FINANCIAL INCLUSION IN INDIA – AN OVERVIEW

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ABSTRACT
An inclusive financing system is among the top priorities for many countries and considered to be instrumental technique in achieving the inclusive growth of country. The concept of financial inclusion becomes an opportunity for the nation to reduce poverty and provide equal distribution of wealth. Financial inclusion is the delivery of banking and financial services to all sections of society including disadvantage, exclusion population and low income group in a fair and transparent manner at affordable cost. This paper is an attempt to discuss the theoretical overview of financial inclusion in India and in addition, paper also serves the purpose of researchers, bankers and policymakers as it provides adequate studies at a single point on financial inclusion. It covers the concept of financial inclusion, strategy’s adopted by RBI and government of India for financial inclusion and also highlights the financial inclusion index to measure the extent of financial inclusion in India(CRISIL Inclusix). It also covers the determinants of barriers to financial inclusion. After analyzing the facts and figures it can be concluded that financial inclusion is playing a catalytic role for the economic and social development of country but still there is a long road that India needs to travel to achieve inclusion growth and to become a global player.

Keywords: Financial inclusion, Financial Inclusion Index, No frill accounts, PMJDY, KYC

INTRODUCTION
Financial Inclusion or inclusive financing is the delivery of financial services and products at reasonable costs to the weaker sections of society and low income group or to the excluded population of the country in a transparent manner for the purpose of achieving the inclusive growth and development. The term “Financial Inclusion” has gained importance since the early 2000, a result of finding out financial exclusion and its direct correlation to poverty (Encyclopedia). Financial exclusion mean financial services are not availed by weaker sections of society and low income group. Financial inclusion helps in poverty alleviation and equal distribution of income by providing the financial services at affordable cost in a transparent manner.

Financial inclusion is becoming a priority for policymakers, regulators and development agencies globally:

1. Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals.
2. The G20 committed to advance financial inclusion worldwide and reaffirmed its commitment to implement the G20 High-Level Principles for Digital Financial Inclusion.
3. The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity, and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020. (Source World Bank Overview)
More recently, Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted on 24 April 2013 progress in financial inclusion during the IMF-World Bank 2013 spring Meeting: “Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership” (Encyclopedia). “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that held people improve their lives.” (Former United Nation Secretary – General Kofi Annan on 29 December 2003).

Rest of the paper is organized as follows: Section II discusses the definitions of Financial Inclusion. Section III outlines the objectives of study. Section IV highlights the research methodology. Section V highlights the concept of financial inclusion in India and explains the strategy adopted for financial inclusion and recent measure taken by the government. Section VI explains the financial inclusion index. Section VII highlights barriers to financial inclusion. Section VIII concludes the study.

DEFINITION OF FINANCIAL INCLUSION

A committee on financial inclusion headed by Dr. C Rangarajan in 2008 defined 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.”

Dr. Raghuram Rajan’s committee on financial sector reforms defined financial inclusion as, “Expanding access to financial services such as payment services, savings products, insurance products and inflation-protected pensions.”

CRISIL defines financial inclusion as: “The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services.”

OBJECTIVES OF THE STUDY

a) To examine the status of financial inclusion in India.

b) To know the strategies adopted for financial inclusion by RBI and government.

c) To list out some of the challenges or Barriers faced by the financial inclusion in India.

RESEARCH METHODOLOGY

The present study is descriptive in nature. The study relies exclusively on secondary data. The data used for the study has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Report on trend and progress of banking in India and from various reputed journals.

CONCEPT OF FINANCIAL INCLUSION IN INDIA

In the Indian context, the term ‘financial inclusion’ was used for the first time in 2005 when it was introduced by K.C. Chakraborty the chairman of Indian Bank Mangalam a remote village in India become the first village where all households had bank accounts. This was achieved when banks provide various facilities to the residents of the village by relaxation of norms for open accounts with annual deposit of less than Rs 50,000/- and General Credit Cards (GCCs) were issued to the poor and the disadvantaged with a view to held them excess easy credit.

In January 2006 the Reserve Bank of India permitted commercial bank to take the help from Non-Governmental Organizations (NGOs), Self-Help Groups (SHGs), micro-finance institutions (MFIs) and other civil society organizations to achieve this task.

The banks asked the commercial banks in different regions to starts a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or U.Ts like Puducherry, Himachal Pradesh and Kerela announced 100% financial inclusion in their district. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts.
In India, Financial Inclusion initiatives have been undertaken by the Reserve Bank of India and the Government of India through several measures starting with Nationalization of Banks (1969 & 1980), Lead Bank Scheme (1969), Priority Sector Guidelines (1980), Establishment of Regional Rural Banks (1976), Service Area Approach (1989) and SHG-Bank Linkage (1992). In February 2011, the government of India and the Indian banks’ Association (IBA) jointly launched SWABHIMAAN, a nationwide programme for financial inclusion. SWABHIMAAN aimed to bring the deprived sections of society into the banking network and ensure that the benefits of economic growth percolate to all levels.

RBI also initiated the requirement that banks provide no-frills accounts, improve the outreach of banking services through the business facilitator and business correspondent models, and set up goals to provide access to formal banking to 74,414 villages with a population of over 2,000 each. This target of covering villages with a population of over 2,000 was largely achieved by March 2012 (99.7 per cent). The goal towards financial inclusion was accordingly refined in June 2012; in the Financial Inclusion Plan 2013-16, banks have shared a roadmap to cover the remaining villages.

**STRATEGY ADOPTED FOR FINANCIAL INCLUSION**

1. **Opening of no-frills accounts:** To enhance the financial inclusion programme in India, RBI introduced this concept. Here no-frills account refers to zero balance or very low minimum balance. And banks have been advised to provide small overdrafts in such accounts at minimum charges.

2. **Relaxation on know-your-customer (KYC) norms:** Next strategy adopted by RBI is to simplify KYC norms. KYC is the process by which banks obtain information about the customers while opening accounts. Earlier customers had to provide no. of documents for opening an account. But now according to RBI, new guidelines, numbers of KYC norms were relaxed. RBI has allowed ‘Aadhaar’ the unique identification number to be used as one of the eligible document for opening a bank account.

3. **Engaging business correspondents (BCs):** Another ICT based model introduced by banks on the recommendations of RBI for financial inclusion is engaging BCs and BFIs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash out transactions.

4. **Use of technology:** Banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

5. **Adoption of EBT:** Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

6. **Simplified branch authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres (tier III area having population 50,000 to 99,999 and tier VI having 5,000 to 9,999 population).

7. **Opening of branches in unbanked rural centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks are directed to allocate at least 25% of the total number of branches to be opened during a year in unbanked rural centers.
8. **Road map for providing banking services in unbanked villages with a population of more than 2,000:** Banks were advised to draw up a road map to provide banking services in every unbanked village having a population of over 2,000 by March 2012. RBI advised banks that such banking services need not necessarily be extended through a bricks and mortar branch, but could also be provided through any of the various forms of ICT-based models.

9. **Financial inclusion plans of banks for three years:** RBI advised all public and private sector banks to submit a board-approved, three-year financial inclusion plan (FIP) starting April 2010. These plans broadly include self-set targets in respect of rural bricks and mortar branches opened; BCs employed; coverage of unbanked villages with a population above 2,000 as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT; KCCs and GCCs issued; and other specific products designed by them to cater to the financially excluded segments.

10. **KCCs:** According to this scheme banks issue smart cards to the farmers for providing timely and adequate credit support for their farming needs from the single window banking system. This scheme is being implemented by all the private and public sector banks throughout the country. This will automatically help in achieving the financial inclusion programme in India.

11. **General purpose credit cards (GCCs):** Under this scheme banks provide general purpose credit cards to the poor and excluded population which facilities credit up to ₹25000/- without any collateral requirement.

**RECENT MEASURES**

a) **Licensing of New Banks** The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

b) **Discussion Paper on Banking Structure in India – The Way Forward:** The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to “Differentiated Banking Licenses”. The subject of licensing ‘small banks and financial inclusion’ has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

c) **Pradhan Mantri Jan Dhan Yojana:** Recently government of India announced “Pradhan Mantri Jan Dhan Yojana” a national financial inclusion mission which aim to provide bank accounts to at least 75 million people. Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014 with a target to provide” universal access by banking facilities’ starting with Basic Banking Accounts with overdraft facility of Rs 5,000/- after six month and RuPay Debit card with inbuilt accident insurance cover of Rs 1 Lakh and RuPay Kissan Card.

d) **Differentiated Banking Licenses:** The RBI’s recent guidelines on ‘small finance banks’ and ‘payments banks’ are intended to improve financial inclusion through differentiated banking channels. They are based on the recommendations of the committee on Comprehensive Financial Services for Small Businesses and Low Income Households chaired by Dr. Nachiket Mor. Small finance banks will enhance accessibility of banking services to the small and micro borrowers in semi-urban and rural areas. Payments banks can speed up payment and remittance services to those still outside the banking network.

**FINANCIAL INCLUSION INDEX**

“If you can’t measure it, you can’t manage it,” said management consultant Peter Drucker
This study is based on the Financial Inclusion Index (FII) developed by CRISIL to measure the status of financial inclusion in India. The Index- Inclusix along with the report was released by Finance Minister of India, P. Chidambaram on 25 June 2013. CRISIL, India’s credit rating and Research Company launched an index to measure financial inclusion.

CRISIL Inclusix is India’s first comprehensive measure of financial inclusion in the form of an index. It is a relative index that has a scale of 0 to 100, and combines three very critical parameters of basic financial services — branch penetration (BP), deposit penetration (DP), and credit penetration (CP) — into one single metric. For each of these parameters, CRISIL evaluates financial inclusion at the national/ regional/ state/ district level vis-à-vis a defined ideal. A CRISIL Inclusix score of 100 indicates the ideal state for each of the three parameters.

The all-India CRISIL Inclusix registered a score of 50.11 at the end of fiscal 2013, driven by two factors:

(a) The continued progress of banking services along the three dimensions of financial inclusion - branch, deposit, and credit penetration

(b) The addition of MFIs into the index computation for the first time

Source: CRISIL Inclusix, Volume –III, June 2015

Note: - The index value of 50.1 for 2013 is not comparable with the index value of 42.8 for 2012 as data for MFIs is available only for fiscal 2013.

STATE-WISE INDEX OF FINANCIAL INCLUSION

Figure: 02

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Above Figure No. 02 explain the state-wise index of financial inclusion in India. It can see that some states in India achieve 100% financial inclusion i.e. Kerala, Maharashtra, Karnataka. These states reflect the high level of financial inclusion. The extent of financial inclusion is found to be significantly low in North-Eastern and Eastern States, i.e. Assam, Nagaland, Manipur, Odisha, Bihar, West Bengal, etc.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Branches</th>
<th>Number of ATMs</th>
<th>Bank Credit (as percent of GDP)</th>
<th>Bank Deposits (per 0.1 million adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>10.64</td>
<td>8.9</td>
<td>51.75</td>
<td>68.43</td>
</tr>
<tr>
<td>China</td>
<td>23.81</td>
<td>49.56</td>
<td>287.89</td>
<td>433.96</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8.52</td>
<td>16.47</td>
<td>34.25</td>
<td>43.36</td>
</tr>
<tr>
<td>Brazil</td>
<td>46.15</td>
<td>119.63</td>
<td>40.28</td>
<td>53.26</td>
</tr>
<tr>
<td>France</td>
<td>41.58</td>
<td>109.8</td>
<td>42.85</td>
<td>34.77</td>
</tr>
</tbody>
</table>

Source: IMF Data, Financial Access Survey (FAS)

This table summaries India’s performance in the area of financial inclusion as compare with other developing and developed countries. It revels the wide extent of financial exclusion in India as compared to China, Brazil & France (Table-1).

DETERMINANTS OF BARRIERS TO FINANCIAL INCLUSION

There are plenty of factors that have a negative influence on financial inclusion in India. CRISIL highlighted the three big challenges of financial inclusion i.e. high cost, lack of robust technology and lack of awareness in its report released by Indian chamber of commerce in May 2011. Some of the barriers are listed below:-

(a) Technological Barriers: The very first barrier to financial inclusion is technological. Absence of an appropriate technology is a serious challenge. Transaction costs are too high because technology is not leveraged fully. Finger print storage and retrieval need to be made convenient. It is an issue because of lack of standards and training and maintenance.

(b) Demand Side Barriers: Demand side barriers include lack of financial literacy, lack of awareness of financial services and products, social exclusion and the fact that certain products being currently offered are not suitable for the poor.

(c) Supply Side Barriers: Supply side barriers are the issues with high transaction costs, lack of communication and the lack of a proper framework or infrastructure.

(d) High Cost: It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them.

(e) Lack of Awareness: Many people are unaware of the banking terms and conditions laid down from time to time. And this causes the financial exclusion in the country.
High Transaction Charges: Various commercial banks across the globe levy transaction charges on credit or debit transactions, on cheque book issuance etc.

Illiteracy: As due to illiteracy numbers of people are unable to take advantage of banking and financial services. And this is one of the major barriers to financial inclusion.

Voluntary self-excluded barriers: People choose not to own an account because of a lack of money or for cultural reasons. Thus, “Lack of Money”, “Religious Reasons” and “Family Member has an account” are categorized as voluntary self-excluded barriers.

Involuntary self-excluded barriers: Involuntary exclusion, however, is driven by market failures. Distance, high cost, documentation requirements and lack of trust are involuntary self-excluded barriers.

CONCLUSION

From the above study it can be concluded that economic growth follows financial inclusions. Financial inclusion is delivery of banking and financial services to the excluded sections of the nation. It reduces the poverty, provide equal distribution of income and create awareness among excluded population. It explores the financial inclusion efforts made at the national as well as global level, and highlights the financial inclusion strategy developed by RBI and government of India to decrease the number of excluded population. And study also highlights the financial inclusion index (CRISIL inclusix) to measure the extent of financial inclusion in India. The study revel that there is a wide extent of financial inclusion in India as compared to China, Brazil & France. And figure 02 explain the state-wise index of financial inclusion in India. It can see that some states in India achieve 100% financial inclusion i.e. Kerala, Maharashtra, Karnataka. This state’s reflect the high level of financial inclusion. The extent of financial inclusion is found to be significantly low in North-Eastern and Eastern States, i.e. Assam, Nagaland, Manipur, Odisha, Bihar, West Bengal, etc. The study also revels the determinants of barriers to financial inclusion. Through financial inclusion we can achieve the objective of five year plan (2012-17) of inclusive growth. So we can say that financial inclusion is a win-win opportunity for the poor, for the rural, for the banks and for the nation. But financial inclusion cannot be achieve without the active involvement of all stakeholders like RBI, Govt. of India, Banks, NGOs, micro-finance institutions, civil society and other financial regulators.

To sum up, financial inclusion is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

REFERENCES


