Financial Inclusion

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Abstract

Financial Inclusion plays a pivotal role in promoting an all round development of a nation. The term has garnered particular significance with reference to the weaker sections of the society as it refers to the process wherein the vulnerable groups like the low income group are brought under the banking and financial services umbrella wherein they are ensured access to financial products and services at reasonable cost by the mainstream institutional players. Women and rural households also have to be considered while discussing financial inclusion. Small and micro firms are also needed to be looked at from financial inclusion point of view. A sizeable portion of world population (two billion) does not have basic account. Around 19% of the population in India is non-participating in the banking system of the country. Financial inclusion would help in broadening the scope of saving, creation of credit, reduction of poverty, increase in living standard and thus bringing out inclusive growth of an economy. The aim of this paper is to throw light on how financial inclusion can bring economic growth and looking into measures adopted by the Government of India and RBI towards the same. The paper emphasizes on the significance, advantages and challenges of financial inclusion from Indian perspective.

Keywords: Financial Inclusion, inclusive growth, MFIs, KCCs, GCCs, banking services.

Introduction

During the pre-independence era, Indian economy was grappling with poverty and was lagging far behind in terms of income, savings and productivity. In post-independence period we were faced with gigantic task of lifting our economy. India adopted five year planning model with comprehensive economic planning and review of economy with each plan. The twelfth five year plan has mention of inclusive growth as one of its objective and financial services sector is one of the sectors that have been mentioned with regards to generation of employment. Ninety percent of India is expected to be offered access to banking services by the end of twelfth five year plan.

Financial inclusion is a concept that aims to bridge the inequalities between the different sections of society. Financial inclusion encompasses not only banking but also financial services availability throughout the nation so as to bring inclusive growth. Absorption of the vulnerable sections into banking system would encourage savings, credit creation and investment thereby breaking the viscous circle of poverty.

Objectives of the paper:

- A peep into the concept of financial exclusion.
- To understand what is meant by financial inclusion and its relevance with India.
- Review of measures taken by RBI and the Government of India in strengthening financial inclusion in the country.
- Importance and advantages of financial inclusion along with challenges of the same with regards to India.

Methodology of the study:

This research paper has been presented through secondary research. Secondary research comprises of articles, journals, websites, books and reports. Data collection has been done through different committee reports and website of RBI.

Financial Exclusion

When there is no access to banking and financial services to people then it is termed as financial exclusion. Financial exclusion results in lack of growth both at individual and at national level thereby affecting the growth of an economy. Certain sections of society namely urban slum dwellers, marginal farmers, migrants, landless labourers, women, senior citizens and groups that face social exclusion are those who are at high risk of financial exclusion. In India around 19 percent of the population is not participating in the banking sector. In the area of insurance, financial exclusion is alarming as mere 10 percent of population have any type of insurance cover while non-insurance cover stands at just 0.6 percent. As far as debit and credit cards are concerned, only 13 percent have debit cards while barely 2 percent have credit cards. Financial exclusion could be result of number of factors like:

- Some financial products could be accessed only by paying a price which cannot be afforded by certain segments of society.
- Physical barriers like inaccessibility of banking and financial products in certain areas.
- Illiteracy could also result into financial exclusion.
- Lack of awareness and psychological and cultural barriers also contribute towards certain segments remaining outside the banking sector of the economy.
- Terms and conditions may also prevent people from availing banking facilities, for instance minimum balance requirement.
- Income levels and complex procedures further add to widening the base of financial exclusion.

Financial exclusion prevents a country to come out of vicious circle of poverty and adds to the woes of social exclusion. It widens the inequality between the upper class and lower class. Financial exclusion should not be addressed only from rural perspective as it prevails in urban areas as well.

Meaning of Financial inclusion:

Financial inclusion and inclusive growth go parallel to each other. The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan defines financial inclusion as "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." Though it is said that financial inclusion is a relatively newer concept, from Indian economy's point of view, the concept is quite an established one. Efforts of RBI like nationalisation of banks way back in 1969, creation of regional rural banks and self help groups, all show that financial inclusion in India has already gathered momentum. In the present times, the scope of financial inclusion is not restricted to opening of a bank account but also covers insurance, financial advisory services, equity and availability of credit. The major purpose of financial inclusion is upliftment of the poor.

Financial inclusion in India got initiation through The Khan Commission (2004) and The Rangarajan committee (2008). RBI has been taking efforts to strengthen financial inclusion through its various guidelines. Indian banking sector has duly realised the significance of financial inclusion and has taken commendable steps towards it. Indian banking system in recent times boasts of ATM, credit/debit cards, internet banking and online transaction mechanisms, all of which are noteworthy steps from the traditional brick-and mortar system. But the bigger question in this context is looking into how well these services have reached the different sections of society or have they just percolated to upper sections leaving a huge chunk of population deprived of even a basic bank account.

Review of literature

Chandrasekhar (2007) has looked into both financial inclusion and financial exclusion. At one end of spectrum there are sections of population who have access to all kinds of financial services while at other end there are people who do not have even a basic banking account. In between these two ends there are sections of society for whom the access to financial services is limited. [1]

Ms G.S. Nalini (2012) has studied Role of Banks in Financial Inclusion. The extent of financial inclusion along with difficulties involved in its adoption is observed in the study. Banks in Tiruchendur area of Tamil Nadu were studied in this paper and the measures suggested by her to banks so as to promote access to banking services were campaigns on financial inclusion, awareness programme, no frills account and so on. [2]

Sakshi Sachdeva (2015) studied financial inclusion through role of public sector banks and "Pradha Mantri Jan Dhan Yojna" has also been studied by her. Measures taken by RBI towards financial inclusion for rural growth have also being looked by her. [3]

Measures taken by RBI and the Government of India towards financial inclusion:

Presently both rural and urban areas and villages along with individual households are covered under financial inclusion. It is essential to remember that financial inclusion constitutes the supply side where services are offered as being demanded, it is financial literacy that stands on the demand side. RBI has focussed on improving credit delivery mechanism to productive sectors as being recommended by Committee on Medium-term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty). The Committee has recommended BC registry creation and certification training programme creation for BCs. Operationalisation of priority sector lending certificate (PSLCs) was a major development in 2016-17. PSLC is a system in which various categories of priority sector are offered lending by banks having surplus.

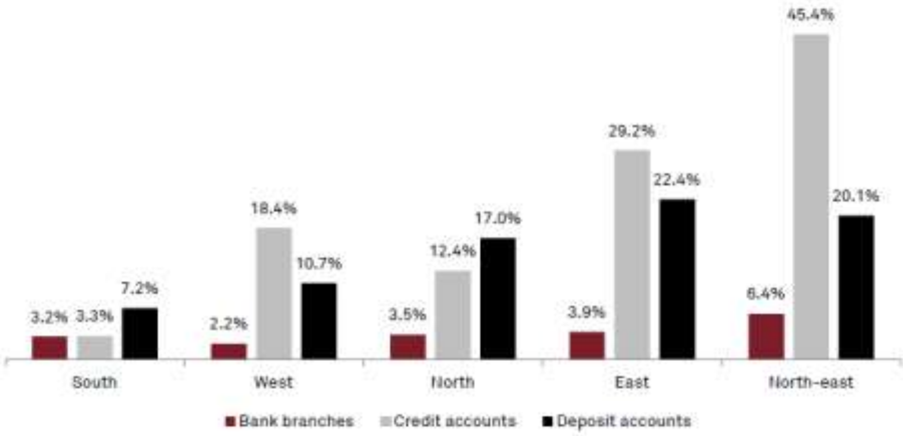
Before we look into measures adopted by RBI and Government of India towards financial inclusion let us have a look at the banking situation in our country. The following table depicts position of households availing banking services:

Table1

	As per Census 2001			As per Census 2011		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Number of households availing banking services**	**Number**	**Percent**
Rural	1382,71,559	416,39,949	30.1	1678,26,730	913,69,805	54.4
Urban	536,92,376	265,90,693	49.5	788,65,937	534,44,983	67.8
Total	**1919,63,935**	**682,30,642**	**35.5**	**2466,92,667**	**1448,14,788**	**58.7**
Source: Department of Financial Services						

The following table depicts growth in banking services across regions in fiscal 2016:

Figure 1



Source: *CRISIL INCLUSIX February 2018*

Financial inclusion in India has come a long way from nationalisation of banks in 1969 to present various initiatives by Government and RBI. The Government of India and RBI has come up with several schemes of financial inclusion which are as under:

- **Pradhan Mantri Jan Dhan Yojna (PMJDY):** This scheme was announced on 15th August, 2014 by honourable Prime Minister so as to offer universal access to banking facilities with at least one basic bank account to every household. This scheme also encompasses financial literacy, access to credit, pension and insurance facility. The population which is left unbanked can get easy access to banking services through PMJDY.

As of March 2018, the beneficiaries under PMJDY are as under:

Table 2

Bank Name / Type	Number of Beneficiaries at rural/semiurban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	No Of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts(In Crore)	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	13.6	11.7	13.26	25.3	61156.01	19.01
Regional Rural Banks	4.24	0.78	2.75	5.02	12780.86	3.67
Private Sector Banks	0.6	0.39	0.52	0.99	2180.01	0.92

Grand Total	**18.43**	**12.87**	**16.53**	**31.31**	**76116.88**	**23.6**

Source: pmjdy.gov.in

- **Simplified KYC norms:** In order to make banking convenient for common people RBI has been taking steps to ease KYC norms. This has been particularly useful for small accounts opening which have balances up to 50000 and aggregate credit with upper limit not exceeding rupees one lakh for a year.
- **BSBDA:** In 2005 when RBI launched no-frills account, it served as head start to the process of financial inclusion. This account has been replaced by BSBDA .Under Basic Saving Bank Deposit Account facilities like no minimum balance, savings cum overdraft account, ATM card facility, and electronic payment channels for receipt / credit of money are offered.
- **Adoption of Business Correspondents:** Banks have been allowed by RBI to engage business correspondents to be as intermediaries for the purpose of providing banking and financial services. BC model is of immense use especially in providing 'cash in-cash out' transactions at places which are near rural residents.
- **Technology enabled banking**: Indian banking sector has tried to blend banking with technology by incorporating facilities like ATMs, Internet banking, mobile banking, biometric identifier and machine for accepting deposits so as to ease the process of banking.
- **Kisan Credit Cards and General Credit Cards**: Kisan Credit Cards were introduced in 1998 for the growth of agricultural sector. Under KCC credit needs of the farmers are addressed at the time of harvesting season so as to bring down their dependence on informal sector consisting of money lenders. KCC is available to all the farmers and is offered by public sector banks, RRBs and cooperative banks.

  Table 3

Agency-wise Kisan Credit Card Issued since inception								
	Cumulative cards issued (lakhs)				% share in total no of cards issued by agency			
Year	Coop	RRBs	Comm banks	Total	Coop	RRBs	Comm banks	Total
Cumulative KCCs issued	507.99	238.47	717.52	1463.98	34.70	16.29	49.01	100.0
Operative/Live KCCs (as % of total KCC issued)	392.27 (77.2%)	123.43 (51.8%)	225.25 (26.9%)	740.94 (50.6%	52.94	16.66	30.4	100.0

Cumulative smart cards (as % of operative KCC)	0.24 (0.06%)	13.79 (11.2%)	76.15 (33.8%)	90.18 (33.8%)	0.26	15.29	84.45	100.0
Source: NABARD								

The main objective of KCC is as follows:

- To fulfil short-term credit needs for the purpose of crop cultivations
- Farmer households consumption needs
- Farm assets maintenance and agriculture allied activities resulting into working capital needs.
- Post-harvest expenses.

  General credit cards are issued to ease credit availability for entrepreneurial purpose to non farm sector. GCC covers both working capital and long term credit needs of entrepreneurs. GCC scheme is open to the entire nation.
- **Pradhan Mantri Suraksha Bima Yojna (PMSBY):** This scheme works on auto debit mode and is open to people in the age-group of 18 to 70 years and for bank account KYC requirements is fulfilled by Aadhar. 2 Lakh risk coverage is offered under this scheme for death due to accident and full disability and one lakh for partial disability.
- **Atal Pension Yojna (APY):** Launched in May 2015, this scheme offers monthly pension to the subscriber of Rs 1000, or Rs 2000 or Rs 3000 or Rs 4000 or Rs 5000 at 60 years of age. Depending upon the pension amount chosen, the contribution would differ.

  Apart from the above mentioned schemes, the following initiatives have also been taken towards financial inclusion:
- Pradhan Mantri Mudra Yojna (PMMY)
- Pradhan Mantri Jeevan Jyoti Bima Yojna (PMJJBY)
- The Bank Mitra Network
- Stand up India scheme
- Unified payments Interface
- RuPay debit Cards
- Varishtha Pension Bima Yojna

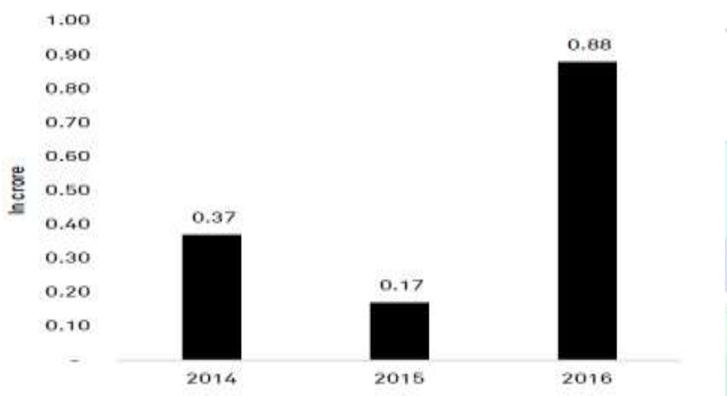
MFIs and financial inclusion: MFIs play a significant role in rural credit and these are those institutions which offer credit facilities to low income groups. MFIs could include NBFC, cooperative societies, NGOs, private commercial banks and sections of government banks. The largest community based microfinance initiative is Self Help Group Bank Linkage programme with 85.77 lakh SHGs spread across a hundred million rural households.

Table 4

Credit Flow to MSEs			
Year	**Number of Accounts (million)**	**Amount Outstanding (Rs billion)**	**MSE credit as percent of ANBC**
2015-16	20.4	9964.3	14.6
2016-17*	23.2	10698.2	14.3
*: Provisional			
Source: RBI Annual Report 2016-17			

The table below shows new MFI loan accounts and the surge in MFI loan from 2015 to 2016 is noteworthy.

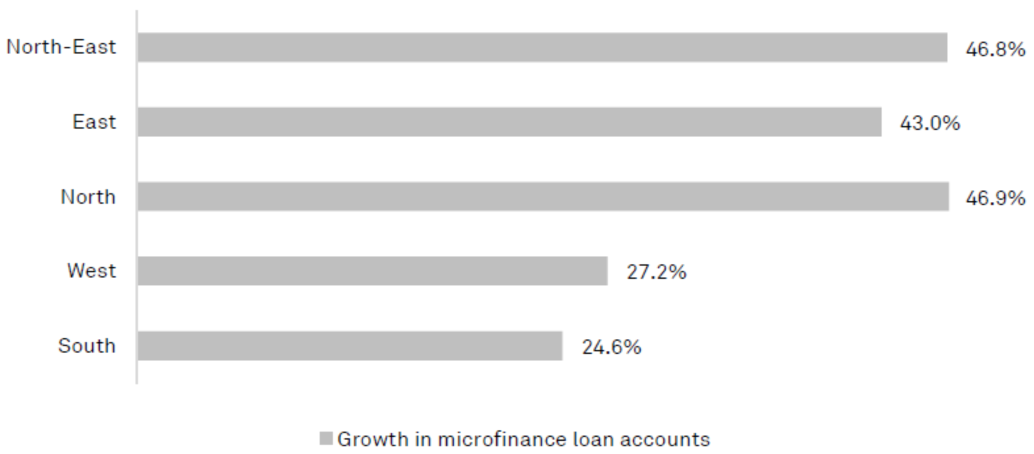
Figure 2



Source: *CRISIL INCLUSIX February 2018*

Region wise growth in microfinance loan accounts in fiscal 2016 is as follows:

Figure 3



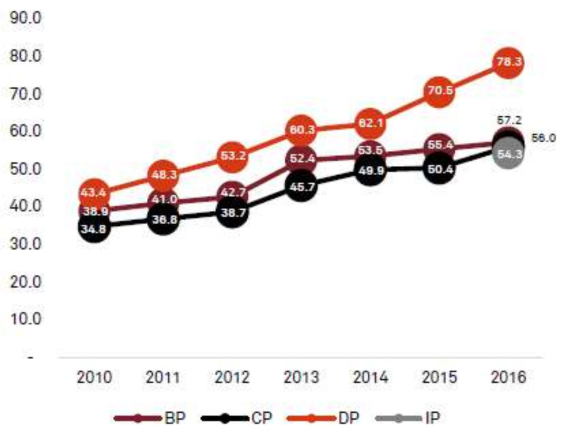
Source: *CRISIL INCLUSIX February 2018*

The following table summarises financial inclusion plan: Table 5

FINANCIAL INCLUSION PLAN: A PROGRESS REPORT			
Particulars	**End March 2010**	**End March 2016**	**End March 2017**
Banking Outlets in Villages – Branches	33,378	51,830	50,860
Banking Outlets in Villages>2000-BCs	8,390	98,958	1,05,402
Banking Outlets in Villages<2000- BCs	25,784	4,32,271	4,38,070
Total Banking Outlets in Villages – BCs	34,174	5,31,229	5,43,472
Banking Outlets in Villages- Other Modes	142	3,248	3,761
Banking Outlets in Villages -Total	**67,694**	**5,86,307**	**5,98,093**
Urban Locations covered through BCs	447	1,02,552	1,02,865
BSBDA-Through branches (No. in million)	60	238	254
BSBDA-Through branches(Amt. In rupees billion)	44	474	691
BSBDA-Through BCs (No. in million)	13	231	280
BSBDA-Through BCs (Amt. In rupees billion)	11	164	285
BSBDA-Total (No. in million)	**73**	**469**	**533**
BSBDA Total (Amt. In rupees billion)	**55**	**638**	**977**
OD facility availed in BSBDAs (No. in million)	0	9	9
OD facility availed in BSBDAs (Amt. In rupees billion)	0	29	17
KCCs -Total (No. in million)	24	47	46
KCCs -Total (Amt. In rupees billion)	1,240	5,131	5,805
GCC-Total (No. in million)	1	11	13
GCC-Total (Amt. In rupees billion)	35	1,493	2,117
ICT A/Cs-BC-Total Transactions (No. in million)	27	827	1,159
ICT A/Cs-BC-Total Transactions (Amt. In rupees billion)	7	1,687	2,652
Source: RBI Annual Report 2016-17			

CRISIL has devised an index namely CRISIL Inclusix that measures financial inclusion based on four parameters: branch penetration (BP), credit penetration (CP), deposit penetration (DP) and insurance penetration (IP). The following chart shows BP, CP, DP and IP scores.

Figure 4



Source: CRISIL INCLUSIX February 2018

Advantages of Financial inclusion:

The benefits of financial inclusion in India are many and could be divided into macro and micro benefits.

Macro benefits	Micro benefits
• Better economic growth • Increase in employment as well as income opportunities • Assist in better distribution of subsidies • Likely rise in national income • Bringing balanced regional development thereby reducing concentrated growth. • Reduction in income disparities • Improved and higher productivity. • Poverty reduction. • Assist in social security schemes implementation.	• Increased livelihood opportunities • Increase in risk appetite • Reducing exploitation through money lenders. • Improved incomes. • Appropriate use of savings

It could be said that financial inclusion is a win-win situation for all the parties involved be it bankers, users, regulators, intermediaries, government and technology providers. When all these parties stand to benefit the society and economy at large are bound to be benefitted.

Significance of financial inclusion: Even though we are considered as one of the fastest growing economies of the world, we still have a long way to go when it comes to financial inclusion. If inclusive growth is desired, then financial inclusion is prerequisite for it and its significance certainly cannot be ignored. One of the most important effects of financial inclusion is that it would bring rural households under the banking system. Financial inclusion would result in bringing down cash economy as banking base widens. Savings, investment, credit creation and capital formation are all encouraged through financial inclusion. Thus financial inclusion would help to improve the conditions of bottom-of-pyramid sections of society.

Challenges in financial inclusion in India:

Robust steps by Government of India and RBI aims to bring inclusive growth through financial inclusion. But in spite of comprehensive measures and proactive attitude of Government, Indian economy faces certain roadblocks when it comes to financial inclusion. The hindrances in smooth implementation of various initiatives of financial inclusion could dampen the efforts taken to encourage financial inclusion. Some of the challenges India faces in financial inclusion are:

Demand Side Challenges	**Supply Side Challenges**
• Limited Literacy • Living place like remote or rural areas • Psychological and cultural barriers • Dependence on informal sources of credit like the moneylenders • Lack of legal identity • Disadvantaged social group • Income level	• Terms and conditions • Proof of identity • Transaction cost on higher side • Bank charges • Product attractiveness • Suitable products

Conclusion: The rural households and low income groups have huge potential to bring balanced and inclusive growth of an economy. Poverty and inequality could be addressed through financial inclusion. Though we have made progress in financial inclusion, we still can work towards strengthening the same in our economy so that banking and financial services are no longer restricted to certain sections of population but accessible to all. Financial literacy and creation of investment opportunities would go hand in hand to make financial inclusion successful in India.

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