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A REVIEW

Analysis of financial inclusion in India

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ABSTRACT

Access to finance by the lower section of society and vulnerable groups is essential for poverty reduction and social cohesion. In India out of 5.92 lakh villages only .49 lakh villages have bank branches. Financial inclusion is considered an important factor for development of society and the country as a whole.This article focuses on the current status of financial inclusion in India, initiatives taken by RBI, Government of India for achieving financial inclusion. After analyzing the facts and figures it was concluded that financial inclusion has become a new paradigm of economic and societal growth which can help in driving away the poverty. No doubt financial inclusion is playing a catalytic role for the economic and social development of society but financial illiteracy, high costs by banks, technology are challenges which need to be overcome.

KEY WORDS : Financial inclusion, Business correspondents, Financial stability, No frill accounts, Financial inclusion index, Microfinance

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Several countries across the globe now look at financial inclusion as a means to more comprehensive growth. In terms of financially excluded households, India ranks second after China (PM, 2011), so efforts should be made to turn un-bankable clients into bankable client. Fungáèová and Weill (2014) analyzed financial inclusion in China and a compared with the other BRICS countries. It was found that higher income, better education, being a man and being older are associated with greater use of formal accounts and formal credit in China. Income and education influence the use of alternative sources of borrowing.

In India there has been tremendous growth in mobilization of deposits, extension of credit, usage of Innovative financial services etc. but still access to finances and financial services are very limited to poor and vulnerable groups, where majority of the Indian population live. There is an uneven spread of financial services which created a gap between rural and urban, leading to rural-urban divide. Around 60 per cent of the population does not have bank accounts. At present only 34 per cent of India's population is having access to banking services and 59 per cent of Indian adults lack bank accounts. In Andhra Pradesh, just over one-thirds of female sex workers and more than half the men who have sex with men do not have a bank account. Ease of accessibility and affordability of financial services to the poor can lead to economic opportunity, poverty reduction and social cohesion. Marginal farmers, landless farmers, oral lessees, self-employed, urban slum developers, migrants, minorities, social excluded groups, senior citizens, women are the target group who are financially excluded (Thorat, 2007 and Porkodi and Aravazhi, 2013).

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The reasons for financial exclusion are high costs charged by banks, lack of rural infrastructure, low extension of institutional credit in rural areas, lack of regular income, poverty, illiteracy lack of knowledge of facilities and services available to them. Also poor infrastructure and telecommunications and heavy branch regulation, also restrict the geographical expansion of bank branch networks (Christabell and Vimal, 2012).

Financial inclusion has become a new paradigm of economic growth. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups, at an affordable cost, in a fair and transparent manner by mainstream institutional players (Rangarajan Committee, 2008). The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007).The main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch (Christabell and Vimal, 2012). Products designed by the banks are not tailored to suit the needs of low-income families. The existing business models do not pass the test of scalability, convenience, reliability, flexibility and continuity. Financial inclusion plays a major role in driving away the poverty from the country (Raman, 2012) and is playing a catalytic role for the economic and social development of society (Sharma and Kukreja, 2013). Access to formal financial services improves the lives of the poor, with respect to saving products (Brune *et al.*, 2011) and enables the poor to make productive investment, to be less vulnerable to health shocks and to smooth consumption expenditure (Dupas and Robinson, 2009). The various financial services incudes savings, insurance, payment and remittance (Mahendra, 2006), credit, loans etc. The three main concerns in financial inclusion are access to financial market, knowledge of financial matters and access to credit market. Thus, it helps in promoting inclusive growth. The expansion of bank branches in rural India had a significant impact on lessening poverty (Burgess *et al.*, 2005).

Empirical evidence shows that financial inclusion has positive correlation with reduction of poverty, provision of health benefits and Human development. Financial inclusion has picked up in India in the last few years with many new innovations like mobile banking, ultra-small branches etc., but still it is far from adequate. Efforts should be made to remove high cost, poor services, low profitability, poor loan recovery and weak capital position (Mehar, 2014).

For the inclusivegrowth process of economy the central bank has provided high importance to the financial inclusion because results of NSSO 59th Round Survey showed that

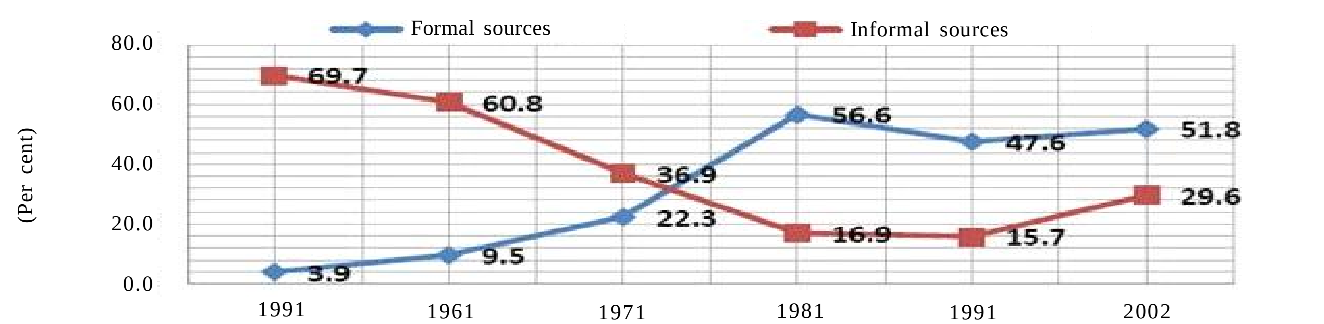
–51.4 per cent of farmer households are financially excluded from both formal/ informal sources.

–Of the total farmer households, only 27 per cent access formal sources of credit; one third of this group also borrowed from non-formal sources.

–Overall, 73 per cent of farmer households have no access to formal sources of credit.

–Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64 per cent of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66 per cent.

–However, over the period of five decades, there has



Source: RBI working paper (2013)

Fig. 1: Access to formal and informal sources of Credit-by rural households

been overall improvement in access to formal sources of credit by the rural households from 5.9 per cent in 1951 to 51.8 per cent in 2002.

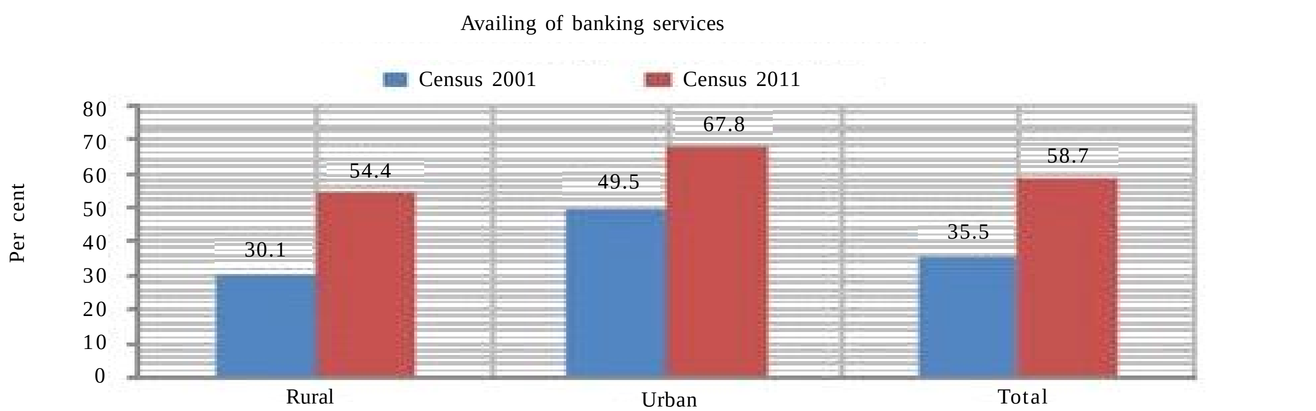
Objectives of the study :

This study is an attempt to examine the current status and the initiatives taken to achieve the financial inclusion in the context of a developing country like India wherein a large population is deprived of the financial products and services which are very much essential for overall economic growth of a country.

Current status of financial inclusion in India :

Table 1 reveals that the out of per 0.1 million adults coverage in nine countries (including in India). From the Table 1, it can be observed that in our country, financial exclusion measured interms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP. As compared to UK, India's bank credit to GDP and bank deposits to GDP is quite low. As compared to developing countries like Brazil and Korea, in India's number of bank branches and number of ATM's are very less. As a whole India position compare with other countries in moderate level (Paramasivan and Ganeshkumar, 2013).

India is home to the second largest population (1.22 billion, census 2011) and largest unbanked population in the world (40% unbanked population). As per census 2011, only 58.7 per cent 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 (Aggarwal, 2014). The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these,



Source: Department of financial services, GOI

Fig. 2: Access to banking services

Table 1: India's position on financial inclusion in comparison with other countries: (Indicators of financial inclusion, 2011)

Country	Number of branches	Number of ATMs	Bank credit	Bank deposits
	(per 0.1 million adults)		(as per cent of GDP)	
India	10.91	5.44	43.62 õ	60.11 õ
Austria õ	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK õ	25.51	64.58	467.97	427.49
US	35.74	173.75 õ	46.04	53.14
Korea	18.63	250.29 õ	84.17	74.51
Philippines	7.69	14.88	27.57	53.02

Source: Financial access survey, World bank

43,962 branches (38.2%) and 23,3341 ATMs (14.58%) are in rural areas.

From Table 2 it can be seen that there has been an increase in number of total banking outlets of rural branches from 2010 to 2014. Roy (2012) concluded that banks have set up their branches in the remote corner of the country and also rules and regulations have been simplified by the banks. The Table 2 shows that the percentage of banking outlets has increased by 466 per cent from 2010 to 2014. High percentage increase in banking outlets can be seen in case of business correspondents as they are close to rural people and the banks are taking their help where brick and mortar structure is not possible. Majority (70%) of the banks had conducted financial inclusion campaigns to turn un-bankable into bankable.

From Table 3 it can be seen that Indian Public Sector Banks (PSU) are much ahead than private banks in terms of their contribution in opening ATM's. The PSU banks are offering banking services which is 62.2 per cent of the total banked rural population in India. Private players are offering service which is restricted to only 4.62 per cent of the aggregate banked rural population and foreign players are almost nonexistent in the rural market as they are serving 0.02 per cent of the rural population which is availing basic banking service (Dhar, 2013).

Initiatives taken to achieve financial inclusion in India:

RBI and GOI initiatives and policy :

Government of India (GOI) and Reserve Bank of India (RBI) has taken series of measures and have experimented various alternatives to achieve greater financial inclusion in India. Before 1990s several initiatives has been undertaken which included creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980;initiating the Lead Bank Scheme in 1970;, was a big step to expand financial inclusion. Following are the measures taken.

No-frills accounts :

In the year 2005, RBI took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement. The transaction charges are reasonable.

Overdraft facilities in saving account :

Banks are providing overdraft (OD) facility in saving account and also small overdrafts in no-frills accounts.

Table 2: Financial inclusion plan – Progress of all banks including regional rural banks during five years period

Sr. No.	Particulars	2010	2011	2012	2013	2014
1.	Banking outlets – Rural branches	33378	34811	37471	40845	46126
2 .	Banking outlets – BCs	34174	80802	141136	221341	337678
3 .	Banking outlets - Other modes	142	595	3146	6276	-
4 .	Banking outlets –Total	67694	116208	181753	270610	383804
5 .	Urban locations covered through BCs	447	3771	5891	27124	60730
6 .	OD facility availed in BSBD accounts (No. in lakh)	1.83	6.06	27.05	39.42	59.10
7 .	KCCs (No. in lakh)	243.07	271.12	302.35	337.87	399.0
8 .	Business correspondent– Information and communication technology BC-ICT accounts (No. in lakh)	132.65	316.30	573.01	810.38	1169
9 .	ICT accounts-BC-Total transactions (No. in lakh)	265.15	841.64	1410.93	2546.51	4799.08

Table 3: Number of ATMs in the country as on 31st March, 2013

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: (Dhar, 2013)

Overcoming language barrier :

Banks are required to provide forms relating to account opening disclosure etc. in the regional language as well.

Bank saving bank deposit (*BSBD*) :

It is an account 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. There is no limit on number of deposits by the customer.

Simplification of know your customer (*KYC*) *norms and guidelines* :

As most of the rural inhabitants do not have any of the identity documents that are required for account opening and compliance with know your customer (KYC) norms. For that reason, the account opening process has been simplified for people who intend to keep balances not exceeding Rs.50,000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100,000 in a year.

Simplified branch authorization :

Banks can open branches in any center-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

Direct benefit transfer (*DBT*) :

This scheme ensures that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013. The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts.

General credit cards (*GCCs*) :

Banks have been advised to introduce a general purpose credit card (GCC) facility upto Rs.25,000/- at their rural and semi-urban branches. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose.

Kisan credit cards (*KCCs*) :

Kisan credit cards to small time farmers have been issued by banks. KYC norms for account holder with balances not greater than Rs. 50000 has been simplified. Ration card and voter Id are taken as KYC norms.

Business correspondents (BCs) and business facilitators (BFs) model :

The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem. With effect from September 2010, profit companies have also been allowed to be engaged in BCs.

"Pradhan Mantri Jan-DhanYojana (*PMJDY*)":

Which is a national mission for financial inclusion aims to provide bank accounts to at least 75 million people by January 26, 2015 (Pai, 2010 and Srikanth, 2013).

Institutional support: Major players in rural finance:

Various authors in their research has studied the role of institutions in achieving financial inclusion (Swaminathan, 2006; Archana, 2013; Pai, 2010; Christabell and Raj, 2012; Porkodi and Aravazhi, 2013; Ghosh, 2013 and Singh and Yadav, 2012. The role of financial institutions in a developing country isvital in promoting financial inclusion (Massey, 2010). The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions.

Microfinance institutions (MFIs) – The key tool of financial inclusion :

Asia has been leading the global exposure to microfinance: it is estimated that in 2010,75 per cent of the world's microfinance borrowers (around 74 million borrowers) were basedin Asia (Microfinance Information Exchange, 2012). Several countries like Bangladesh, Indonesia, Philippines, Kenya and Bolivia have implemented microfinance programmes which have shown good results. In the Indian context, the microfinance sector has witnessed an unprecedented growth in the last few years, and has firmly established itself as significant potential contributor in the government's agenda of "Financial Inclusion". Micro-finance is a new development in which Indian institutions have acquired considerable expertise and where up-scaling holds great promise both to expand the nature of financial services offered to micro enterprises and to make these the springboard for entrepreneurial development (Planning Commission, 2006). Microfinance has been playing an important role in credit dispensation, loan repayment and reduction of poverty. It has been found that hassle free and repetitive dose of credit is the basic need of the poor which has become the hallmark of microfinance. Borrowers stand to benefit from the experience of micro-finance institutions as these provide competition to money lenders (Planning Commission, 2006). Features of microfinance are:

– MFIs provide financial products more or less tailored to the requirements of low income groups
– In the case of MFI loans, collateral is not usually insisted upon and loan repayment amounts are small and frequent.
– They usually provide convenient forms of delivery of financial services, often by regular visits to the neighborhoods of customers, making physical access particularly easy and attractive.
– They do not have elaborate documentation requirements.
– Micro credit is aimed at the poorest; micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending.
– The amount of loan is small, usually less than Rs. 20000.
– The rate of interest charged varies from 10 per cent to 15 per cent flat thus offering a mind-boggling yield. The loan is repayable in small equated weekly installments, inclusive of interest.
– The amount is collected on a weekly basis to ensure compliance.
– The recovery rates are typically above 95 per cent of the aggregate loans advanced.

Two models of micro-finance which are prevalent in India :

Direct financing model :

In this model, the bank lends money to an NGO. The NGO promotes and imparts training to the self-help groups and also gives credit to them.

Self-help group bank linkage model :

In this model SHGs act as a bridge between bankers and clients. Banks transfer funds to micro finance bodies that further collect and disburse the funds. The intermediation cost could be around 6 per cent of the loan amount. The risk completely lies with the banks (Singh and Yadav, 2012).

Non-banking financial companies (NBFCs) :

NBFCs have gained popularity as they provide reliable and affordable access to credit for semi-rural and rural India where reach of traditional banks have not been consistent. MF-NBFCs could provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. These are also recognized as Business Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents. As of 31st March 2014, aggregate clients of NBFC-MFIs stood at 28 mn – growth of 20 per cent over FY 12-13 (Anonymous, 2015) .

Self-help group (SHG) :

It is a group about 10 to 20 people from homogeneous class who join together to address the common issues. They are involved in voluntarily thrift activities on regular basis and use the pooled resources to make interest bearing loans to members of the group.According to Prof. M.S. Swaminanthan,the noted agricultural scientist, "SHGs, will however, become sustainable only if they have backward linkages with technology and credit and forward linkages with processing and marketing organisations" (Swaminanthan, 2006).

– The SHG – Banks Linkages programme is a major plan of the strategy adopted for delivery of financial services to the poor in a sustainable manner.
– SHG has reduced the incidence of poverty through increase in income and enabled the poor to build assets
– Empowered woman by enhancing their contribution to households income have increased their value and give them ability to make decisions
– SHGs have played a vital role in reducing children mortality – improved material health and ability of the poor to combat disease through better nutrition, housing and health especially among woman and children
– SHGs have reduced the dependency of poor peoples in rural areas on informal money lenders
– Financial inclusion of poor women: The committee noted that more than 90 per cent of the members of SHGs are women and most of them are poor and asset less. The SHG movement has been

instrumental in mainstreaming women by-passed by the banking system.

The financial literacy and financial inclusion :

Financial stability development council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

Financial literacy centres (*FLCs*) :

In India, the need for financial education is greater considering the low levels of literacy and the large section of population which is still out of the formal financial set-up (Pai, 2010). The Indian overseas bank has set up 14 financial literacy cum credit counselling centre (FLCCC) FLCCCs in Tamil Nadu. FLCCC at Kothagiri was set up mainly for the benefit of tribals of Nilgiri district with the objective of creating awareness about various financial products and services available to them from different financial institutions.

Project financial literacy :

Disseminate information about central bank, general banking concepts to target groups (school/college children, women, rural/ urban poor, defence personnel, senior citizens) – 2 Modules are :

- Focus on economy, RBI
- General banking – Material in Hindi, English, Regional language – Dissemination thru banks, local govt. depts., schools, colleges, pamphlets, posters, films, RBI Website (link for accessing in 13 Indian languages.

Credit counselling centres :

There arises the need for financial counseling to avoid informal sector and debt trap. A few banks have started in rural/ semi-urban centers which provide information about banks, financial management, repayment obligations, avoiding indebtedness.

Financial inclusion and technology :

A few pilot projects have been initiated to test how technology can be used to increase financial inclusion. Usha Thorat in her speech (Thorat, 2007) pointed to a few measures :

- Smart cards for opening bank accounts with biometric identification.
- Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.
- Some State Governments are routing social security payments and also payments under the National Rural Employment Guarantee Scheme through such smart cards
- The use of IT also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up.
- The Inter Bank Mobile Payment Service launched by National Payments Corporation of India (NPCI)
- (NPCI) for mobile-based fund transfers and other banking services was accessible only on a smart phone and hence, unavailable to the poor
- Mobile banking has covered only 2.2 per cent of total population. India has six lakh villages and number of bank branches are far from adequate. So banks need to create awareness amongst people through various means of mass communication like television channels, which have reached rural India (Memdani and Rajyalakshmi, 2013).

Mobile banking vans by bank of Baroda :

- Mobile banking is a term used for performing account transactions, balance checks, payments via mobile device such as mobile phone (Pai, 2010).
- Mobile Vans move within a cluster of villages in close proximity to existing branch.
- Currently, Mobile vans have been deployed by bank of Baroda at five centres in Gujarat, Uttar Pradesh, Bihar and Goa.
- These mobile vans also work as an advertising medium for the bank in rural area.

Financial inclusion technology fund by NABARD :

- To meet the cost of technology adoption
- An overall corpus of Rs.500cr each (enhanced to Rs.600cr in Union Budget for 2010-11).

  Financial inclusion fund (FIF) and the financial inclusion technology fund (FITF) be set up with NABARD, for meeting the cost of developmental and promotional interventions and costs of technology adoption, respectively.

RuPay :

- RuPay is an Indian domestic card scheme conceived and launched by the national payments corporation of India (NPCI).
- It was created to fulfill the Reserve Bank of India's

desire to have a domestic, open loop, and multilateral system of payments in India.

- It facilitates electronic payment at all Indian banks and financial institutions, and competes with Master Card and Visa in India.
- Interchange cost of RuPay is expected to be lower than other international card payment schemes such as VISA/MasterCard
- NPCI maintains ties with discover financial to enable the card scheme to gain international acceptance (Anonymous, 2015).

UID authority of India :

Government of India has set up UID Authority of India which has taken up the project of providing Unique Identification (UID) numbers to all the citizens of India. The authentication of the UID is made by using mobile phones. The UID project will not only help to solve the logistical and know-your-customer (KYC) issues but also enable financial products and services to reach out to unbanked areas. It will also reduce the overall transaction cost for all intermediaries (Raman,2012).

Conclusion :

The financial inclusion plays a vital role in achieving inclusive growth in India and helps in removing not only rural poverty but also urban poverty in India. Empirical evidence shows that economic growth follows financial inclusion. RBIs 2020 vision is to open nearly 600 million new customer accounts. People should have access to financial products and services such as insurance cover, entrepreneurial loans, payment and settlement facility, etc. The government should encourage the banks to adopt new and different means to provide financial assistance to those who are financially excluded. Efforts need to be made to also advertise and create awareness programme etc. to achieve the aim of 12th five year plan (2012-2017) plan of inclusive growth. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Focus needs to be shifted to the quality of inclusion from the quantity of inclusion financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Financial inclusion have enough scope for economic growth, raising living standard of people, equality etc. On the basis of above initiatives and projects we can conclude that a day will come when all Indians have their bank accounts, access to financial products and services and everybody will take part in financial inclusion.Issues like slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources Consumption oriented expenditure patterns, dormant accounts, inadequate awareness levels, lack of infrastructure, low literacy rates, poor saving habits are some of the challenges needs to be overcome. It was concluded that for achieving comprehensive financial inclusion, the first step is to achieve credit inclusion for the disadvantaged and vulnerable sections of our society (Sachindra, 2013). Financial inclusion is the road that India needs to travel toward becoming a global player.

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