Financial Inclusion in India- An Overview

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ABSTRACT:
The key to sustainable economic development depends upon extent of Financial Inclusion. Globally this concept is experienced and accepted by all developed as well as underdeveloped countries. Recent initiatives by the government like PMJDY have made noticeable development. The objective of Financial Inclusion is easy access to financial services for every one irrespective of geography and demography, but unfortunately it is not happening. While moving from Financial Exclusion to Financial Inclusion, care should be taken that it should not become Illusion. This paper covers concept of Financial Inclusion and scenario at global and national level.

1. INTRODUCTION

On 29th December, 2003 the UN Secretary General Kofi Annan Said that "The stark reality is that most poor people in the world still lack of access to the sustainable financial services, whether it is saving, credit or insurance. The great challenges before us are to address constraints that exclude people from full participation in the financial sector. Together we must build inclusive financial sectors that help people to improve their lives."

The importance of financial inclusion is recognized after the global financial crisis 2008-09 as the major portion of the world was excluded from financial services. The situation in India is not different than the world; still a major portion of the society is deprived from basic financial services. Today, financial literacy is a biggest challenge for the society. It is essential for overall socio economic development of the county. A recent initiative taken by the Government of India, Pradhan Mantri Jan Dhan Yojana is one of the examples of this concept.

Financial inclusion helps to achieve the sustainable development of the country, by providing financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008) [i].

The concept of Financial Inclusion is not new to the world in fact many countries have started working on it long back for example the United States, the Community Reinvestment Act 1977 (prohibiting bankers from targeting only rich class) , The German Bankers' Association – code 1996 (everyman account), South Africa- low cost account 'Mzansi' and initiatives by GOI such as Nationalization of banks, Lead bank scheme, incorporation of regional rural banks etc. It has become a catchphrase now and has attracted the global attention in the recent past on realizing the gravity of importance. Lack of accessible, affordable and appropriate financial services has always been a global problem. It is estimated that about 2.9 billion people around the world do not have access to formal sources of banking and financial services. Still a significant portion of rural India is deprived from financial services. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one percent. Financially excluded people consistently depend on money lenders even for their day to day needs, borrowing at excessive rates leads to a debt trap. In addition, people in far-off villages are completely unaware of financial products like insurance, which could protect them in adverse situation. Therefore, financial inclusion is a big necessity for our country as a large portion of the world's poor resides here. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social unity.

2. OBJECTIVES OF THE STUDY

1) To study the concept of Financial Inclusion
2) To study the major factors affecting access to financial services
3) To study present scenario of financial inclusion in India

3. RESEARCH METHODOLOGY

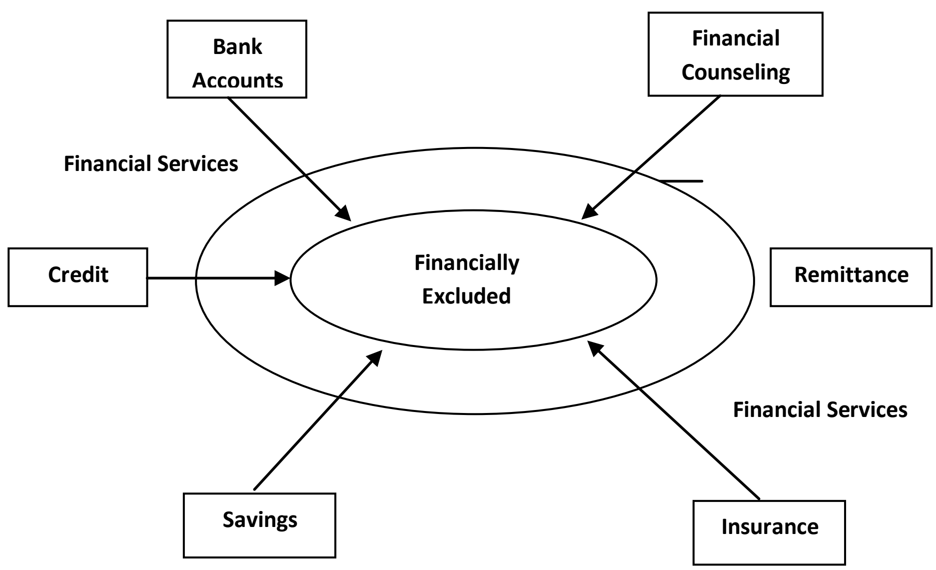
This study is a descriptive study which is based on secondary data. It is an effort to explore ideas on the concept and study the current scenario. The secondary data is collected from research papers, thesis, book, RBI reports and news paper articles.

4. WHAT IS FINANCIAL INCLUSION?

According to the Planning Commission (2009), *financial inclusion 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*.

Financial inclusion is the delivery of financial services and products to the sections of disadvantage and low income segment of society, at an affordable cost in a fair and transparent manner by regulated institutional players.

Figure 1 Financial Inclusion framework



(Source : Rangarajan Committee report)

Rahuram rajan committee has defined Financial Inclusion as 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[ii]. Household access to Financial services are Contingency planning (Retirement savings, Buffer savings & insurable contingencies), Credit (Business livelihood, Emergency loans, Housing loans & Consumption loans) and Wealth creation (Savings & Investments based on household's level of financial literacy and risk perception)

World Bank report has defined Financial Inclusion as the absence of price or non-price barriers in the use of financial services

The objectives of Financial inclusion are :

a) Economic Objectives: For the equitable growth in all the sections of the society leading to a reduction of disparities in access to financial services.

b) Mobilization of Savings: If the weaker sections are provided with the facility of banking services, the savings can be mobilized which is normally stuck up at either their households or with informal agencies.

c) Providing larger Market for the financial system: To serve the requirements and need of the large section of society there is need for the larger financial market .This provides an opportunity for expansion to existing players and entry of new players.

d) Social Objectives: Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since it provides sources of livelihood and the means of income to poor people through loans and advances.

e) Sustainable Growth: Uneven growth in different sections of society may lead to instability. Inclusive growth of all sections of society is possible through Financial inclusion only.

f) Political Objectives: Financial inclusion acts as a base for formulating government policies

Indicators of Financial Inclusion

CRISIL inclusive index measure Financial inclusion on three key parameters [iii]:

I. Banking Penetration: Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

II. Credit Penetration: Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

III. Deposit Penetration: Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analyzed.

5. FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES :

Some of the major factors affecting access to financial services are[iv]:-

1) **Psychological and cultural barriers**- Self exclusion is often seen among low income group due to psychological barrier that services are meant for rich class only**.** A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs.

2) **Gender**: Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow. It was found that states having a relatively higher share of rural population and a higher share of female population generally have a comparatively lower level of financial inclusion[v]

3) **Legal identity-**Lack of legal identity like identity card, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

4) **Terms and conditions-**Banks lay down many Terms and conditions for the access of financial services such as minimum balance, geographic place, minimum transactions etc resulting in less consumer interest for services

5) **Limited literacy-** Limited literacy, particularly financial literacy, *i.e*., basic mathematics, business finance skills as well as lack of understanding often constrains demand for financial services.

6) **Place of living-** Commercial banks prefer profitable areas for operations. This restricts the access for people living in remote areas.

8) **Social security payments-**In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

9) **Types of occupation-**Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan .

10) **Attractiveness of the product-**Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

11) **Risk associated:** Banks normally provide services (such as loans) to low risk profile consumer such as middle age , financial stability and good occupation.

6. CURRENT SCENARIO OF FINANCIAL INCLUSION

6.1 Global Scenario: Financial Inclusion at Global level is a huge task not only for developing or under developed countries but also for the developed countries. Although financial development and economy growth are closely related but many of the developed countries financial systems have not achieved all inclusive growth where a section of population remain outside the formal financial system[vi]. The Global Findex shows gap in Financial Inclusion across demographics, with women, the poor, youth and rural residents at the greatest disadvantage. Some of key statistics are as follows :

55% of men and 47% of women have an account with formal financial institution. The gender gap is highest in South Asia compared to other regions.

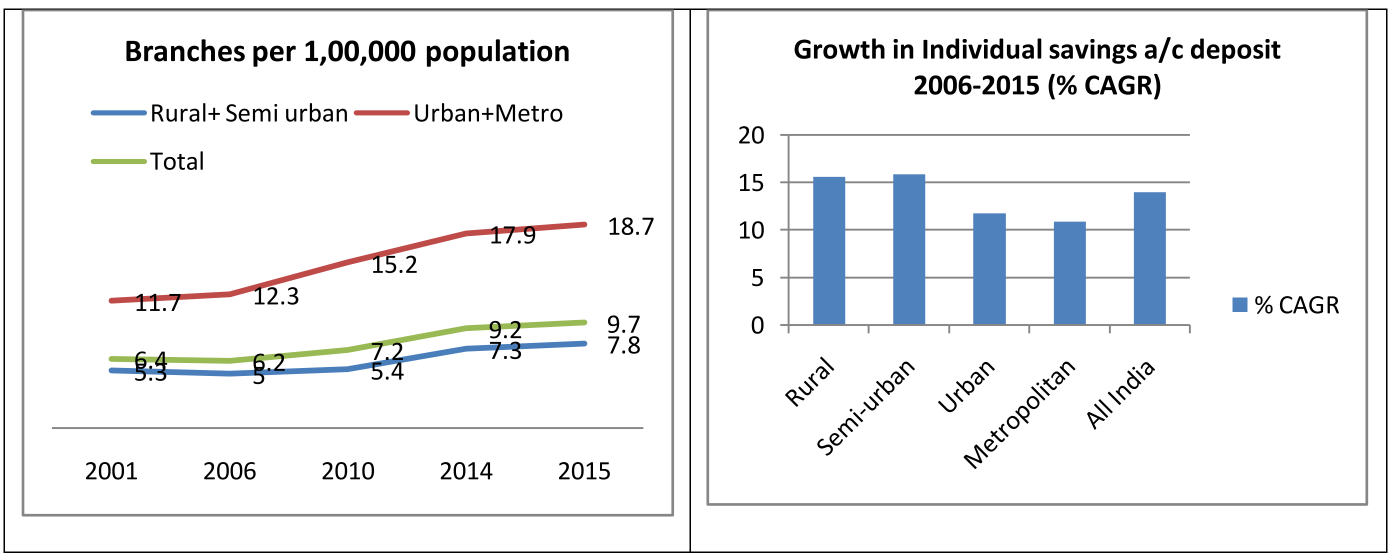
Age group 15-24 years are 33% less likely to have an account compared to 25-64 years

In developing economies , adults with tertiary education are more than twice as likely to have a formal account as those with a primary education or less. The adults saving habits among richest 20% is three times of poorest 20%. 77% adults are earning less than 2$ a day.

- 11 % in high income economies do not have an account with financial institution.
- Approximately 55% of borrowers in developing economies use only informal source of credit.

6.2 Initiation of Financial Inclusion Concept in India

Graph No. 1 Growth in number of branches and savings account deposit in India



(Source: RBI reports)

The steps towards Financial Inclusion in India started way back with the nationalization of banks. Pradhan Mantri Jan Dhan Jojana is a good move towards accomplishment of Financial Inclusion. The recent decision of Adhar linkage to bank account will make the process more transparent and fast. Some Milestones in Financial Inclusion in India are:

Table no.1 Major Milestones in Financial Inclusion in India

SN	Year	Measures
1	1969	Nationalization of Banks
2	1971	Establishment of priority sector lending banks
3	1975	Establishment of Regional Rural Banks
4	1982	Establishment of NABARD
5	1992	Self Help Groups bank Linkage program
6	1998	NABARD goal setting for one million SHG linkage by 2008
7	2000	Establishment of SIDBI foundation of Micro credit
8	2005	One million SHG target achieved
9	2008	Financial Inclusion report submitted to Union Finance Ministry

RBI and GOI has taken a lot of initiatives and policy measures for Financial Inclusion. These initiatives and policy measures are:-

- No-frill accounts
- Overdraft facility in savings account
- Financial Literacy programs
- Simplification of Know Your Customer (KYC)
- Simplification of Savings Bank Account Opening Form
- Simplified branch authorization
  General Credit Cards
- Kisan Credit Cards (KCCs)
- Business Correspondents (BCs) and Business Facilitators (BFs) Model
- SHG Bank-Linkage Programme
- Opening of branches in unbanked rural locations
- Use and promotion of ICT in Banking
- Branch Expansion/Coverage of villages
- Rural Infrastructure Development
- Creation of Funds for Financial Inclusion

Apart from this government of India has started following schemes as an initiative for Financial Inclusion

i. Swabhimaan

Earlier Financial Inclusion programe for opening of villagers bank account only.

ii. Pradhan Mantri Jan Dhan Yojana

The PMJDY has been conceived as a national mission on financial inclusion with the objective of covering all households in the country with banking facilities and having a bank account for each household. Under the Jan Dhan Yojna anyone who is Indian citizen above age of 10 years and does not have a bank account, can open the account with zero balance. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet, specially designed for the purpose of opening the accounts under this scheme.

Table no.2 Achievements of PMJDY (as of 27th January 2016)

Sn	Outcomes	Figure
1	Total no. of accounts outcomes opened	20.47 cror
2	Total no. of accounts outcomes opened in Urban area	7.94 crore
3	Total no. of accounts outcomes opened in Rural area	12.53 crore
4	Total no. of RuPay debit cards	17.2 crore
5	Total deposits	Rs .30796.46 crore
6	Percentage of zero balance accounts	30.9 %

(Source :www.pmjdy.gov.in)

iii. Jeevan Jyoti Bima Yojana

On payment of Rs 342 per year one can get Rs.2 lacs life insurance and Rs. 2 lacs accidental insurance.

iv. Atal pension yojana

Pensions ranging from Rs 1,000 to Rs 5,000 a month can be enabled under this scheme.

7. FINDINGs and DISCUSSION

The various indicators of financial inclusion show that government is seriously thinking and acting on the inclusive financial growth. The success of PMJDY program is remarkable but there are some issues related to Financial inclusion which need to be resolved urgently; some of them are discussed below:

- Although a quantum jump in banking access has taken place, a significant element of regional exclusion persists specially in the north-eastern, eastern and central states. Also, a noticeable gap in inclusive growth is observed across gender, age and other demographic variables. As per RBI report rural area accounts for only 30% of total branches of scheduled commercial banks, this uneven growth is one of the important issues to be addressed in future.
- Simply opening BSBD account is not the solution as majority of them are dormant.
- Providing easy and cheap remittance facilities to migrant population is necessary as now a day's more people are migrating.

Recently RBI governor Raghuram Rajan said that Financial inclusion should not be pushed beyond a point. This is because the bottom of pyramid does not have credit absorption capacity and it may affect to the profitability of banks. Similar thing happened for "Swabhimaan'' program when it was extended beyond a limit.

There are many challenges for inclusive growth such as financial literacy, issues related to stake holders, use of ICT, Psychological and cultural barriers, infrastructure problem etc. which we need to overcome in future. Gradually Government is taking positive steps to overcome it such as ADHAR card linkage, one step authentication up to Rs. 2,000, Digital India, Financial literacy program etc.

8. CONCLUSION

Till today, the poor and weaker section of the society was excluded from basic financial needs. It is very unfortunate that after sixty eight years of independence we have initiated steps towards inclusive financial growth.

With a vision to attain inclusive growth, the Government, RBI and the implementing agencies need to take integrated efforts to develop methods and measures to take forward financial inclusion. For successful implementation of the programme adequate infrastructure facility (technology, internet facility, ATM etc.) should be made available at remote and rural areas. Apart from this financial literacy among weaker sections of the society need to be improved. At initial stage the role of BC model is important due to insufficient reach of banking services. In addition to this more Post offices (POs) may be engaged to become BCs as they are closest to the rural people compared to bank branches.

Still, we are far behind the developed countries in Financial inclusion (Percentage of adult account holders in India is 50% and in BRIC countries it is 70%) and much work is remaining but care should be taken during development process for even sustainable growth by considering socio-economic environment of our country. Otherwise "Financial Inclusion will be merely Financial Illusion".

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