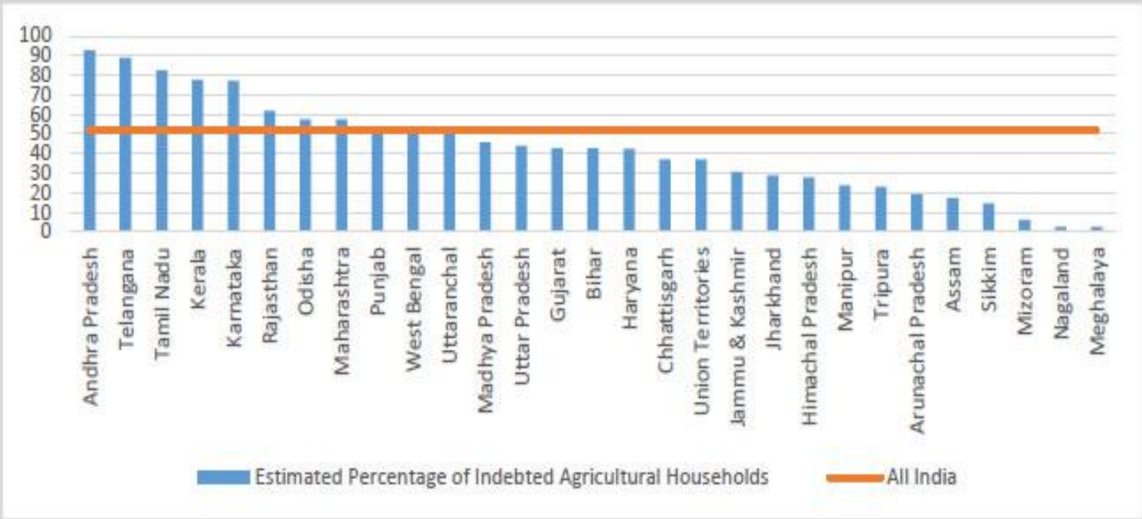


Financial inclusion and agriculture in India :

As per the 2011 Census, around 60 per cent of the population in India depends on agriculture for a living and the agriculture sector provides employment to 55 per cent of the work force. The importance of productivity enhancement in the agriculture sector as a contributor to economic growth is well established (World Bank, 2007). To this end, access to formal finance is crucial for achieving higher agricultural productivity. Credit in the form of loans is used as working capital at the beginning of the growing season in order to purchase inputs, prepare land or invests in equipment as well for the harvest, processing, transport and to market the produce. Farmers also require savings. Since their income is tied to the harvest, savings can help them smooth consumption during the rest of the year. Furthermore, remittance and local and international money transfers are essential for farm workers and urban immigrants that left behind their rural families. Lastly, insurance can help farmers mitigate risk that stems from weather fluctuations, diseases and crop failure. However, the agriculture sector faces many constraints in becoming financially included. A recent Financial Inclusion Insights Survey, conducted by Intermediate, a global research consultancy, that interviewed over 45,000 respondents across 22 states in India, indicates that 43 per cent of those who work primarily in the agricultural sector do not have access to a bank account. The survey also reveals a large disparity between farmers and farm workers: 36 per cent of farmers vis-à-vis 55 per cent of farm workers do not have a registered bank account.

In terms of loan disbursement to agriculture, the Agricultural Statistics at a Glance 2014 report estimated that 52 per cent of all Indian agricultural households are indebted. When considering the state-wise distribution, large disparities can be detected (Chart).

Chart: Loan allocation to agricultural households across states



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The Government has accorded high priority to agricultural credit

Actual credit flow to the agriculture sector has consistently exceeded the target set by the government for both the general banking sector and commercial banks (Table 5)

Table 5: Credit flow to agriculture				
(₹ billion)				
Year	Banking sector (includes RRBs and co-operative banks)		Commercial banks	
	Target	Achievement	Target	Achievement
2010-11	3750	4683	2800	3459
2011-12	4750	5110	3550	3686
2012-13	5750	6074	4200	4325
2013-14	7000	7116	4750	5090
2014-15	8000	8406	5400	5997

Although agricultural credit has been rising every year, as reflected in an increase in the number of accounts, the extent of financial exclusion remains large, especially for tenant farmers, share-croppers and agriculture laborers who still have limited or no access to the formal credit system. Additionally, indirect credit has risen more impressively as compared to direct credit, due mainly to more and more categories being brought within the ambit of priority sector lending for agriculture. It therefore, becomes exigent to find out ways to reach the small and marginal farmers for agri-credit, taking due care of risk factors. One of the primary reasons is the reluctance of landowners to formally lease out their land for cultivation for fear of losing their rights over the land. As a result, banks are reluctant to grant credit for want of any evidence of cultivation.

Conclusion :

For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders". Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. The better financial inclusive growth can be done through the using the aid of technology like mobile Banking services and the Knowledge of banking services to all individual of the country . Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side .

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