RESEARCH PAPER | Management | Volume : 4 | Issue : 10 | October 2014 | ISSN - 2249-555X

Financial Inclusion: Specifics From India

KEYWORDS: Financial inclusion, Banks, Financial services, Inclusive growth.

Mohit Kumar
Research scholar, Department of Rural Management, School of Management Studies, Babasaheb Bhimrao Ambedkar University, Lucknow (A central University), Lucknow.

Dr. Kushendra Mishra
Head, Associate Professor,Department of Rural Management, School of Management Studies, Babasaheb Bhimrao Ambedkar University, Lucknow (A central University), Lucknow.

ABSTRACT *Financial inclusion has been instrumental in shaping up major policy decisions directed towards achievement of an all-inclusive society. It holds major cards for speeding up the engines of development of the nation. Financial inclusion is a process which tries to secure the availability of financial products and services for the weaker sections at a reasonable price in an unbiased manner by organized financial institutions. The basic idea is to expand the reach of financial services to the large needysections of the society and achieve broad based improvement in the living standards of all people. It intends to connect people to banks with consequential benefits. Ensuring that the banks play their due role in promoting inclusive growth is a hard but a decisive task in the emerging economy. The banking industry is making rapid strides with Information technology driven initiatives and has led to expansion of financial services giving birth to the concept of Financial Inclusion. The paper is divided into two sections. The first section analyses the measures taken by the banks for financial inclusion. The second section gauges the extent of financial inclusion. The paper highlights the problems encountered by banks in financial inclusion such as high cost, more time consumption, heavy work load and improper repayment and suggests that banks should enhance their reach by products like no frills account, awareness programs and similar campaigns.*

Introduction
The concept of Financial Inclusion has gained a lot of momentum recently. More than half of the world's population lives on marginal lines of poverty and it becomes imperative their interests are protected and served in the best possible manner. There has been an ever increasing realization of the fact that India still resides in rural areas and development of India is not possible if the rural areas remain isolated. The paucity of appropriate and accessible financial services at an affordable cost has always been a hurdle in the road to economic growth. A significant proportion of rural population in Indiais still financially excluded and RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one per cent (RBI, Working Paper Series (DEPR): 8/2011). Most people still depend upon unorganized financial system for meeting their daily needs and remain isolated from the benefits of subsidized inclusive policies. Hence, financial inclusion is an imperative especially for a country like India which suffers from problems like poverty, social inequity and skewed income distribution.

The idea behind financial inclusion is to extend financial services to the large non catered population of the country to trigger its growth process. In addition, it strives to achieve broader and speedier inclusive growth by making finance available to the rural poor in particular. Keeping rural poor as a basic target group, the Government of India has initiated a number of drives to ensure that the benefits can reach far and wide in every nook and corner. The concept of Financial Inclusion has always been there in the yearly plans and policies of the government of India but certainly it has gained a lot of light in recent years more particularly due to the fact a lot of policies will be better executed if the rural people are financially included. Lack of appropriate services and that too at affordable prices are major challenges in the case of India with respect to its financial inclusion.

Report of the Committee on Financial Inclusion in India (Chairperson C.Rangarajan) (2008) defines Financial Inclusion 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." RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players". Hence the sole aim of financial inclusion is to bring common man under one umbrella of financial services.

Measures taken
Simplified Branch Opening- Last few years have also seen a gradual relaxation form the side of RBI with respect to the guidelines and stipulations while opening a bank branch. Banks now have the freedom to open a branch without much hassle in most cases especially in rural, semi urban and north eastern states provided they also report the same. At the same time banks can open a branch in centers having population less than 50000 with much relative ease.

Simplification of Account Opening Form - The account opening form has been made a simpler one doing away with a lot of technicalities. This has been done to ensure that it can be filled up by the common man who isn't so educated with the terminology. Furthermore a system has been made in place for a person to open an account online doing away with the need to visit a bank branch.

Opening of Small Accounts or No-frills Accounts - One of the biggest hurdles in opening of the bank account is the minimum balance requirement as stated by most of the banks. Usually this amount is very high and a failure

Volume : 4 | Issue : 10 | October 2014 | ISSN - 2249-555X

to keep up with the requirements draws heavy penalties. Considering the hard earned money of the rural people, it makes the rural people reluctantto open up the account. This is because the minimum balance kept in the banks usually goes wasted and unused from the perspective of a rural man. Understanding this situation, RBI has asked all banks to provide a no frills account whereby an account could be opened without any minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed.

Financial Awareness Programs – A lot of programs have been started by most banks and government to educate the masses regarding the basics of money and bank accounts. These programs aim at inculcating basic financial knowledge with respect to newer facilities and services being provided by the banks and government of India. It is noteworthy that such programs are run not only to provide education to the prospective clientele on the demand side but also on the supply side whereby the banks carry out special classroom classes to train their employees as to how to approach differentiated banking services.

Business Correspondents (BCs) and Business Facilitators (BFs) Model- Banks were asked to expand their reach via business facilitators or correspondents. Lead banks were also selected to coordinate with the state administration for ensuring the successful rollout of benefits. Also, the banks placed the opening of branches in rural areas as their priority in next set of financial inclusion plan.

Branch Expansion/Coverage of villages- The RBI has provided with a blueprint as to how to achieve the inclusive growth. The motto is to provide banking services in every village with a population above 2,000. Villages, with population above 2,000 being unbanked, are being meted out with various banking services. Now, the focus has been shifted to villages having population less than 2000 and which are still unbanked.

Extent of Financial Inclusion

The measures taken by India in case of pursuit of financial inclusion have been drastic and they certainly have proved to be effective. The results have been satisfactory if we conduct a cross country analysis to begin with. Theprogress of financial inclusion comparatively has been faster and has achieved relatively a deeper penetration as compared to the other emerging economies of the world. The progress of financial inclusion in India is found to be higher with respect to other developed and developing economies. However considering the extent of rural population in the overall demographics, we still have a lot to achieve and the scope for wider and broader perspective holds the priority. Several efforts have been made to gauge the extent of financial inclusion in various countries by considering the parameters like the population per banking branch, the population served by a single ATM, the extent of deposit credit ratio, and the extent to which varied financial services are tapped by the common people. The following table shows where India stands with respect to other countries on certain parameters. India lags behind countries such as China, Mauritius,UK and France on important parameters such as number of branches, number of ATMs, Bank Deposits or Bank Credit. It however fairs better than some other countries such as Thailand or Malaysia.

Table: 1 -Financial Inclusion Indicators, 2011

	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
1	India	30.43	25.43	10.64	8.9	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: World Bank, Financial Access Survey, 2010

Current Status of Banking at All India Level

The following table shows that there has been a marked growth in expansion of commercial banks and this has facilitated better reach and better service. The number of customers per banking branch has reduced and this has reduced the workload on the part of the banks. Further, the customers are given proper attention and time while getting their queries serviced. Also, the customers don't need to travel a lot for reaching their banks and this has provided more ease and comfort to the people.

Table: 2 - Geographical Outreach

KEY INDICATORS	2004	2009	2012
Commercial bank branches per 1,000 km2	22.76	27.05	33.17
Credit union and financial cooperative branches per 1,000 km2	80.08	73.19	71.50
All MFI branches per 1,000 km2	...	...	...
Commercial bank branches per 100,000 adults	8.99	9.65	11.38
Credit union and financial cooperative branches per 100,000 adults	31.64	26.10	24.54
All MFI branches per 100,000 adults	...	...	...
ATMs per 1,000 km2	...	14.90	32.67
ATMs per 100,000 adults	...	5.31	11.21

Source: World Bank, Financial Access Survey, 2010

The table below points out that the number of commercial banks has increased over a period of time and more and more offices are being set up in rural and semi urban centers.The credit and deposits placed with the bank indicating that the turnover of the commercial banks have increase. Also more and more people have been brought under the hub of financial services suggesting that there is a greater mobilization of savings.

Volume : 4 | Issue : 10 | October 2014 | ISSN - 2249-555X

Table: 3 – Important Indicators

IMPORTANT INDICATORS	June 1969	March 2004	March 2007	March 2012
No. of Commercial Banks	89	291	183	173
Number of Offices of Scheduled Commercial Banks in India ^	8262	67188	71839	98330
(a) Rural	1833	32121	30551	36356
(b) Semi-Urban	3342	15091	16361	25797
(c) Urban	1584	11000	12970	18781
(d) Metropolitan	1503	8976	11957	17396
Population per office (in thousands)	64.0	16.0	15.0	12.3
Deposits of Scheduled Commercial Banks in India (` Billion)	46.46	15422.84 &	26119.33	59090.82
Credit of Scheduled Commercial Banks in India (` Billion)	35.99	8655.94	19311.89	46118.52
Deposits of Scheduled Commercial Banks per office (` Million)	5.6	229.5	363.1	600.9
Per Capita Deposits of Scheduled Commercial Banks (`)	88	14550	23468	48732
Per Capita Credit of Scheduled Commercial Banks (`)	68	8166	17355	38033
Credit Deposit Ratio	77.5	56.1	73.9	78.0
Investment Deposit Ratio	29.3	43.8	30.3	29.4
Cash Deposit Ratio	8.2	5.6	7.5	6.1

Source: Report on Trend and Progress of Banking in India, 2013

As expected, the majority of the Indian banking is tilted heavily in favor of urban and metropolitan cities. The rural population still remains unbanked to a large extent. Same could be said for semi urban centers. The table presents population group-wise number of offices of all commercial banks as on March 31, 2013. Also, it highlights the number of branches opened in one last year stretching from April1, 2012 to march 31, 2013. The table clearly depicts that the number of branches added by all banks have been almost twice or more than twice the number of branches added in urban areas. The most noticeable thing is the faster growth of the regional rural banks marking its specialty role in the financial inclusion drive very apparent.

Conclusion:

A lot can be construed from the above facts and figures suggesting that the approach from both the government and the reserve bank of India has been a measured one. Financial inclusion definitely looks a possibility keeping in mind the blueprint and framework put into place for achieving the same. Much has been achieved if the progress can be compared on a 10 year basis. But still a lot can be done with respect to prevailing financial literacy among masses. Also, due emphasis must be placed on the growing need and importance of information and communication technologies to speed up the pace of financial inclusion. Much deliberation is still needed on finding better ways to channelize the direct benefits to the genuine people since it is still facing from a lot of bureaucratic procedures. The data reveals that India has gathered speed on its road to achieve financial inclusion in last three years which is very good if studied in isolation. However, when compared to other developing and developed nations, India still needs to streamline its process and remove loads of administrative bottlenecks.

REFERENCE

Adhikary, M. L and Bagli, S. (2010), 'Impact of SHGs on Financial Inclusion – A case Study in the District of Bankura', Journal of Management and Information Technology, Vol. 2, No.1, pp. 16-32. | 2. Chattopadhyay, S. K. (2011), 'Financial Inclusion in India: A Case-study of West Bengal', RBI Working Paper Series (DEPR): 8/2011, | 3. GOI, Report of the Committee on Financial Inclusion, Published by Government of India, New Delhi,2008 | 4. Harun R Khan, Issues and Challenges in Financial Inclusion: Policies, Partnerships, Processes & Products, Published by the Reserve Bank of India, Mumbai, 2012 | 5. Karmakar, K.G. Banerjee, G.D. and Mohapatra, N.P. (2011) 'Towards Financial Inclusion in India', Sage Publications India Pvt. Ltd, New Delhi. | 6. RBI, Annual Report of the Reserve Bank of India for Year of 2012-13. | 7. RBI, Report on Trend and Progress of Banking in India for the year ended June 30, 2013. |