Volume : 4 | Issue : 11 | November 2015 ISSN - 2250-1991

Research Paper Physics

Financial Inclusion : Scope, Measures & Achievements

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ABSTRACT

Financial Inclusion is the most prominent area of concern in a developing country like India. When economy is growing at a rapid rate, it should be carefully ensured that the fruits of growth reach the bottom rung of the society. This will be ensured only when there is a proper network of financial services spread across the length & breadth of the country which is accessible to all classes of the society. Financial inclusion is nothing but the availability of the financial services to all and availability of financial literacy measures where people can learn about these resources available to them.

In this paper there is an effort to define and understand what is Financial Exclusion so that it defines what is to be included when we speak about financial inclusion. Various measures that have been undertaken by Reserve Bank of India and the Government of India, including the recent schemes that have been launched by the Prime Minister of India are listed. There is also an attempt to assess the impact of these measures in improving the situation.

KEYWORDS financial inclusion, financial exclusion, rural banking, unbanked area

INTRODUCTION

Recently in July 2014, RBI came out with new banking licenses. There were many contenders including large business houses such as Reliance and L & T. However, RBI thought it fit to award only two licenses. And who got those licenses? One of course was IDFC, a government under taking. The other was a little known company called Bandhan. The only reason why Bandhan got the license in precedence over all others was that it was involved in the much needed area of financial inclusion. This perhaps underlines the importance of Financial inclusion in a geographically vast country like India having population in excess of 100 crores.

India, as would be apparent from the table given below, has a high degree of financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP which is quite low as compared with most of developing countries in the world.

The table given here gives 'Select Indicators of Financial Inclusion, 2011'

Sr. No	Country	Number of Bank Branches	Number of ATMS	Number of Bank Branches	Number of ATMS	Bank Deposits	Bank Credit
		Per 1000KM		Per 0.1 Million		As % to GDP	
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	Phillipines	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	Thaiand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malesia	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: Financial Access Survey, IMF; Figures in respect of UK as on 2010

However, financial inclusion doesn't only mean opening of bank accounts for people. That's relatively easy and is being done on a large scale in India in the recent past. Financial inclusion means providing adequate financial services to everyone. That includes not only providing a bank account, but also the fact of being paid one's pension or wage on time, of being able to withdraw your money conveniently, of being informed when your money is deposited in your bank account. It also means providing services like ATMs and Internet banking and money transfer issues from one place to another and one account to another. We're still very, very far from that in most parts of India. It also includes providing of adequate life and health insurance services.

DEFINITION & SCOPE

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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). It can also be broadly defined as the term which refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products and facilities for money transfers. The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Extent of Financial Exclusion:

51.4% of farmer households are financially excluded from both formal/ informal sources.

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

Overall, 73% 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% 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%.

Another popular myth is that, financial exclusion happens only in rural sector. It is not so. A large proportion of population living in cities are also deprived from basic financial services.

Sadhan Kumar (2011) worked out an Index on financial inclusion (IFI) based on three variables namely penetration (number of adults having bank account), availability of banking services (number of bank branches per 1000 population) and usage (measured as outstanding credit and deposit). The results indicate that Kerala, Maharashtra and Karnataka has achieved high financial inclusion (IFI >0.5), while Tamil Nadu, Punjab, A.P, H.P, Sikkim, and Haryana identified as a group of medium financial inclusion (0.3)

FINANCIAL INCLUSION MEASURES:

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

Advised all banks to open Basic Saving Bank Deposit (BSBD) accounts 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.

Relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

Simplified Branch Authorization Policy, to address the issue of uneven spread of bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centers, subject to certain conditions.

Compulsory Requirement of Opening Branches in Un-banked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in unbanked (Tier 5 and Tier 6) rural centers.

Opening of intermediate brick and mortar structure, for effective cash management, documentation, redressal of customer grievances and close supervision of BC (Business Correspondents) operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

In June 2012, revised guidelines on Financial Literacy Centres (FLCs) were issued. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / Choupals, seminars and lectures during April 2012 to March 2013.

RECENT MEASURES

Licensing of New Banks: The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

Discussion Paper on Banking Structure in India – The Way Forward: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

INITIATIVES FROM THE GOVERNMENT:

Pradhan Mantri Jan - Dhan Yojana :

The scheme has been started with a target to provide 'universal and clear access to banking facilities' starting with "Basic Banking Accounts" with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card. In the next phase, micro insurance & pension etc. will also be added.

Under the scheme:

1. Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh (to be given by 'HDFC Ergo').
2. Those who open accounts by January 26, 2015 over and above the 1 lakh rupees accident claim, will also be given life insurance cover of Rs. 30,000 (to be given by LIC).
3. After Six months of opening of the bank account, holders can avail 5,000 rupees of overdraft from the bank.
4. With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones so far.
5. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

Atal Pension Yojana

The Atal Pension Yojana will be effective from 1 June 2015. The scheme intends to bring pension benefits to allow people of the unorganised sector to enjoy social security with minimum contribution per month.

People who work in the private sector or employed in occupations that do not give them the benefit of pension can apply for the scheme. They can opt for a fixed pension of INR 1,000 or 2,000 or 3,000 or 4,000 or 5,000 on attaining the age of 60. The amount of contribution and the individual's age will determine the pension. Upon the contributor's death, the spouse of the contributor can claim the pension and after the spouse's death the nominee will be returned the corpus accrued.

The amount collected under the scheme is to be managed by Pension Funds as per the investment pattern specified by the Government. Individual applicants will have no choice of pension funds or investment allocation.

Benefits of Atal Pension Yojana
The Atal Pension Scheme will bring security to ageing Indians while at the same time promote a culture of savings and investment among the lower and lower middle class sections of society. One of the greatest benefits of the scheme may be enjoyed by the poorer sections of society. The government of India has decided to contribute 50 percent of the user's contribution or INR 1,000 a year (whichever is lower) for a period of five years. This contribution will, however, be enjoyed only by those who are not income tax payers and those who join the scheme before 31 December 2015.

Pradhan Mantri Suraksha Bima Yojana
It is available to people between 18 and 70 years of age with bank accounts. It has an annual premium of Rs.12 excluding service tax, which is about 14% of the premium. The amount will be automatically debited from the account. In case of accidental death or full disability, the payment to the nominee will be Rs.2 lakh and in case of partial disability Rs.1 lakh. Full disability has been defined as loss of use in both eyes, hands or feet. Partial disability has been defined as loss of use in one eye, hand or foot.

This scheme will be linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme. Most of these account had zero balance initially. The government aims to reduce the number of such zero balance accounts by using this and related schemes.

The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
It is one of the several ambitious social security programmes initiated by the Prime Minister. It is basically a term life insurance policy that can be renewed either on a yearly basis or for a longer period of time. It will provide life insurance coverage on the death of the policyholder.

The Pradhan Mantri Jeevan Jyoti Bima Yojana will be made available to anyone between the age group of 18 to 50 years. The concerned person should also have a bank account. People, who avail this policy before they are 50 years old, will be allowed to enjoy the risk of life cover till the age of 55 years. However, they will need to pay the premium on a consistent basis in order to be provided that benefit.

The policyholders will need to pay INR 330 per year. The amount will be deducted each year from their bank account in a single installment. This will be done by the bank from where the policy is being opened.

The risk coverage being provided in the Pradhan Mantri Jeevan Jyoti Bima Yojana is Rs.2 lakhs. In case the policy has been availed for a longer term period than just a year, the amount will be deducted for each year of the agreed term period from their respective bank accounts.

Life Insurance Corporation of India (LIC) will be offering the plan. However, other life insurers, who are eager to take part in the programme, can join it through tie-ups with specific banks. The banks, whose clients join the programme, will be deemed as the master account holders in case of the PMJJS. The LIC or the other insurers will finalise the claims settlement and administration procedures, which are expected to be simple and friendly towards the subscribers. This will be done in consultation with the banks.

Pradhan Mantri Suraksha Bima Yojana (PMSBY) - An accidental Death and Disability insurance scheme.

A large part of the Indian population lives in rural areas and most of them are not covered under any kind of social security scheme. A large section of this population has not even gained the benefits of the banking system and most are still unaware of various governmental schemes that are launched from time to time.

To correct this serious anomaly in the lives of ordinary and poor people, the Pradhan Mantri of India has launched the PMSBY scheme in Kolkata on 9 May 2015, along with two other insurance- and pension-related schemes. There are two aspects of PMSBY that make it different in offering and approach. Firstly, it is the sheer size and depth of inclusion to bring and get covered the maximum number of people under this scheme, which kind of makes it very ambitious and challenging.

Today, if an earning member of a family becomes permanently disabled or dies an accidental death, his or her family faces a life in penury and hardship, with no protection or support from any institution or group. By joining the PMSBY scheme and by paying a nominal premium of Rs. 12/- per person per year, he or she will get an insurance cover for a sum of Rs. 2,00,000/- (two lakh) in case of accidental death or permanent full disability or a sum of Rs. 1,00,000/- (one lakh) in case of partial but permanent disability. The scheme will be valid for a year and it can be renewed every year.

A lot of government social security schemes have not had a very positive response from people due to lack of financial system infrastructure at a nearby location and moreover, the paperwork involved in opening accounts or making claims was too much for them to handle. Even the leakages in the system resulted in large sections remaining excluded from the benefits of these schemes. This has now been largely addressed by the present government that has made extensive use of technology to augment its social scheme delivery and monitor mechanisms. All the payments will be directly credited to the beneficiary's account with no scope for leakages.

Any person between the age of 18 and 70 with a savings bank account and Aadhaar Card can join the scheme.

A person will need to fill out a simple form, mentioning the name of the nominee and linking the Aadhaar Card to the bank account. The person will need to submit the form each year before 1st June to continue the scheme.

With this, the account can be easily activated and the entire premium due will be auto-debited from his or her account. In other words, all a person has to do is to open a bank account and then ensure the availability of at least Rs. 12/- before 1st June of each year to ensure automatic renewal of the scheme. A person has the option to go in for a long-term inclusion under the scheme by instructing the bank to auto-renew the scheme every year.

All government-sponsored general insurance companies will offer the scheme, while other insurance companies will have the option to join the program delivery by signing-up with banks.

PROGRESS ON FINANCIAL INCLUSION:
Number of Branches Opened (including RRBs)
Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country.

Total Bank Outlets (including RRBs)
Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times). BSBD Accounts Opened

The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013.

RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

Kisan Credit Cards (KCC) Issued:
Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion.

ICT Based Accounts - through BCs
In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.

The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period.

Insurance Penetration in the Country
The total insurance (life and non-life) penetration, in terms of the ratio of insurance premium as a percentage of GDP increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration as a percentage of GDP stood at 4.40 in 2010-11 while the non-life insurance penetration remained at 0.71 during the same period12. In other words, there is vast untapped potential as regards insurance penetration.

Financial Inclusion Initiatives – Private Corporates:
A few large private corporate have undertaken projects such as E-Choupal/ E- Sagar (ITC), Haryali Kisan Bazaar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.

CONCLUSION :
The efforts to achieve financial inclusion have started in bright earnest but still there is a long way to go before we achieve the goal of total financial inclusion. However, there is a definite realization that coupled with the requirement of maintaining a high growth rate in the economy, there should be a conscious effort to make this growth inclusive for general improvement the living standards of all sections of the society. There are multifarious schemes devised to achieve this goal, but it should be accompanied with a strong motivation on the part of all the stake holders and the implementing agencies to make a success of these schemes.

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