



A Study on Overview of Financial Inclusion in India

KEYWORDS

Financial inclusion, RBI, Role of banks, Axis bank

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ABSTRACT Financial inclusion refers to the delivery of financial services in a convenient manner and at an affordable cost to vast sections of disadvantaged and low income group population. Financial inclusion is the road that India needs to travel toward becoming a global player. The paper attempts to study the overview of financial inclusion in India. A comparison has been made between India and some other selected countries regarding no of branches, ATMs, bank credit etc to identify India's position regarding financial inclusion as compared to other selected countries. It also attempts to know the various strategies adopted by RBI for strengthening the inclusion. The process of financial inclusion will not be possible without the contribution of banks so the paper includes the steps taken by banks to strengthen financial inclusion with the help of a case study of Axis bank. The paper also highlights challenges faced by India for strengthening financial inclusion.

INTRODUCTION

Financial inclusion refers to the delivery of financial services in a convenient manner and at an affordable cost to vast sections of disadvantaged and low income group population. It refers to a customer having access to a range of formal financial services. A committee on financial inclusion was formed under the chairmanship of C.Rangarajan and the committee defined the term financial inclusion as, "The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." India is a country where a sizeable amount of population lives in rural areas who are engaged into agriculture and allied activities. Most of these people are poor and they do not have access to any formal financial services. The prime objective of financial inclusion is to extend the financial services to such areas.

LITERATURE REVIEW

(Massey, 2010) said that, role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion.

(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.

(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.

OBJECTIVES

- To identify India's position regarding financial inclusion compared with some other selected countries.

- To know the strategies adopted by RBI for strengthening financial inclusion
- To evaluate the role of banks towards "financial inclusion"
- To know the steps taken by a bank for strengthening financial inclusion: A case study of Axis bank
- To identify the challenges to be faced by the country for strengthening financial inclusion

FINANCIAL INCLUSION - INDIA'S POSITION COMPARED WITH OTHER COUNTRIES

Table 1 : India's position in financial inclusion as compared with other countries:

Country	per 0.1 million adults		per 0.1 million adults		(as percent of GDP)		(as percent of GDP)	
	Number of Branches	Rank	Number of ATMs	Rank	Bank Credit	Rank	Bank Deposits	Rank
India	10.91	7	5.44	9	43.62	5	60.11	3
Austria	11.81	6	48.16	6	35.26	6	32.57	8
Brazil	13.76	5	120.62	3	29.04	7	47.51	6
France	43.11	1	110.07	4	56.03	3	39.15	7
Mexico	15.22	5	47.28	7	16.19	9	20.91	9
UK	25.51	3	64.58	5	467.97	1	427.49	1
US	35.74	2	173.75	2	46.04	4	53.14	4
Korea	18.63	4	250.29	1	84.17	2	74.51	2
Philippines	7.69	8	14.88	8	27.57	8	53.02	5

Source: World Bank, Financial Access Survey (2010)

Table 1 shows the coverage of banks and number of ATMs per 0.1 million adults as well as percentage of bank credit and bank deposits as a percent of GDP of the country. It can be seen from the table that on the basis of number of branches, France is on rank 1 whereas India scored 7th rank. Korea scored 1st rank on the basis of number of ATMs whereas India is on 9th rank. UK is on 1st rank for providing bank credit as percent of GDP and India scored 5th rank. According to

bank deposit, UK is on 1st rank whereas India is on 3rd rank for the same. It can be concluded that the growth of financial inclusion in India is at moderate level as compared to other countries.

STRATEGIES ADOPTED BY RBI STRENGTHENING FINANCIAL INCLUSION

In India, RBI has initiated several measures to achieve greater financial inclusion. Some of these steps are as follows:

No-Frill accounts: RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. No-frills account requires no or negligible balance leading to lower costs both for the bank and individual.

Usage of Regional language: RBI asked banks to provide all the material related to opening accounts, disclosures etc in the regional language.

Simple KYC norms: In order to ensure that persons belonging to low income group do not face difficulty in opening the bank account due to procedural hassles, the KYC procedure have been simplified.

Easy credit facilities: RBI 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 in January 2006, to use other rural organizations like Nongovernmental organizations, self-help groups, microfinance institutions etc for furthering the cause of financial inclusion.

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 with a population of less than 50,000 under general permission, subject to reporting.

ROLE OF BANKS TOWARDS FINANCIAL INCLUSION IN INDIA:

Banks in India are an integral part of financial system in India. The well-developed Indian banking system plays an important role in economic development of our country. The nationalization of banks, establishing of new banks with better reforms and policies and introduction of the numerous facilities and amenities of the Indian banks are significant features of the banking services of India. Financial inclusion is a major agenda for the RBI. Without financial inclusion, banks cannot reach the unbanked. It is also a major step towards increasing savings and achieving balanced growth. In rural areas, where accessibility is a problem, banks are using the micro finance network and business correspondents and facilitators to bring more people under the ambit of banking services. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India's financial system.

Financial inclusion is now a common objective for numerous central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country. The period 1969 to 1991 saw a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68282 branches as at the end of March 2005. At the end of March, 2009, it has raised to 79442.

A CASE STUDY OF AXIS BANK:

Axis Bank is the third largest private sector bank in India. It

offers the entire spectrum of financial services to customer segments covering Large and Mid-corporates, MSME, agriculture and Retail businesses. The following are the Key Milestones achieved by Axis Bank in financial inclusion.

- Axis bank is a key player in the Financial Inclusion space since 2006 with respect to disbursement of Government Grants covering 6795 villages across 9 states and 19 districts. The states covered are Andhra Pradesh, Karnataka, Haryana, Punjab, Chhattisgarh, Bihar, Jharkhand, Meghalaya, Orissa
- More than 35 Lakhs No Frills accounts have been opened by Axis bank under the Financial Inclusion Initiatives
- It has launched Rural Financial Inclusion Initiatives in Dindori, in Nashik District, Pulbazar Block in Darjeeling District and East Sikkim on an online POS (Point of service entry mode) model involving POS terminals as the transacting device and bank issued debit cards as the transacting instrument. Seven Rural Credit Cooperative Societies have been appointed as Business Correspondents to source accounts and provide banking services to the customers.
- It has launched customized products for the FI customer segment in the category of savings - No Frills Savings accounts, Credit - Micro Insurance:

CHALLENGES TO SPREAD FINANCIAL INCLUSION:

It is quite clear that the task of covering a population of 1.27 billion with banking services is extremely large. Both demand side factors (customers) and supply side factors (banks and other financial institutions) are responsible for financial inclusion. Banks and other financial institutions are largely expected to reduce the supply side constraint.

Demand side challenges are:

- low literacy levels, lack of awareness about financial products, irregular income, lack of trust in formal banking institutions etc.

Supply side challenges are:

- non-availability of branches in rural area
- High rules and regulations and high bank charges
- Limited number and types of financial service providers

CONCLUSION

From the above study, it can be concluded that India is at moderate level regarding financial inclusion as compared to other countries regarding number of branches, ATMs, bank credit and bank deposits. RBI have adopted various strategies such as no-frill account, use of regional languages, simple KYC norms etc to strengthen financial inclusion. By looking at the various milestones achieved by Axis bank regarding financial inclusion, it can be said that the banking sector plays a crucial role in promoting financial inclusion. To cope up with the challenges to spread financial inclusion, there is a need of viable and sustainable business models with focus on accessible and affordable products and processes, synergistic partnerships with technology service providers for efficient handling of low value, large volume transactions and appropriate regulatory and risk management policies that ensure financial inclusion.

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