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EXTENT OF FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Financial inclusion as the process of ensuring access to financial services and timely and adequate credit needed by the vulnerable groups, such as the weaker sections and low-income groups at an affordable cost (Rangarajan Committee, 2008). According to the United Nations: "Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks." In spite of all round development in the banking sectors, a huge section of the underprivileged population still remain on the fringe of formal financial services. Financial Inclusion is an important priority of the Government as ***only approx. 38% (33,495) of the 89,622 bank branches*** *of Scheduled Commercial Banks are in rural areas and only 40% (approx.) of the country's population has bank accounts. While there are about 600,000 villages in India, as per the 2001 Census, there are only33,495 rural bank branches. Average Population per Bank Branch Office (APBBO) in India, as on 31.3.2011, is* ***13,503****. thus, the study has been designed to present an outline of the initiatives taken by Reserve Bank of India since 2005.And also to understand the extent of financial exclusion in India.*

Key words: Financing, Financial Inclusion, *Commercial Banks*, Average Population per Bank Branch Office

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INTRODUCTION

Research in the last decade leads us to believe that a well-functioning and inclusive financial system is linked to faster and equitable growth (Honohan, 2004). A stiff and sturdy financial system is a pillar of economic growth, development and progress of an economy. A mature financial system supports higher levels of investment and promotes growth in the economy with its depth and coverage. For the last several years, the Reserve Bank has been aggressively pursuing financial inclusion with a belief that financial inclusion is a necessary pre-condition for inclusive growth. Development experience over the last sixty years from around the world clearly evidences that what the poor want is not doles, but opportunity to improve their incomes and thereby their quality of life. Financial inclusion is a necessary condition for providing such an opportunity to the poor not only to raise their incomes but also to insulate their families against income shocks and meet emergencies such as loss of job, illness or death in the family. Financial inclusion as the process of ensuring access to financial services and timely and adequate credit needed by the vulnerable groups, such as the weaker sections and low-income groups at an affordable cost (Rangarajan Committee, 2008). According to the United Nations: "Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks." Despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over 2 billion people are currently excluded from access to financial services (RBI, 2007). In the last two decades modern technology has enabled the bankers to provide access of financial services to common people.

In spite of all round development in the banking sectors, a huge section of the underprivileged population still remain on the fringe of formal financial services. Financial Inclusion is an important priority of the Government as **only approx. 38% (33,495) of the 89,622 bank branches** of Scheduled Commercial Banks are in rural areas and only 40% (approx.) of the country's population has bank accounts. While there are about 600,000 villages in India, as per the 2001 Census, there are only33,495 rural bank branches. Average Population per Bank Branch Office (APBBO) in India, as on 31.3.2011, is **13,503**.thus, the study has been designed to achieve the following objectives:

1. To present an outline of the initiatives taken by Reserve Bank of India since 2005.
2. The study also aims to understand the extent of financial exclusion in India.

LITERATURE REVIEW

Joseph Massey (2010) concluded that financial institutions have a very crucial and a wider role to play in fostering financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of financial institutions and capital market players. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded.

Oya Pinar Ardic et al (2011) In their paper 'Access to Financial services and Financial inclusion Agenda Around the World' counts the number of unbanked adults around the world using the financial access database by CGAP and the World Bank group. The paper also analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

R. Jeganathan (2010), published a thought paper on financial inclusion and the initiatives taken by the RBI. This paper focuses on the behavioral economics and addressing of social issues beyond traditional products. The study also highlights regarding the infrastructure facilities and simplification of procedures, which, if made mandatory for all financial services or banking services, will enable the poor to improve the conditions.

Deepali Pant Joshi(2013), on her key note address on the topic- a key to promoting financial inclusion and consumer protection. She stressed on the financial literacy for promoting financial inclusion, consumer protection and financial stability. Financial inclusion and financial literacy need to go simultaneouslywhich will enable the common man to understand the benefits of the productsand services offered by the formal financial institutions.

METHODOLOGY AND DATA:

Financial inclusion is now a buzzword in financial economics. Although various measures has been taken by Reserve Bank of India to bring all sections of population within the ambit of formal financial services. Despite all round improvement in the banking sectors, a vast section of the underprivileged population still remains on the periphery of the formal financial services. The study is purely based on secondary data and has been conducted at two stage. At the first stage, to present the initiatives taken by RBI for financial inclusion in India, various RBI Bulletin as published time to time has been used. At the second stage,to stud the extent of financial inclusion in India,the data of the various agency, based on the various indicators of financial inclusion/exclusion has been used. Mainly, the data of NSSO 59th round Survey Report, Government of India Population Census 2011,CRISIL-Inclusixand 'World Bank Financial Access Survey' Result.

Measures taken by RBI and GOI for financial Inclusion

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

The government of India has been taking efforts for inclusion like creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980; initiating the Lead Bank

Scheme in 1970; establishing Regional Rural Banks (RRBs) in 1975; introducing a Self-Help Group (SHG)-Bank Linkage Programme in 1992 and formulating the Kisan Credit Card scheme in 2001. Following steps has been taken by RBI and Government of India for financial inclusion

1. **Introduction of 'No frill accounts**: In November 2005, a new concept of basic banking 'no-frills' account with 'nil' or very low minimum balance was introduced to make such accounts accessible to vast sections of the population. The required documents for no frill accounts have been provided in regional language. Overdraft facility was extended on no frill account by various state banks. In 2012 the nomenclature was changed to Basic Savings Bank Deposit Accounts (BSBDAs)
2. **Relaxing Know your customer (KYC) norms**: The strict KYC norms inhibited linkage of common people with the Banking System. KYC requirements for opening bank accounts were relaxed for small accounts in August 2005.KYC norms for account holder with Balances not greater than Rs 50000 has been simplified. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. Ration card and voter Id are taken as KYC norms. Bio-metric cards have been issued. Relaxation on know-your-customer (KYC) norms, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number. In January 2006, the Reserve Bank permitted commercial banks to take assistance from non government organizations; Self Help Groups (SHGs) and Micro Finance Institutions (MFI) and other societal association as business facilitator. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank 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 union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.
3. **General Purpose Credit Card Schemes**: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to 25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. The borrowers availing one time settlement schemes are very much eligible for fresh loans.
4. **Business Facilitator and Business correspondent model**: In January 2006, the Reserve Bank permitted banks to engage Business Facilitators (BFs) and Business Correspondents (BCs) as intermediaries for providing financial and banking services.. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. In September 2010, RBI has allowed

for profit organizations excluding NBFCs to operate as BCs. Banks can now leverage on the penetrative network of mobile companies. Mobile network companies have joined hands with banks to make available banking services to India's unbanked population. The agents of mobile companies work as Customer Service Providers (CSPs) and provide BC services, thus expanding the outreach of banks.

5. **Use of technology:** Penetrating banking services through the traditional brick and mortar model is expensive for banks. RBI realised that the task of financial inclusion was gigantic and would not be possible without actively leveraging on technology. Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system. Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.
6. **Simplified branch authorisation**: To address the issue of uneven spread of bank branches, branch licensing norms have been relaxed considerably and banks are now free to open branches in centers with population less than 1 lakh under general permission, subject to reporting. In North- Eastern States and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalising, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain condition Compulsory Requirement of Opening Branches in Unbanked Villages, banks are directed to allocate at least 25 per cent of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers. 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.
7. **Financial Literacy Initiatives** – RBI Financial Literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability. Financial inclusion and financial literacy need to go hand in hand to enable the common man to understand the need and benefits of the products and services offered by formal financial institutions In June 2012, revised guidelines on Financial Literacy Centers (FLCs). 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.

Extent of Financial exclusion in India

Financial exclusion is a process whereby people encounter difficulties accessing and/or using financial services or products in the mainstream market that are appropriate to their needs and enable them to lead a normal life in the society in which they belong. Developmental literature defines financial exclusion in the context of a larger issue of social exclusion of certain groups of people from the mainstream of the society. Leyshon and Thrift (1995) define financial exclusion as those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. A government committee on financial inclusion in India defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit needed by the vulnerable groups, such as the weaker sections and low-income groups at an affordable cost (Rangarajan Committee, 2008). According to the United Nations: "Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protect themselves against economic shocks." Despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over 2 billion people are currently excluded from access to financial services (RBI, 2007).Various parameters has been taken to determine the extent of financial inclusion/ exclusion like branch penetration, credit penetration , deposit penetration, etc by the various agency. In present study it has been tried to understand the extent of financial exclusion from the perspective of the data obtained from various agency.

(1) NSSO 59th Round Survey Results,

(2) Government of India Population Census 2011,

(3) CRISIL-Inclusix

(4) World Bank 'Financial Access Survey' Results.

NSSO 59th Round Survey Results[1]

Credit to farmer households is one of the important elements of financial inclusion. In order to know the extent of credit inclusion the statistics of 59th round survey of NSSO (report no 498) have been studied and accordingly in India there are nearly 150million rural households out of which around 90 million are farmer households. At the all India level around 48.6 per cent of the farmer households were indebted. Conversely it can be said that 51.4per cent of the farmer households are financially excluded from both formal and informal source. Financial exclusion levels deviates from state to state. The following table shows that 82 percent of the farmer household in Andhra Pradesh and only 4 percent of farmer household in Meghalya are indebted from both formal and informal sources.

[1]All India Debt and Investment Survey, NSSO 59th Round

Thus, it can be concluded that Andhra Pradesh and Meghalya has the highest and lowest financial inclusion respectively. The table also reveals that 56 percent of the rural household indebted by formal source and 64 percent from informal source which is 120 percent because farmer takes loan from multiple sources. We can conclude that only 56per cent of the indebted farmer householdsare financially included as they are gettingloans from formal sources and 44 percent farmer are financially excluded on the dimension of indebtedness.

Table.1: Percentage of farmer household indebtedness by formal and informal source

States	Percentage of indebted farmer household	Percentage of indebted farmer household by source of loan	
		Formal	Informal
Andhra Pradesh	82	54	77
Arunachal Pradesh	6	14	103
Assam	18	15	88
Bihar	33	23	84
Chhattisgarh	40	66	56
Gujarat	52	63	49
Haryana	53	76	50
Himachal Pradesh	33	57	65
Jammu and Kashmir	32	9	94
Jharkhand	21	44	60
Karnataka	62	57	55
Kerala	64	96	40
Madhya Pradesh	51	64	66
Maharashtra	55	92	30
Manipur	25	6	99
Meghalaya	4	2	97
Mizoram	24	33	67
Nagaland	37	20	79
Orissa	48	68	46
Punjab	65	58	70
Rajasthan	52	38	81
Sikkim	39	18	89

Tamil Nadu	75	59	67
Tripura	49	46	55
Uttar Pradesh	40	47	70
Uttaranchal	7	65	44
West Bengal	50	51	73
Group of UTs	51	42	71
All India	49	56	64

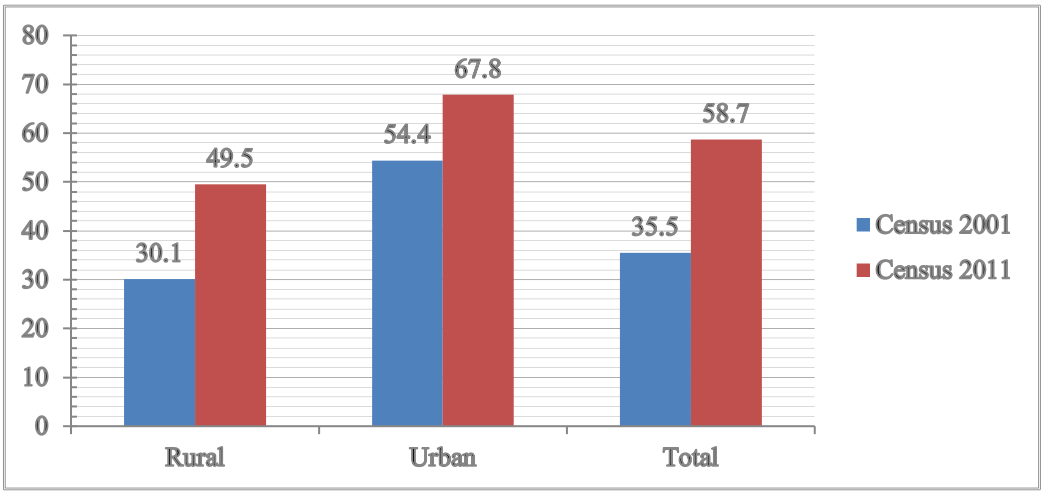
Source: NSSO (2005)

Note: Formal and Informal source of indebtedness is more than 100 per cent because farmers borrow from multiple sources.

Government of India Population Census 2011

According to the Indian Population Census 2011, 41.3 percent population is financially excluded as only 58.7 percent of households are availing banking services in the country. Nevertheless, as compared with previous census 2001, accessing of banking services increased significantly largely on account of increase in banking services in rural areas which has been depicted in following chart.

Chart 1: Availing of Banking Services



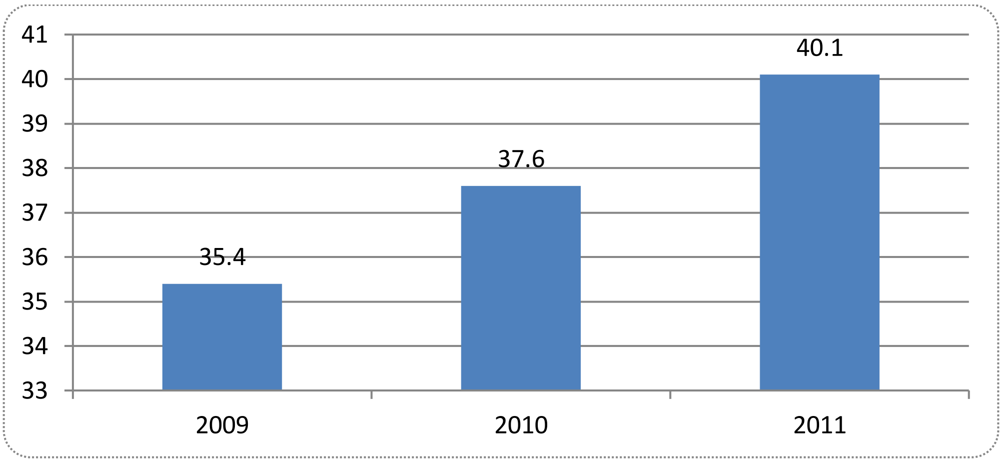
Source: Department of Financial Services, Government of India

CRISIL Financial Inclusion Index (Inclusix)

CRISIL Inclusix is India's first comprehensive measure of financial inclusion in the form of an index. It is a relative index that has a scale of 0 to 100, and combines three very critical parameters of basic banking services — branch penetration (BP), deposit penetration (DP),and credit penetration (CP) — together into one single metric. A CRISIL Inclusix score of 100 indicates the ideal for each of the three parameters. CRISIL Inclusix provides a bird's eye view of the state of financial inclusion in the country.

The all-India CRISIL Inclusix score of 40.1 (on a scale of 100) is relatively low. It is a reflection of under-penetration of formal banking facilities in most parts of the country. Just one in two Indians has a savings account, and only one in seven Indians have access to banking credit. which shows the extent of financial exclusion in India. Although the CRISIL Inclusix increased from 35.4in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

Chart2: CRISIL Inclusix



World Bank 'Financial Access Survey' Results

According to the IMF, 'Financial Access Survey' Result 2012 which has been represented in table 2 shows the extent of financial inclusion or exclusion on the basis of various indicators of financial inclusion like bank branch density and ATM per 100000 of population, bank branches and ATM per 1000 square kilometer and bank deposit and credit as percentage of GDP, reveals that the out of per 100000 adults coverage in ten countries India scores almost lowest in terms of number of bank branches and ATM, although, India is at moderate position so far number of bank branches and ATM and bank deposits and bank credit is concerned in terms of number of bank branches and ATM per 1000 square kilometer and bank deposits and bank credit as percent of GDP is concerned.

Table 2: India's position in compare to other countries

Sl.no.	Country	Number of Bank Branches	Number of ATM	Number of Bank Branches	Number of ATM	Bank Deposits	Bank Credit
		Per 1000 KM2		Per 100000 of population		As percent to GDP	
1.	INDIA	33.17	32.67	11.38	11.21	68.64	54.24
2.	BRAZIL	8.24	20.68	47.26	118.60	45.97	42.42
3.	MAURITIUS	107.39	217.24	21.57	43.62	166.25	81.76
4.	MEXICO	6.41	20.89	14.52	47.33	20.76	17.29

5.	PHILLIPINES	6.15	18.94	14.86	45.77	22.65	18.81
6.	SOUTH AFRICA	3.04	17.50	10.42	59.93	43.92	73.78
7.	SRI LANKA	43.71	38.51	17.49	15.41	46.38	44.83
8.	USA	9.60	Na	35.26	Na	59.19	46.62
9.	SWITZERLAND	83.20	168.98	48.84	99.19	152.25	168.73
10.	FRANCE	38.07	106.88	38.83	109.0	34.85	40.41

Source: financial access survey, 2012, IMF,

CONCLUSIONS

Financial inclusion is a pre-condition to achieve comprehensive growth. Inclusive growth attainment depends a great deal on equitable distribution of the benefit of growth and opportunities and financial inclusion is one of the most crucial opportunities which need to be equitably distributed in order to attain comprehensive growth. Reserve Bank of India has accelerated the process of financial inclusion by introducing various scheme and by framing the various policy. But somewhere the efforts taken are not good enough to encounter this staggering issue of financial exclusion. Financial literacy and level of awareness continue to remain an issue with regard to usage of financial services/products. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. Challenges of financial exclusion are faced by most of the states of the country and in order to solve it state shave to develop its own customized solutions drawing upon its own experiences and features and those of its peers across the country.

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