

Financial Inclusion in India: An Appraisal

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ABSTRACT

Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Inclusive growth has been a priority of the Government of India (GoI) over the past decade. The policy making and regulating institutions (Government of India, RBI, IRDA, PFRDA (for micropensions) have developed regulations and guidelines for strengthening financial inclusion, but these are yet to have a substantial impact on outreach to the excluded population. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at an affordable cost. This a descriptive paper focuses on an overview of financial inclusion in India and its progress through various indicators.

Keywords:

Financial inclusion, Inclusive Growth, Financial Services

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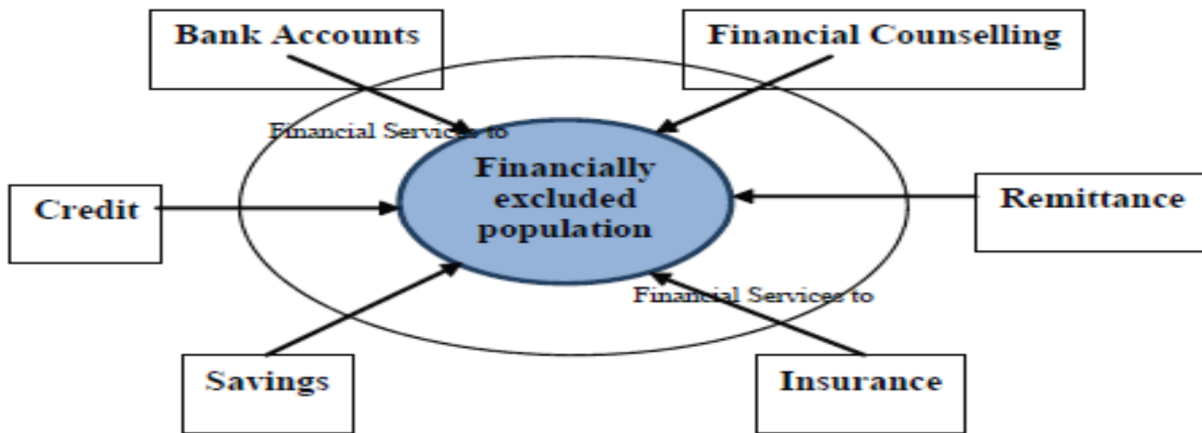
INTRODUCTION

Financial institutions are the catalyst in the economic growth and progress in the modern era. The Government of India and the Reserve Bank of India 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 a 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 doorstep delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population. Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial

services or systems and their usage by all members of the economy. The committee on financial inclusion, of government, of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008).

Definitions

- ✚ 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)
- ✚ 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, Chairman: Dr. C. Rangarajan).



Financial Inclusion (Rangarajan Committee Report)

Measuring Financial Inclusion:

Three basic dimensions of an inclusive financial system are:

1. Banking penetration

* Size of the banked population, i.e., number of adult population having a bank account

* Number of bank accounts as a proportion of the total population

2. Availability of the banking services

* Number of bank outlets & ATMs (per 1000 population)

* Number of bank branches per 1000 adult population and also number of branches per square km

3. Usage of the banking system

* Merely having a bank account does not ensure that the system is inclusive; adequate utilization is imperative

* Volume of outstanding deposit and credit as proportion of the Net District Domestic Product

Literature Review

Bagli et al (2012) examined the achievement of the Indian states regarding the financial inclusion by applying the methodology of Rotated Principal Component Analysis the study had computed a comprehensive measure of financial inclusion for each state. For this analysis ten indicators of financial Inclusion have been considered. **Dangi et al (2013)** focused on the future prospects and the current situation of the financial inclusion in India and they found that Lack of accessible, affordable and appropriate financial services has always been a global problem. **Shankar Savita (2013)** examined the role of MFI on

Financial inclusion and tried to find out whether the MFI are creating access barrier in the growth of financial inclusion.

Financial Inclusion – RBI Policy Initiatives

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottlenecks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created a conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts

- **Advised all banks to open Basic Saving Bank Deposit (BSBD)** accounts 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.
- **Relaxed and simplified KYC norms** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding

Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

- **Simplified Branch Authorization Policy**, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with a population of less than 1 lakh under general permission, subject to reporting. In the North-Eastern States and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.
- **Compulsory Requirement of Opening Branches in Un-banked Villages**, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.

- **Opening of intermediate brick and mortar structure**, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost, simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a passbook printer and a safe for cash retention for operating larger customer transactions.
- **Public and private sector banks had been advised to submit** board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, 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 on a monthly basis.
- **Banks have been advised that their FIPs** should be disaggregated and percolated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- **In June 2012, revised guidelines for Financial Literacy Centers (FLCs)**. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through the conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at the end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013

Findings and Discussions

Progress of financial inclusion since the launch of financial inclusion plans 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. Detailed trends are furnished in the following

1. Number of Branches Opened (including RRBs)

- Due to the RBI’s concerted efforts since 2005, the number of branches of Scheduled Commercial Banks

increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across the length and breadth of the country.

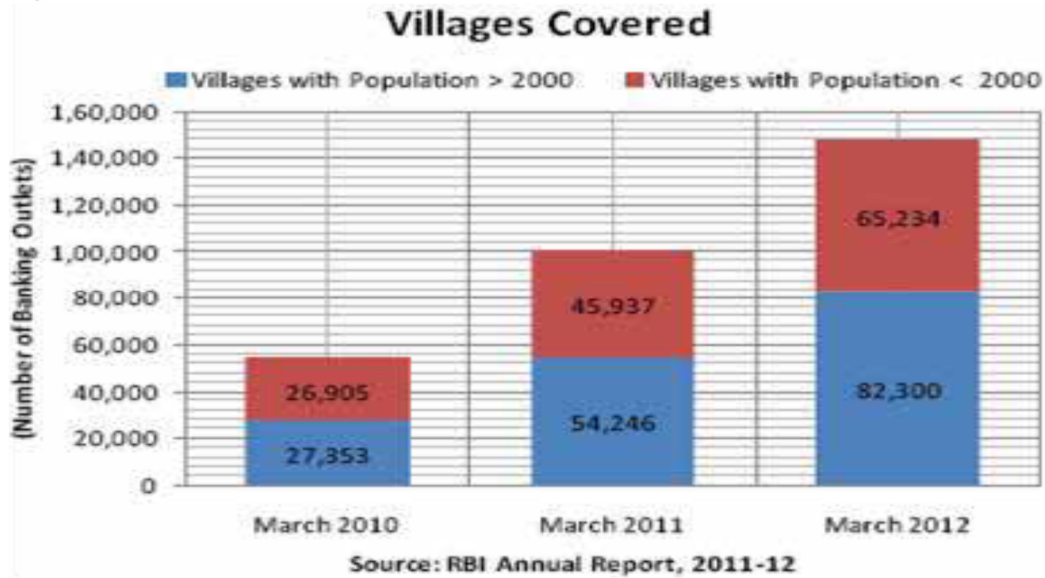
- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.



2. Villages Covered:

The number of banking outlets in villages with populations more than 2000 as well as

less than 2000 increased consistently since March 2010.



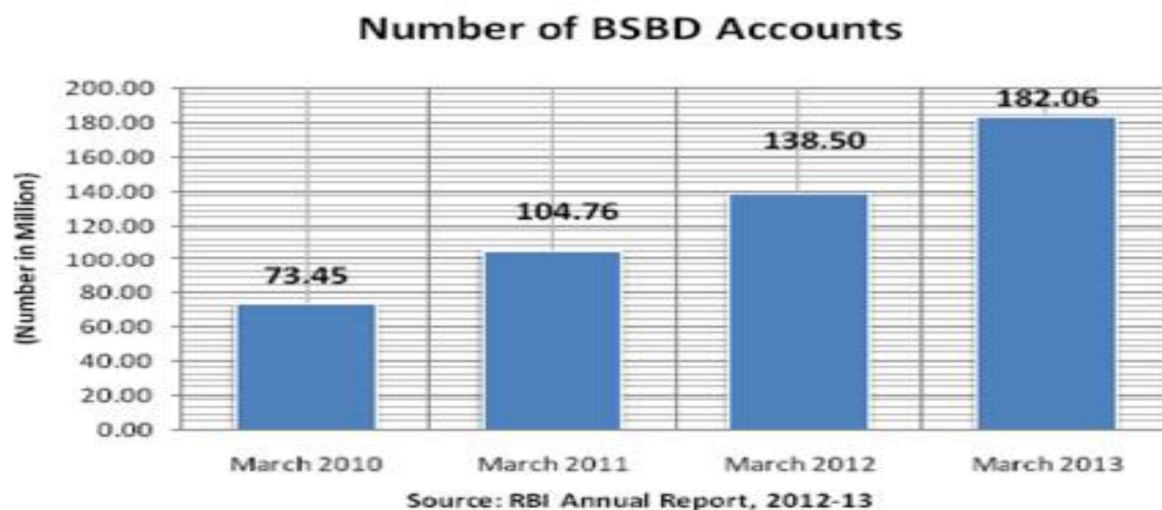
3. Total Bank Outlets (including RRBs)

The total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to

2,21,341 during the same period (increased around 6.5 times).

4. BSBD Accounts Opened

- The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013.



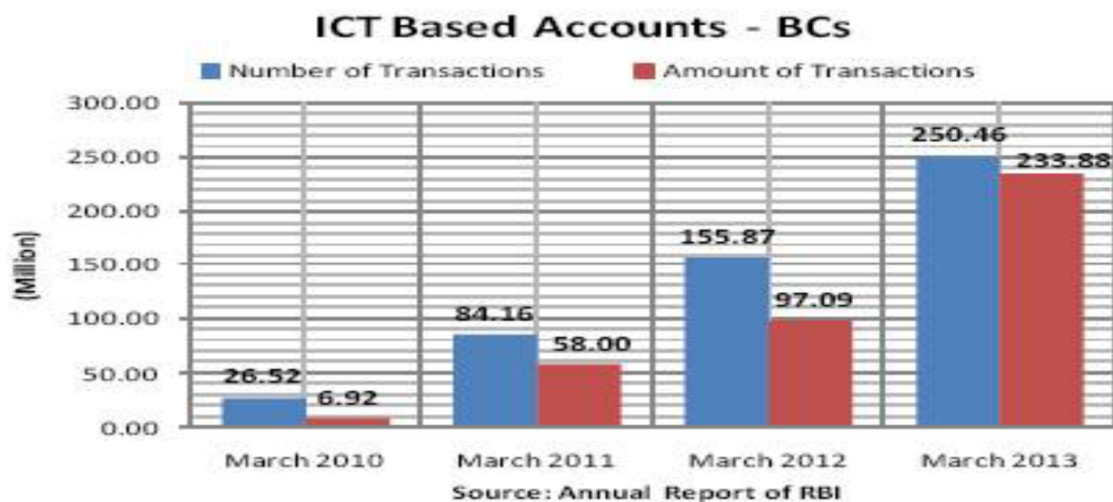
- RBI has advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

5. Kisan Credit Cards (KCC) Issued:

- Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion.

- In order to provide efficient and cost-effective banking services in the unbanked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.
- The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while the transaction amount increased steadily from Rs.6.92 billion to Rs.233.88 billion during the same period.

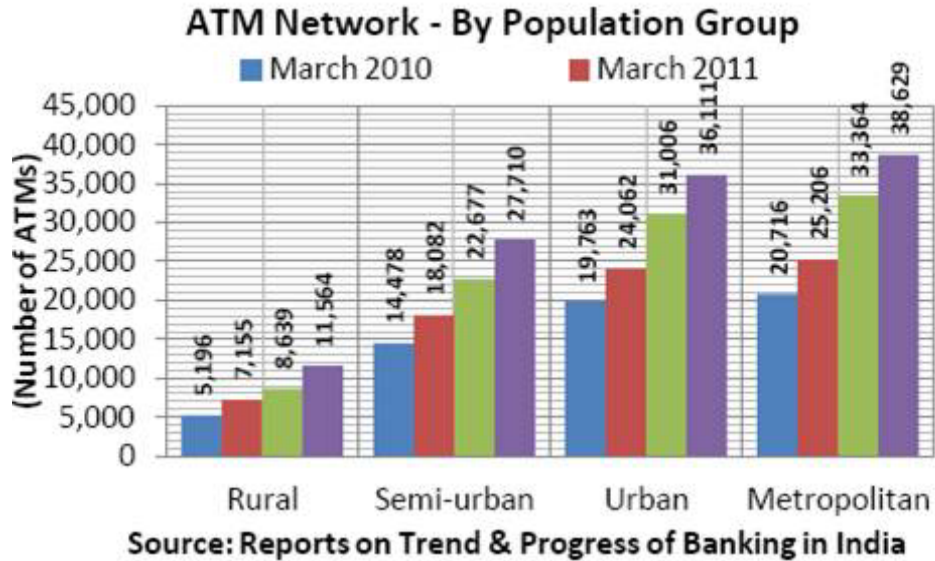
6. ICT Based Accounts - through BCs



7. Expansion of ATM Network:

The total number of ATMs in rural India witnessed a CAGR of 30.6% during March

2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013.



Factors affecting accessing financial services:

- Structural procedures and formalities of banks
- Lack of financial knowledge
- Low income level of majority of population
- Most of the people do not have legal identity proof
- Various terms and conditions laid down by banks

Road Ahead

Banks & Technology Service Providers (TSPs) need to develop new product lines

rather than merely adopting complex products of urban India Mobile POS, micro-ATMs, Pre-paid instruments, mobile enabled KCC, variable instalment RD, gold linked products, micro-pension, etc. provide simple and basic banking services requires easy-to-understand documentation process and a move from assisted to self-service model in a calibrated manner, more focus is required on the innovative ideas to enhance the staying power of the poor. The policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion which

requires collaboration between across governments, regulators, industry associations and other stakeholders. Coordinated national strategy is needed for the success of the financial inclusion initiatives and spreading awareness about financial inclusion, tap innovative dissemination channels, training the grass-root level staff of banks/BCs/TSPs, financial technology, e-BAAT – Electronic Banking Awareness And Training is required.

For evolving an effective financial inclusion delivery model:

- ✚ Customer service needs equal attention
- ✚ Dissemination of information to customers
- ✚ Developing mechanisms for redressing grievances
- ✚ Risk management through prudential regulations
- ✚ Responsible financial innovation
- ✚ Creation of a facilitating eco-system
- ✚ Leveraging on technology and combination of branches, ICT based

BC outlets and payment system infrastructure

- ✚ Mindset, cultural and attitudinal changes at the grassroots

Conclusion

The Government of India is committed to ensuring financial inclusion for the entire population and this intention have been reflected in the policy initiatives taken over the last few years. Various policies have been stimulated by the recommendations of the committees set up for suggesting strategies to promote financial inclusion and improve the health of rural financial structures. For building customer awareness E-banking and mobile banking training and education programmes should be conducted. New bank branches have been opened and new ATMs have been installed for the purpose of achieving financial inclusion. PSBs and RRBs played a key role in the financial inclusion process. The indicators mentioned above are showing a positive reflection towards the growth of Financial Inclusion in the country, but a lot more things are there which needs emphasis.

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