



Financial Inclusion – Indian Banking Marching Towards Inclusion

KEYWORDS

Financial Inclusion, RBI, Government of India & Indian Banks

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ABSTRACT *In 2013, looking back to the first decade of the 21st century – 2000-2010 -we strongly believe that this decade indeed can be called – India's Decade of Development in Financial Sector through Financial Inclusion. So the study is focused on the necessity of the financial needs of the people and its fulfillment through financial institutions with the concept of Financial Inclusion. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. This study is made to analyze how Indian banking is marching towards financial inclusion. The study included benefits of financial inclusion and also included the causes for financial exclusion and need for Financial Inclusion. The paper made a significant attempt to measure extent of Financial inclusion in India and what measures are taken by RBI and Government of India. The paper has also suggested some recommendations for successful implementation of the Financial Inclusion policy for sustainable growth of Indian economy.*

INTRODUCTION:

Innovating to unlock the next decade of banking

The present Indian banking industry is facing a true test to include the people who are not using its services. India is said to live in villages considering that nearly 70% of our population lives in villages. Majority of our rural population are ignorant of financial products like Insurance which would protect them in adverse situations. Invariably financially excluded people depend on money lenders even for their day to day needs, by borrowing at exorbitant rates and finally get caught in a debt trap. Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services. Even after 66 years of independence, a large section of Indian population still remains unbanked. It is estimated, that about 2.5 billion people or about half of the global population do not have access to any kind of formal banking services. In India half of the poor are financially excluded from the country's main stream of banking sector. The importance of financial inclusion, based on the principle of equity and inclusive growth, has been engaging the attention of policy makers internationally. Achieving universal financial inclusion is, indeed, a global objective and has multiple dimensions it also to improve their future financial status and simultaneously contribute to the nation's progress. The banking industry in India has recognized this imperative and has undergone certain fundamental changes over the last two decades. Financial inclusion has recently become something of a buzzword, publicized as an explicit goal for governments as well as for our major banks.

DEFINITIONS:

- According to Former UN Secretary – General Kofi Annan:-

"The stark reality is that the poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

- According to Mahatma Gandhi:-

"Real India Lives in Villages", and village economy is the

backbone of Indian economy. The existing extensive formal banking structure is still not sufficient to meet the growing demand of rural credit. Financial inclusion is delivery of financial services more especially the banking services at an affordable cost to vast sections of disadvantaged and low income groups.

- According to Dr. C. Rangarajan, Chairman of the Committee on Financial inclusion, 2008:

- "Financial Inclusion can be defined as the process whereby it is ensured that viable financial services & products are provided to the weaker sections at prices that are affordable, through a transparent and just Institution".
- "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."

STATEMENT OF THE PROBLEM:

Financial inclusion is a policy measure to address the issue of poverty which would ensure avenues for people. Many banks are forced to adopt financial inclusion rather than their own interest. Only few banks are actively involved in financial inclusion to promote economic development. The banks have encountered various problems while adopting financial inclusion Viz. improper repayment, need for additional workforce, more time consumption, heavy work load, high cost etc. Hence, many banks are not fostering full fledged financial inclusion plan to accelerate the growth of the country. This study attempts to address the issues involved in the adoption of financial inclusion plan and to widespread the financial inclusion in India.

OBJECTIVES OF THE STUDY:

- To explore the need and significance of financial inclusion for economic and social development of society.
- To analyze the current status of financial inclusion in Indian economy.
- To study the measures taken by the banks for Financial Inclusion.
- To examine the difficulties involved in the adoption of financial inclusion
- To enhance the extent of financial inclusion.

RESEARCH METHODOLOGY:

The required data related to Financial Inclusion has been col-

lected from various sources, i.e., Bulletins of RBI, RBI Report, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, and various websites.

LITERATURE REVIEW:

The history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. In India, financial inclusion first featured in 2005, when it was introduced by K.C.Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the RBI 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. The RBI asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. The brick and mortar infrastructure expanded; the number of bank branches multiplied tenfold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and people having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population.

CAUSES FOR FINANCIAL EXCLUSION IN INDIA:

Access to formal banking system is affected by several barriers such as culture, financial Literacy, gender, income and assets, proof of identity, remoteness of residence, Money lenders and so on. There are number of factors affecting access to financial services by weaker sections of society in India. The lack of awareness, low incomes and assets, social exclusion, illiteracy are the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure and requirements of documents for opening bank accounts, unsuitable banking products or schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side. Hence, there is a need for financial inclusion to build uniform economic development, both spatially and temporally, and ushering in greater economic and social equity.

NEED FOR FINANCIAL INCLUSION IN INDIA:

No economy can move from emerging to emerge status without ensuring that all its citizens are part of the financial mainstream. Financial Inclusion of the poor has a multiplier effect on the economy as a whole, through higher savings pooled from the vast segments of the population present at the bottom of the pyramid. There is a potential for transforming the lives of these excluded groups by providing access to formal savings arrangements and extension of credit by banks for emergency

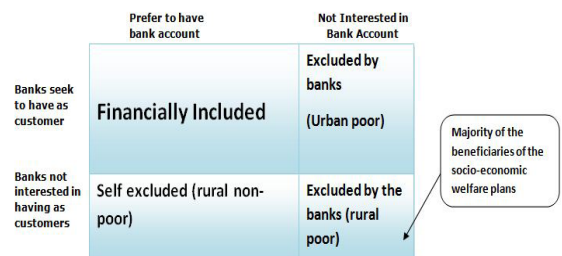
and entrepreneurial purposes, thereby enabling the poor to create assets, generate stable income, build resilience to meet macro-economic and livelihood shocks and bring about an improvement in their financial condition and living standards.

a. Exclusion of Rural Inhabitants:

The Rural inhabitants have largely remained the focus of our financial inclusion efforts since a large proportion of our villages are still unbanked.

b. Exclusion of Urban poor and Migrant workers:

The problem of exclusion of urban poor and Migrant workers is widespread even in urban areas, especially, for the disadvantaged and low-income groups, despite there being no dearth of bank branches, still have no access to formal financial products and services like savings, credit, remittance and insurance, forcing them to depend on usurious informal sources to meet their personal, health, and livelihood-related needs.



Benefits of Financial Inclusion:

- Extending formal banking system among less privileged in urban & rural India.
- Weaning them away from unorganized money markets and moneylenders.
- Equipping them with the confidence to make informed financial decisions.
- It mobilizes savings that promote economic growth through productive investment.
- It promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.
- This helps the weaker sections to channelize their incomes into buying productive resources or assets.
- In the situations of economic crisis, the rural economy can be a support system to stabilize the financial system. Hence, it helps in ensuring a sustainable financial system.

Government of India appointed a committee Financial Inclusion under the Chairmanship of Dr.C.Rangarajan to build a structure and roadmap for Financial Inclusion, (then Deputy Governor of Reserve Bank of India) in 2008. They suggested that the financial inclusion should include access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities. Making banking and payment services available to the entire population without discrimination is the main objective of Financial Inclusion. Thus, the main focus of financial inclusion in India is on promoting sustainable development and generating employment in rural areas for the rural population.

MEASURING FINANCIAL INCLUSION:

Level of Financial Inclusion is measured by Financial Inclusion Index. This includes Three basic dimensions of an inclusive financial system:

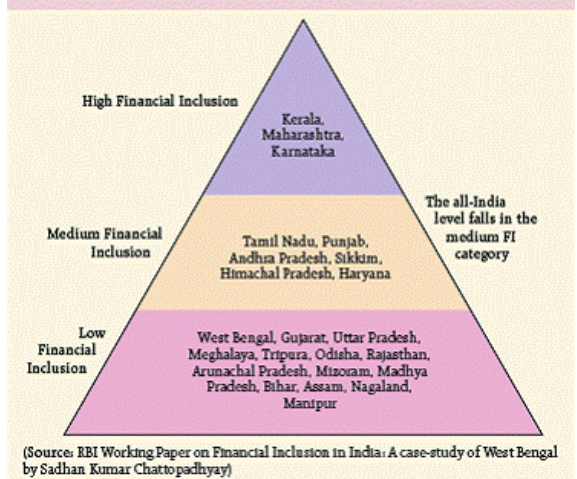
1. Banking penetration: Banking penetration can be measured as a ratio of bank accounts to the total population.
2. Availability of the banking services: Availability of banking services provides an indication to the No. of bank

outlets available per 1000 people, and

- Usage of the banking system: Usage of the banking system is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.

According to the value of the index, Indian States can be classified into three categories, i.e., states having high, low and medium extent of financial exclusion. Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion. The extent of financial exclusion is found to be significantly low in North-Eastern and Eastern States, i.e., Assam, Nagaland, Manipur, Odisha, Bihar, West Bengal, etc.

Chart 1: State-wise Index of financial inclusion



Annex 3 : Progress of banks in Financial Inclusion Plan in India

SR	Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Quarter ended June 12	Progress April 11-March 12
1	Total No. of Branches	85457	91145	99242	99771	8097
2	No. of Rural Branches	33433	34811	37471	37635	2660
3	No. of CSPs Deployed	34532	60993	116548	120098	55555
4	Banking outlets in Villages with population >2000	37791	66447	112130	113173	45683
5	Banking outlets in Villages with population <2000	29903	49761	69623	74855	19862
6	Banking Outlets through Brick & Mortar Branches	33378	34811	37471	37635	2660
7	Banking Outlets through BCs	34174	80802	141136	147167	60334
8	Banking Outlets through Other Modes	142	595	3146	3226	2551
9	Total Banking Outlets	67694	116208	181753	188028	65545
10	Urban Locations covered through BCs	447	3771	5891	6968	2120
11	No Frill A/Cs (No. In million)	73.45	104.76	138.50	147.94	33.74
12	Amount in No Frill A/Cs (Amt In billion)	55.02	76.12	120.41	119.35	44.29
13	No Frill A/Cs with OD (No. in million)	0.18	0.61	2.71	2.97	2.10
14	No Frill A/Cs with OD (Amt In billion)	0.10	0.26	1.08	1.21	0.82
15	KCCs-Total-No. In million	24.31	27.11	30.23	30.76	3.12
16	KCCs-Total-Amt In billion	1240.07	1600.05	2068.39	2094.00	468.34
17	GCC-Total-No. in million	1.39	1.70	2.11	2.29	0.41
18	GCC-Total-Amt In billion	35.11	35.07	41.84	43.21	6.77
19	ICT Based A/Cs-through BCs (No. in million)	13.26	31.65	57.08	62.77	25.44
20	ICT Based A/Cs-Transactions (No. In million)	26.52	84.16	141.09	45.96	141.09

Annex 4: Trends in banking parameters in India

Items	31st March	2007	2008	2009	2010	2011	2012
1. No. of Commercial Banks		183	173	170	168	167	173
(a) Scheduled Commercial Banks		179	169	166	164	163	169
Of which: Regional Rural Banks		96	90	86	83	82	82
(b) Non-Scheduled Commercial Banks		4	4	4	4	4	4
2. Distribution of New Branches (%)	Total	100	100	100	100	100	100
	Rural	9	14	18	19	24	33
	Semi-urban	31	31	32	33	41	37
	Urban	35	31	26	27	17	16
	Metro	26	24	24	21	18	14
3. Distribution of Deposits Accounts (%)	Total	100	100	100	100	100	..
	Rural	29	29	30	31	31	..
	Semi-urban	26	26	26	26	26	..
	Urban	22	22	21	21	21	..
	Metro	24	24	23	23	22	..
4. Distribution of Loan Accounts (%)	Total	100	100	100	100	100	..
	Rural	33	31	31	31	32	..
	Semi-urban	23	22	23	23	24	..
	Urban	14	13	13	14	14	..
	Metro	30	33	33	33	30	..
5. Average population per branch (in '000s)	Total	15.7	15.1	14.5	13.8	13.3	12.6
6. Number of Banked Centres (Scheduled Commercial Banks)	Total	34399	34426	34636	34801	35151	36391

".." : Not available.

Note: All the revenue centres (habitations) are classified in to four groups based on their population based on Census 2001 data. These groups are rural (centres having population < 10,000), semi-urban (10,000 <= population < 1,00,000), urban (1,00,000 <= population < 10,00,000) and metropolitan (population >= 10,00,000).

Source: Reserve Bank of India and Census data.

Progress in Financial Inclusion

SR	Particulars	Year ended March 2010	Year ended March 2011	Year ended March 2012	Year ended March 2013	Progress April 2010 - March 2013
1	Banking Outlets – Rural Branches	33378	34811	37471	40845	7467
2	Banking Outlets – BCs	34174	80802	141136	221341	187167
3	Banking Outlets - Other Modes	142	595	3146	8424	8282
4	Banking Outlets –TOTAL	67694	116208	181753	270610	202916
5	Urban Locations covered through BCs	447	3771	5891	27124	26677
6	BSBD Accounts (No. in lakh)	734.53	1047.59	1385.04	1833.30	1098.77
7	OD facility availed in BSBD Accounts (No. in lakh)	1.83	6.06	27.05	39.42	37.59
8	KCCs (No. in lakh)	243.07	271.12	302.35	337.87	82.43
9	GCC (No. in lakh)	13.87	16.99	21.08	36.29	22.28
10	BC-ICT Accounts (No. in lakh)	132.65	316.30	573.01	810.38	677.73
11	ICT Accounts-BC-Total Transactions (No. in lakh)	265.15	841.64	1410.93	2546.51	4799.08

* Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the 32nd SKOCH Summit held at Mumbai on June 6, 2013.

MEASURES TAKEN BY RBI AND GOVERNMENT OF INDIA FOR FINANCIAL INCLUSION IN INDIA:

RBI took the lead in the matter in 2010 and launched a dedicated programme to enhance financial inclusion. India has 6.5 lakh villages, out of which 2 lakh have now been financially included. They have at least one branch of a commercial bank in the village. The Government, in Union Budget 2010-11 suggested that fresh banking licenses should be issued to private players and NBFCs. Many non-banking finance companies (NBFCs) keen on a new banking license would be stumped by the RBI's condition that new banks should have at least 25% of their branches in rural areas. The RBI says the rule is meant to avoid over-concentration of bank branches in urban areas with adequate banking presence. Furthermore, RBI has decided to set up model villages all over India. These villages would be having a population not less than 2000. Every resident of such villages would be financially literate. These villages would act as models for spreading awareness amongst the nearby villages.

The RBI in its Monetary Policy Statement for 2013-14 has highlighted several measures that will help in financial inclusion and also help common man with day-to-day banking transactions.

The important Financial inclusion initiatives of RBI are given below:

- Introduction of 'No-Frills' account
- Relaxing 'Know Your Customer' (KYC) norms
- General Purpose Credit Card (GCC) Schemes
- Role NGOs, SHGs and MFIs
- Business Facilitator (BF) and Business Correspondent (BC) Models.
- Nationwide Electronic Financial Inclusion System (NEFIS)
- Project Financial Literacy
- Financial Literacy and Credit Counseling (FLCC) centers
- National Rural Financial Inclusion Plan (NRFIP)
- Financial Inclusion Fund (FIF)
- Financial Inclusion Technology Fund (FITF)

The status of financial inclusion in India has been assessed by different committees in terms access to basic banking services by poor and weaker sections.

RECOMMENDATIONS FOR 100% FINANCIAL INCLUSION IN INDIA:

- RBI has also agreed to the government's proposal. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. RBI has now asked banks to submit a plan for financial inclusion for the next few years. Several measures have been taken by both the Reserve Bank of India and the Government to bring the financially excluded people to the fold of the formal banking services; This would also be a forward move towards attainment of the goal.
- RBI is planning to issue additional licenses for private banks with conditions that will force the players to have rural branches.
- Government should work towards encouraging mobile banking and look at every technology option to enable financial empowerment of each citizen. Mobile technology could be leveraged in various ways as India is the second-largest mobile phone user with over 900 million users in the world. Today mobiles can do almost everything.
- The government should include financial literacy in the curriculum of schools and colleges. Banks should create awareness at the stage of school life of students so that they are encouraged to open bank accounts and operate.
- The government should pay all the social security payments through the bank account of the beneficiary.
- A special literacy education is to be provided in villages especially in unbanked areas to create awareness among

rural illiterates. It should be made as a part of governing policies at Village Panchayath level to encourage and educate rural people.

- The banks should offer all forms in the regional language of the customers and English. Banks should provide customers to have access or facility of using regional language in making banking transactions.
- Reaching the rural poor ATMs are one of the most cost effective ways. New biometric ATMs have to be established to assist the customers who are unable to memorize PIN.
- Banks should conduct financial inclusion campaigns so that it creates awareness among customers. It will help customers to know the importance and advantage of using banking services. Banks should make campaigning so that bank authorities should be in direct contact with the people who are not covered by banks so that they create an atmosphere to make people to come forward to clear their doubts. This will encourage them to be a part of banking.
- The government should also raise the Financial Inclusion Fund (FIF) and a Financial Inclusion Technology Fund (FITF).
- To reach banking services to the unbanked areas It should offer no frills account in order to turn unbankable into bankable.
- Banks should constitute Grievance Redressal Machinery to address and redress customer's discontent on time with promptness.
- Banks should use all types of media to reach customers, rural customers, unbanked areas customers through advertisement and awareness programmes etc.
- Banks should employ or designate a special force only to reach unreached areas.
- Corporate should come forward to participate in this exercise. Because a few hundred millions more accounts can only be become a good news for companies struggling with tepid demand.
- Banks should institute systems of reward and recognition for personnel initiating, ideating, innovating and successfully executing new products and services in the rural areas.
- It is important that adequate infrastructure such as digital and physical connectivity, Uninterrupted power supply, etc., is available.
- All stakeholders will have to work together through sound and purposeful collaborations. Local and national-level organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability and impact. This collaborative model will have to tackle exclusion by stimulating demand for appropriate financial products, services and advice with the appropriate delivery mechanism, and by ensuring that there is a supply of appropriate and affordable services available to those that need them.

MAJOR BARRIERS TO FINANCIAL INCLUSION REQUIRE TO BE IDENTIFIED:

Demand side barriers are - (a) Low literacy levels, lack of awareness and/or knowledge/understanding of financial products; (b) Irregular income; frequent micro-transactions; (c) Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values).

Supply side barriers are - (a) Outreach (low density areas and low income populations are not attractive for the provision of financial services and are not financially sustainable under traditional banking business models); (b) Regulation (frameworks are not always adapted to local contexts), (c) Business models (mostly with high fixed costs); Service Providers (limited number and types of financial service providers) (d) Services (non-adapted products and services for low income populations and the informal economy); (e) Age Factor (Financial service providers usually target the middle of the economically active population, often overlooking the older or

younger potential customers. (f) Bank charges

CONCLUSION:

Financial inclusion becomes a major pre-requisite to poverty alleviation. RBI's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. The issue of expanding the geographical and demographic reach poses challenges from the viability perspectives. Appropriate business models are still evolving and various delivery mechanisms are being experimented with. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure. Financial literacy and level of awareness continue to remain an issue. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. Many banks are not adopting full fledged financial inclusion plan. Banks ought to draw a clear line between sound and unsound practices and chalk out a financial inclusion strategy, which will enable the poor to get out of their impoverished

condition by enhancing their own profitability. Bringing the urban poor into the mainstream of the financial system can act as an important gateway for financial inclusion. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. By adopting appropriate regulatory framework for innovations in policies, partnerships, processes and products meant for financial inclusion, Reserve Bank has sought to further the cause of inclusion without falling short of the policy goal of financial stability. The RBI and finance ministry must place this as their top priority. Bringing millions more into the formal banking sector may not benefit the banks in the short term but will add a big boost to the economy. With constant and sincere efforts, the RBI plans to achieve complete financial inclusion by 2013. However, it cannot be achieved by RBI alone. The support of Government, financial institutions-both banking and non banking is vital for the success of this cause.

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