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AN ANALYTICAL STUDY ON FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest place for rural people in the world. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of financial inclusion in India.

Key Words: Financial Inclusion, Reserve Bank, Inclusive Growth, Financial services.

Introduction

A sound financial system is the basic requirement for the economic growth, development and progress of a particular economy. A functionally varied financial system displays competence and effectiveness and which is crucial for achieving the national objectives of a country. A well developed financial system supports higher level of investments and boosts the growth in the economy with its exposure and depth. In the modern era of achieving self reliance and economic power, it is very essential for a country to create conducive conditions for persons, households and private institutions. The ease of access of banking services and a sound bank branch network are the major drivers of growth and expansionary activities. Therefore a country like India focused on the achievement of sustainable development. For ensuring it properly, there must be an attempt to include a maximum number of participation from all sections of the society. But the lack of financial literacy and awareness among the rural population of the country, obstructs the growth of the economy as the maximum no. of people does not have formal access to formal financial services and this is a big concern for the economic progress of the country. In order to resolve such problems, banking technology have transformed banking from the traditional brick-and mortar infrastructure like staffed branches to a wholly new system aided by other channels like ATM's, internet banking, mobile banking Credit/debit cards etc.

Other measures have also been initiated by Govt. of India like opening of customer service centers, credit counseling centers, MNREGA, Kishan Credit Card etc. These extraordinary efforts are more focused than the earlier measures which were more common in nature and these new measures also have a wider impact. Though these measures have initiated earlier, their impact on the rural population needs to be analyzed and interpreted in order to understand the present picture in the rural areas.

This paper comprises of 5 parts. Each part explains the different context of the paper. Section-I contains the definition and the conceptual framework of Financial Inclusion. Section-II introduces you to the different 'Objectives' of the study. Section-III briefs you about the current status of financial inclusion in India. Next Section i.e. Section-IV deals with the analytical performance of the various Govt. schemes launched in recent times for financial inclusion. At last we have conclusions and recommendations in Section-V.

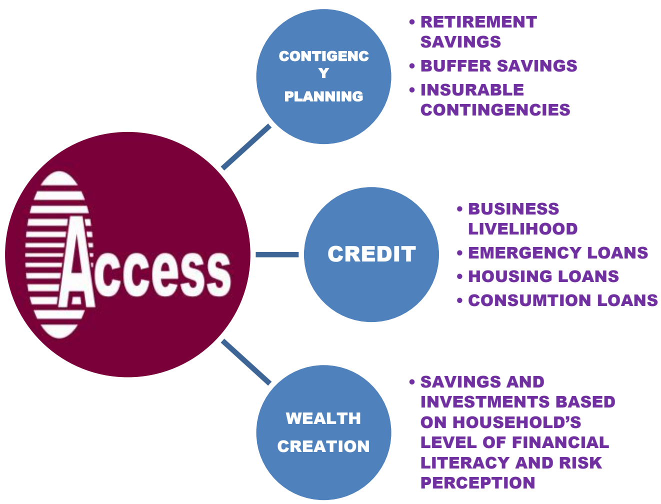
Section-I : Conceptual Framework of Financial Inclusion

The committee on Financial Inclusion (Chairman: C. Rangrajan) 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."

Mrs. Usha Thorat, formerly deputy Governor of RBI in her speech on financial inclusion said," Financial exclusion, broadly, is constructed as the inability to access necessary financial services in the appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion."

According to 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.

By looking into the above definitions, we can conclude that financial inclusion is one of the crucial way in the present era for ensuring sustainable development and inclusive growth. This term of 'Financial Inclusion' was first time used by British Lexicon when he found that nearly 7.5 million persons do not have a bank account. As far as Indian economy is concerned the concept of financial inclusion is not new. Various measures and initiatives have been taken by RBI like establishment of Regional Rural Bank, Nationalization of banks in 1969 and 1980, introduction of SHG-bank linkage programmes etc.



*Source: A hundred small steps a R3eport of the Committee on Financial sector reform Raghuram G. Rajan.

This diagrammatic representation clearly shows that different households have different types of financial needs like for retirement savings, creating buffer, saving to hedge etc. lastly household needs access to financial services for wealth creation but it all depends on the level of their financial literacy.

Section-II : Objectives of the study

1. To understand the financial inclusion and its importance.
2. To find out the approaches adopted by the banks, steps taken by the regulatory bodies and various government indicatives to achieve financial inclusion.
3. To analyze the past years performance and achievements towards reaching out to the unbanked areas under financial inclusion.

Section-III : Current Status Of Financial Inclusion In India

1. Position of households availing banking services

	As per Census 2001			As per Census 2011		
Households	**Total number of**	**Number of househol**	**Percent**	**Number of households availing**	**Number**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

2. Bank-Branch and ATM Net-work

(a) No. of branches of Scheduled Commercial Banks as on 31st March, 2013

Bank Group-wise Number of branches as on 31.03.2013					
Bank Group	**Rural**	**Semi-urban**	**Urban**	**Metropolitan**	**Total**
Public Sector Banks	23286	18854	14649	13632	**70421**

Private Sector Banks	1937	5128	3722	3797	**14584**
Foreign Banks	8	9	65	249	**331**
Regional Rural Banks	12722	3228	891	166	**17007**
Total	**37953**	**27219**	**19327**	**17844**	**102343**

(b) No. of functioning branches of Scheduled Commercial Banks during last five years

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31, 2009	31476	19126	15273	14325	80200
March 31, 2010	32493	20855	16686	15446	85480
March 31, 2011	33905	23114	17599	16419	91037
March 31, 2012	36356	25797	18781	17396	98330
March 31, 2013	37953	27219	19327	17844	102343

(c) No. of branches of Scheduled Commercial Banks opened during five years

Year	Rural	Semi-urban	Urban	Metropolitan	Total
2008-09	706	1290	1046	953	3995
2009-10	1021	1729	1417	1139	5306
2010-11	1422	2258	919	981	5580
2011-12	2453	2686	1186	982	7307
2012-13*	1598	1422	546	451	4017

*provisional

(d) No. of villages and Average Population per Branch (APPB)

Number of villages in India as per the 2001 Census	600,000 (approx.)
Average Population per Bank Branch (APBB) as on 31.3.2013	12,100

(e) No. of bank branches of SCBs over the years

Number of scheduled commercial bank branches as on	8,826
Number of scheduled commercial bank branches as on	59,762
Number of scheduled commercial bank branches as on	1,02,343

(f) Number of ATMs in the country as on 31st March, 2013

	RURAL	SEMI-URBAN	URBAN	METROPOLITAN	TOTAL
PUBLIC SECTOR BANKS	8552	18445	22518	20137	**69652**
OLD PRIVATE SECTOR BANKS	768	2760	2354	1684	**7566**
NEW PRIVATE SECTOR BANKS	2214	6484	10995	15842	**35535**
FOREIGN BANKS	30	21	244	966	**1261**
TOTAL	**11564**	**27710**	**36111**	**38629**	**114014**

**Source: Compiled from various reports of Commercial Banks and RBI.*

Section-IV : Analytical performance of the various govt. Schemes for Financial Inclusion

1. **SHG-Bank linkage**: NABARD launched the SHG Bank Linkage Programme(SHGBLP) in 1992 to organize the rural poor into SHG's and built their capacities to manage finances. In

1996, RBI advised banks to treat lending to SHG's as a normal lending activity. Consequently, loans could be extended to SHG's for all purposes. About 85% of the groups were formed exclusively for women (RBI,2005). Working through SHG's came to be adopted in other government programmes. From 1999, SHG's were provided a combination of credit and subsidy to undertake a cluster of activities at the block level under the Swaranajayanti Gram Swarojgar Yojana (SGSY) and this has been continued as the National Rural Livelihoods Mission(NRLM). (Sources for the sub sections SHG-Bank linkage and Micro finance institutions include NCAER, 2008; NABARD, 2012.)

2. **Micro finance Institutions**: MFI's are bodies registered as trusts, societies and companies. In 2000-01, the Micro finance development fund (MFDF) with a corpus of Rs.100 crore was established in NABARD and later re-designated as the Micro finance Development and Equity Fund in 2005-06 with an additional corpus of Rs.200 crore for scaling up of SHGBLP's and refinance and capital support to MFI's. The initial contribution for setting up of MFI's has come from public funds. The government allowed external commercial borrowings to MFI's /NGO's engaged in microfinance in 2005 up to USD 5 million per year and raised it to USD 10 million in 2011. The MFI's have come to be used by private banks to fulfill priority sector targets; MFI's lend to individuals and to SHG's. The micro credit organizations have moved into areas with well developed rural and banking infrastructure.

3. **New Payment mechanisms and unique identity**: A major innovation that has taken place is the use of digital and telecommunication technologies for transfer and remittance of money. Under the Direct Cash Transfer Programmes introduced in the 12th five year plan (201-2017), benefits under a range of social sector programmes were envisaged to be transferred to accounts of beneficiaries, electronically minimizing the tiers involved in fund flow and reducing delays and leakages. The direct Benefit programme uses the unique identity called Aadhar, a 12 digit id number issued to individuals by the Unique Identification Authority of India to identify beneficiaries.

4. **The Jan Dhan Initiative**: The Government of India, in August 2014, introduced a national financial inclusion programme named "Pradhan Mantri Jan Dhan Yojna". The programme

is being implemented in mission mode with the target of providing bank accounts to atleast 75 million people by January 26, 2015. Since the target was achieved in November 2014, the target was re-fixed at 10 million accounts. Under Jan Dhan Yojna, a person from an unbanked household who opens an account is given a RuPay Debit card, a Rs.1 lakh accidental insurance cover and an additional Rs.30000 life insurance cover and a credit limit of Rs.5000. To get the benefit of accident insurance cover , the RuPay debit card has to be used atleast once every 45 days. The rapid pace at which the accounts have been opened is also an indicator of the latent demand of the bank accounts that remained unmet so far. The simplification of the process and active outreach programme has provided an impetus towards financial inclusion.

The programme was introduced in 2 phases. In the first phase, until April 2015, bank accounts were opened on a large scale. In the second phase, the effort has included extending direct transfer of subsidies and the introduction of insurance and pension products. As far as opening bank accounts is concerned, Jan Dhan Yojana has been a success. (The Jan Dhan Yojana was recognized in the Guinness Book for achieving the maximum no. of bank accounts of 18.1 million in just one week.) By April 2015, 144.3 million bank accounts were opened and by August 2015, 175.7 million accounts were opened. However, the average balance, at Rs. 1182, is just over the minimum required for a savings account (Rs.1000) and about 46% of accounts have zero balance.

The Economic survey of 2014-15 recommended that the JAM Trinity comprising Jan Dhan Yojna, Aadhar and Mobile numbers should be linked for transfer of subsidies to intended beneficiaries. In May 2015, two insurance schemes were launched, called Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana to provide insurance cover in the event of death by any cause or disability due to accident. Again, these schemes are linked to a bank account.

The rapid pace at which the accounts have been opened is also an indicator of the latent demand of the bank accounts. The simplification of the process and active outreach programme has provided an impetus towards financial inclusion. While these initiatives have made a bank account central for financial inclusion, a bank account by itself is no guarantee of having regular financial transactions, for which one needs access to bank infrastructure and a steady stream of income. There is also a need to ensure that back end connectivity exists for Aadhar based identification to work.

5. **Business facilitators and correspondents**: In 2006, the RBI permitted banks to make use of services of NGO's, SHG's, MFI's and civil society organizations and other specified individuals (e.g. ex-servicemen) to function as business facilitators and correspondents. In June 2014, RBI relaxed conditions for banks to engage MFI's as business correspondents. This followed from the Nachiket Mor Committee on accelerating the flow of funds to the bottom of the pyramid and enlarging the catchment area of business correspondents. Using the guidelines, private banks themselves started to lend at 22% to 26% close to ceiling rates applicable to MFI's.
6. **New banks, small banks and payment banks**: The RBI decide to allow new banks to be set up in 2013 with a view to extend the geographic coverage of banks and improve access to banking services. After scrutinizing 25 applications, two entities were given in-principle approval. In November 2014, RBI brought out notifications on two new categories of banks, namely, small banks and payment banks and invited applications (RBI, 2014a, RBI, 2014b). This also followed from the Nachiket Mor Committee, which recommended differentiated entities as compared to the earlier system of having universal banks.

Section-V : Conclusions And Recommendations

The sequence of interventions and experience in India in the arena of financial inclusion gives valuable insights and can guide future policy. Financial inclusion cannot be taken for granted since financial institutions when left to them will profitable market segments. Even with the entry of MFI's, NGOs and SHGs in rural credit, interest rates continue to be high. High interest rates have been justified as reflecting transactions costs and the cost of finance. However, with rural credit markets remaining fragmented, high interest rates may well reflect risks and costs (unrelated to borrowers) that may have simply been passes on. There is a lack of transparency and information on what the MFI's are charging, even as their financing, at least in part, is from the banking system. A single point regulator with a mechanism for monitoring activities of lending entities with regular data collected on interest rates and loan tenure needs to be put in place.

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