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FINANCIAL INCLUSION IN INDIA: AN ANALYTICAL STUDY

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ABSTRACT

Financial Inclusion means everybody having access to an appropriate range of financial products and services, which allows them to effectively manage their money, regardless of their level of income or social status at an affordable cost. Indian economy in general and banking services in particular, have made rapid strides in the recent past. In the process of progress of high economic growth route, there is an indispensable need the participation of all sections of society However, a sizable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services, be it opening a savings bank account or availing a loan, provided by the financial sector. And thus it is clear that Indian growth is not inclusive. The growing literature on financial inclusion has provided plenty of evidences of the merits of an inclusive financial system. However, the literature lacks a comprehensive measure that can be used to measure the extent of financial inclusion in an economy. The present study is based on secondary data and efforts are made to explore various dimensions of financial inclusion. Financial inclusion has increased in overall in India but its effectiveness is still questioned.

Keywords: Financial Inclusion; Inclusive Growth; Indian Financial System; Financial Services.

INTRODUCTION

Financial inclusion is the topical concept which helps achieve the sustainable development of the country, through available financial services to the unreached people. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. In an address, Dr. K. C. Chakraborty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

OBJECTIVES OF THE STUDY

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- To know India's position regarding financial inclusion compared with some other selected countries.
- To explore the inter-connectivity between financial inclusion and governance of RBI.
- To know the strategies implemented by Reserve Bank of India to strengthen the financial inclusion.
- To examine the performance of different banks towards financial inclusion.
- To know the measures initiated by a bank to strengthen the financial inclusion.
- To identify the challenges to be faced by the country to strengthen the financial inclusion.

DEFINITIONS

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 (Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Financial inclusion, according to the Finance Minister's 2006-07 budget speech, was defined as "the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost".

Financial Inclusion, broadly defined, 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 (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

WHY FINANCIAL INCLUSION IS IMPORTANT?

Financial inclusion protects low income group's financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. On the other hand, an underdeveloped financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs.

Additionally, macroeconomic evidence indicates that sound financial systems have a strong positive impact on economic growth over a long period of time. Multiple studies have documented a robust negative relationship at the country level between indicators of financial depth and the level of income inequality as measured by the Gini coefficient.

A number of researchers have investigated the link between financial inclusion and economic growth, focusing primarily on whether there is a positive relationship between the two concepts. Consistent with economic theory that would suggest that financial inclusion should promote economic growth. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population and generally strengthens this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions tend to increase households' abilities to insulate themselves from a variety of shocks and may enhance consumer confidence. Wider access to financial services also tends to distribute economic opportunities more broadly, particularly among poorer households and businesses.

INDIA'S POSITION ON FINANCIAL INCLUSION IN COMPARISON WITH OTHER COUNTRIES:

Table 1: Indicators of Financial Inclusion (2011)

S.No.	Country	No. of Bank Branches	No. of ATMs	Bank Deposits	Bank Credit
		per 0.1 million		as % to GDP	
1	India	10.64	8.9	68.43	51.75
2	China	23.81	49.56	433.96	287.89
3	Brazil	46.15	119.63	53.26	40.28
4	Indonesia	8.52	16.47	43.36	34.25

5	Korea	18.8	-	80.82	90.65
6	Mauritius	21.29	42.78	170.7	77.82
7	Mexico	14.86	45.77	22.65	18.81
8	Philippines	8.07	17.7	41.93	21.39
9	South Africa	10.71	60.01	45.86	74.45
10	Sri Lanka	16.73	14.29	45.72	42.64
11	Thailand	11.29	77.95	78.79	95.37
12	Malaysia	10.49	56.43	130.82	104.23

Source: Financial Access Survey, World Bank

From the above table, it can be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world. As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly because there is an increase in banking services in rural areas.

STEPS TAKEN BY RBI TO SUPPORT THE FINANCIAL INCLUSION:

India has a long history of banking development. After Independence, the major focus of the Government and RBI was to develop a sound banking system which could support planned economic development through mobilization of resources and channel them into productive sectors. Thus, the Government's desire to use the banking system as an important agent of change was one of the important policies. RBI has also taken several measures to achieve greater financial inclusion in India. Some of these measures are as follows:

Simplified KYC Norms: In order to ensure that low income group (poor people) does not face difficulty in opening the bank account due to procedural hassles, the KYC (Know Your Customer) norms have been simplified. . In addition, banks are allowed to use Aadhar Card as a proof of both identity and address·

Financial Education: It was advised by RBI that Financial Literacy Centers (FLCs) and all the rural branches of SCBs should scale-up financial literacy efforts through conduct of Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of 'Financial Literacy' and 'Financial Access'.

Branches in Un-banked Villages: RBI has directed all banks to allocate at least 25% of the total number of branches to be opened in un-banked (Tier 5 and Tier 6) rural centers.

Easy Credit Facilities: RBI has asked banks to consider introducing General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches. GCC is in the nature of rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest rate on the facility is entirely deregulated.

Other Rural Intermediaries: Banks were permitted by RBI to use other rural organizations like non-government organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.

Simplified Branch Authorization Policy: To address the issue of uneven spread of bank branches, in 2009, domestic scheduled commercial banks were permitted to freely open branches in tier II to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. Even in North-Eastern States, domestic SCBs can open branches without having any permission from RBI.

Usage of Regional Language: The RBI asked banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.

Discussion Paper: The RBI has put out a discussion paper *"Discussion Paper on Banking Structure in India – The Way Forward"* in August 2013 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.

Basic Saving Bank Deposit: RBI has advised all banks to offer such accounts (no frills) with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card etc.

Watchdog: All banks had been advised to submit board approved three year Financial Inclusion Plan (FIP). These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans continuously.

Licensing of New Banks: Licensing of new banks was aimed at giving further lift to financial inclusion efforts. Innovative business models, aimed at furthering financial inclusion efforts, would be looked into strictly in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Subbarao).

Kisan Credit Card: The promotion and spreading of the KCC, an important means to reduce transaction costs, has also been given due importance. This scheme was introduced in 1998-99 with over 30 million cards issued by 2003; however the use of the card was patchy with larger farmers reporting the higher usages.

However, progress of financial inclusion clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs.

FINANCIAL INCLUSION IN INDIA:

Post-independence, the major focus of the Government and the Reserve Bank of India was to develop a sound banking system that could support planned economic development through mobilization of resources and channel them into productive sectors. Accordingly, the Government and the RBI use the banking system as an important agent of change. The RBI setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI insisted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account.

In India, financial inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in union territory of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50, 000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services.

REVIEW OF LITERATURE:

Mandira Sarma and Jesim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.

V.Ganeshkumar (2013) noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and poverty reduction strategy. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Roy (2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

Oya Pinar Ardic et al (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

CONCLUSION

To conclude, it can be said that India is at moderate level of financial inclusion as compared to other countries on different grounds. Various studies examined that there is a close relationship between financial inclusion and development. But due to the constraints like financial literacy, poverty, advanced technology etc., the inclusive growth is not possible. Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Literacy is a prerequisite for creating investment awareness, and hence innately it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion, although it can help to achieve better results in poverty alleviation. Thus, there is a titanic need to adopt strategies like adaptation of advanced technology, opening up the bank branched in rural areas, no-frill account, use of regional languages, synergistic partnerships with technology service providers, simple KYC norms, introduction of new saving schemes for low income people etc. to strengthen financial inclusion.

Also, in order to achieve the goal of total financial inclusion, policymakers, banks, MFIs, NGOs and regulators have to work together. While the results from the study should be of help to policymakers and bankers as they consider innovative approaches to improve the participation of excluded populations in formal finance, this study is by no means a final evaluation of the financial inclusion drive.

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