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Financial Inclusion In India – The Present and Future

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ABSTRACT:

Unanimously agreed fact is that the savings are key to the credit formation which thereby becomes the result of national growth. The rich, Heritage of India is in the great emergence of converting the savings into investment in order to become strong and self reliant. One of the prime reasons for low GDP is the lack of savings habit among people and a majority of the country is being unbanked! Financial inclusion is all about converting unbaked areas into the banked areas by different means. The paper tries to explain about the present position and future of financial inclusion in India with some elective reasons.

Key words: financial inclusion, Govt. of India policies, RBI initiatives

Introduction:

Financial inclusion is a multi-dimensional concept. Its implementation throws up various challenges ranging from KYC issues, choice of financial products, viability, scalability and sustainability, to addressing the last mile reach and cost of the low ticket transaction.

- Dr. Raghuram Rajan, Governor, Reserve Bank of India

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

Report of the Committee on Financial Inclusion in India (Chairperson C.Rangarajan) (2008) observes 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." A recent RBI report quotes a World Bank study undertaken in April 2012, which stated that only 9 per cent of Indian population had taken new loans from a bank, credit union or microfinance institution in the past year with only 35 per cent having formal accounts versus an average of 41 per cent in developing economies.

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". Therefore, the objective of Financial Inclusion (FI) is to extend financial services to the large, hitherto unreserved population of the country to unlock its growth potential. In addition, it strives to achieve more inclusive growth by making financing available to the poor in particular. Thus, keeping in view of the interests of the poor people, the Government of India (GoI) has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the financial services.

OBJECTIVES OF THE STUDY

1. To understand the present scenario of financial inclusion in India.
2. To study the prime factors influencing access to financial services.
3. To study the major initiatives and policy measures taken by RBI and Govt. of India for financial inclusion.
4. To suggest the future prospects for financial inclusion

RESEARCH METHODOLOGY

The Paper's study is explanatory in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trends and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

THE NOTION OF FINANCIAL INCLUSION IN INDIA

In India, the concept of financial inclusion was first incorporated in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam Village turns out to be the first village in India where all households were provided banking facilities. Norms were relaxed for those people who were planning to open accounts with annual deposits of less than Rs. 50,000. Generally, credit cards were issued to the poor and the underprivileged with an outlook to help them access easy credit. In January 2006, the Reserve Bank of India allowed 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. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The RBI asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As an outcome of the campaign, states and Union territories like Pondicherry, Himachal Pradesh and Kerala declared 100% financial inclusion in all their districts. Reserve Bank of India's visualization for 2020 is to open nearly 600 million new customers' accounts and service them through a diversity of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas remain to be an obstruction to financial inclusion in many states and there is inadequate legal and financial structure.

FACTORS INFLUENCING ACCESS TO FINANCIAL SERVICES

The following are the some of the major factors which affect access to financial services -

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

B. **More terms and conditions** - Since banks are profit making organizations they discourage the non-profitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

C. **Level of income** - Low income people generally have the attitude of thinking that banks are only for the rich.

D. Limited literacy - Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non-Profit Organizations), MFIs and Business Correspondents etc. People do not know the importance of various financial products like insurance, bank accounts, cheque facility etc.

E. Psychological and cultural barriers - Many people willingly exclude themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs which is the most convenient form of banking today.

F. Structural procedural formalities - It is very difficult for people to read the terms and conditions and account-filling forms due to lack of basic education.

G. Types of occupation - Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

H. 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.

I. Place of living - Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in under-developed areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

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

RBI and GoI Initiatives and Policy Measures and Involvement in Financial Inclusion

Reserve Bank of India and Government of India is navigating the path to financial inclusion by means of policies and supervision. To remove all obstacles and hurdles in the way of financial inclusion RBI and GoI has taken a lot of initiatives and policy measures. These initiatives and policy measures are:-

- **No-frills Accounts** - People in the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed. This initiative of RBI proved to be very effective as the banking system has opened 139 million no frill accounts amounting to Rs.126 billion in March, 2012 under the Financial Inclusion Plan (FIP).The figures, respectively, were 105 million and Rs.76 billion in March, 2011 (Table I.2).

- **Overdraft facilities in saving Account** - Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. Banks have been advised and directed to provide small OD in such accounts. Banks had provided 2.7 million ODs amounting to Rs.1.1 billion till March 2012.The figures, respectively, were 0.6 million and Rs. 0.3 billion in March 2011 (Table I.2).

- **Overcoming the language barrier** - Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms.

Banks are therefore required to provide forms pertaining to account opening disclosure, etc. in the regional language as well.

- **Simplification of Know Your Customer (KYC) Norms and Guidelines** - To open a Regular Account, a customer has to provide documents on (a) Proof of identity, and (b) Proof of address, as per RBI guidelines. But customers face difficulties in providing the requisite documentation for opening regular bank accounts. Also, most rural inhabitants do not have any of the identity documents that are required for account opening and compliance with Know Your Customer (KYC) norms. For that reason, the account opening process has been simplified for people who intend to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100, 000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms. In addition to this, a Subgroup of senior officers of some Public Sector Banks (PSBs), constituted by Department of financial services, has suggested uniform KYC guidelines and a common list of documents, for guidance and adoption by the PSBs.

- **Simplification of Savings Bank Account Opening Form** - To ease the opening of bank account by the migratory labour, street hawkers and other poorer sections of the society, "Simplified Account Opening Form" has been designed. Banks have been requested to put in place a system to enable the customer to fill the account opening form on an 'online' mode. This form contains sections for Small Accounts, Accounts with Introduction and Basic Saving Bank Deposit Account.

- **Financial Literacy Program** - Financial Literacy Programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by banks and financial institutions. RBI provides support to Financial Literacy and Credit Counselling Centers (FLCCs).The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling.

- **Simplified branch authorization** - With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI cities with a population less than 50,000 under general permission, consent, subject to reporting (since December 2009).On the other hand, banks can open branches in any center-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

- **General Credit Cards (GCCs)** - Banks have been advised to consider the introduction of a General Purpose Credit Card (GCC) facilities up to Rs.25000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on an assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. The interest rate on the facility is completely deregulated. Banks had offered 2.1 million GCCs with an amount of Rs. 42 billion by the end of March, 2012.The figures, respectively, were 1.7 million and Rs. 35 billion as of March, 2011 (Table I.2).

- **Kisan Credit Cards (KCCs)** - Kisan Credit Cards to small time farmers have been issued by banks. As on March 2012, the total number of KCCs issued has been reported as 30 million with a total amount outstanding to the tune of Rs.2, 068 billion. The figure, respectively, were 27 million and Rs.1, 600 billion in March, 2011 (Table I.2).

- **Business Correspondents (BCs) and Business Facilitators (BFs) Model** -The Reserve Bank of India permitted banks to engage BCs and BFs as intermediaries in 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. With effect from September 2010, profit companies have also been allowed to be engaged in BCs. Under FIP out of total banking outlets in villages BCs are 1, 41,136 by the end of March, 2012.The figure was 80,802 in March, 2011.The urban locations covered through BCs are 5,891 by the end of March, 2012.The figure was 3,771 in March, 2011 (Table I.2).

- **SHG Bank-Linkage Programme** -The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of the group and dispense small loans for meeting the individual requirements of members. Up to 31-03-2012, 79.60 lakh SHGs were linked and 43.54 lakh SHGs were linked with various banks across the country.

- **Opening of branches in unbanked rural locations** -To target excluded sections of society in rural locations attention was given to the expansion and the opening of bank branches in those centers. Consequently, banks have been mandated in the Monetary Policy Statement to target at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centers (April 2011).

- **Use and promotion of ICT in Banking**-Financial inclusion approach basically focuses on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The Government and the RBI are supporting and promoting commercial and cooperative banks to offer banking facilities to the society by using modern technology, i.e. ATM, micro-ATMs, mobile banking and business correspondents, E-banking, smart cards, Aadhaar Enabled Payment Systems (AEPS) etc.

- **Branch Expansion/Coverage of villages** -Till March, 2012, Banks have opened banking outlets in 1,81,753 villages up from just 1,16,208 as of March,2011.Out of these,37,471 villages have been covered through brick and mortar branches,1,41,136 through BC outlets and 3,146 through other modes like mobile vans etc. providing banking services at the doorstep of villagers through Smart Cards (Table I.2).

- **Rural Infrastructure Development** -Under Rural Infrastructure Development Fund (RIDF), NABARD grant loans to State Governments for the creation of rural infrastructure, broadly under agriculture and related sectors, rural connectivity and social sector. The annual allocation of funds announced in the Union Budget has gradually increased from Rs. 2,000 crore in 1995-96 to Rs. 18,000 crore in 2011-12.The aggregate allocations have reached Rs. 1,52,500 crore. In the Budget speech 2012-13, allocation of Rs. 20,000 crore has been made.

- **Creation of Funds for Financial Inclusion**-Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by the Central Government for meeting the costs of development, and promotional and technology interventions, A fund of Rs.5,000 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.

Present Position of Financial Inclusion in India

- **World Bank Survey Report -** A Financial Inclusion survey was conducted by the World Bank in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north-eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies (Table I.1).The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or send or receive money."

In sync with the objective of inclusive growth, RBI has given priority to the agenda of financial inclusion over the past few years. Initiatives were taken by RBI in recent years to expand banking services to remote areas of the country. Despite all the attempts made by the Reserve Bank of India, the extent of financial exclusion continued to be significant in India, when compared with some of the advanced as well as developing countries.

Table 1.1Key Statistics On Financial Inclusion in India: A Survey (Percent)

	Share with an account at a formal institution			Adult saving in past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past
	All adults	Poorest Income Quintile	women	Using Formal a/c.	Using Community based method	From a formal financial Institution	From Family of friends				
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

(Source: RBI Report)

- **Financial Inclusion Plan (FIP) is in progress-**To strengthen the financial inclusion drive, all public and private sector banks were advised to put in place Board approved a three - year financial inclusion plans (FIPs) from April 2010 onwards. The FIP should broadly contain self-set targets with respect to: (i)opening rural brick and mortar branches; (ii) deployment of BCs; (iii) coverage of villages with a population of more than 2000 as also other un-banked villages with population below.

- **Through branches/BCs/other modes;** (iv)opening no-frills accounts, includes through BC-ICT; (v)issuing Kisan Credit Cards (KCCs) and General Credit Cards (GCCs), and other people specific products designed by them to cater to the financially excluded segments. The progress, so far, by banks in achieving FIP during the last two years has been impressive. A brief analysis of the progress shows that penetration of banking has increased multi-fold in rural areas. As at end- March 2012.villages covered through BCs constituted more than 80 per cent of the total villages covered under the FIP. These indicators move towards the widespread acceptance of the BC model of financial inclusion by banks as well as consumers in rural India. The details of the progress made by banks under FIP are given in Table I.2.

- **Opening of New Bank Branches -** Scheduled Commercial Banks have opened 6,503 branches during 2012-13, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas (Annual Report 2012-13, Ministry of Finance, GoI). In accordance with the efforts put forward by the Reserve Bank of India for opening new bank branches in rural areas, more than two-thirds of total new branches opened during 2011-12 were in rural or semi-urban areas. Expansion of banking network is done through the opening of new bank branches in various regions. The distribution of new branches Region-wise and Population Group-wise is shown in Table. Among the regions, southern region accounted for almost 30 per cent of total new bank branches opened. As at end-March 2012, 99% of the identified villages have been provided with banking outlets. Four States, viz., Uttar Pradesh, Bihar, West Bengal and Andhra Pradesh accounted for more than 50% of these newly opened banking outlets. On a positive note, all identified villages in the north-eastern have been provided with banking outlets. Region-wise analysis of the progress made in banking penetration indicated that significant progress has been made in eastern as well as north-eastern region on this front.

- **"Swabhimaan"- the Financial Inclusion-** Under "Swabhimaan"- the Financial Inclusion Campaign launched in February 2011, banking facilities to over 74,000 habitations having a population of 2,000 and above have been provided by engaging over 62,000 Business Correspondent Agents (BCAs) and opening branches. About 3.16 crore Financial Inclusion accounts have been opened till March, 2012. Further, Public Sector Banks and Regional Rural Banks (RRBs) have operationalized over 43,000 Ultra Small Branches so far. In pursuance to the announcement made by Finance Minister in Budget speech 2012-13, this campaign is being extended to about 45,000 habitations with population of more than 1,000 in North-Eastern and hilly States and to 1600-2000 population in other states.

- **SHG-Bank Linkage Programme and Micro-Finance-**The self-help group (SHG)-bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, viz., the SHGs, banks and NGOs. Though progress under the SHG-bank linkage programme was slow during the initial years of commencement, it started expanding rapidly after 1999.As at end-March 2012; about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with the previous year, the total amount of SHG savings outstanding in banks declined. In recent years, micro-finance institutions (MFIs) have emerged as an important means of channelling credit to the rural parts of the country due to their widespread reach in these areas as well as the ability to offer customized financial products, suited to the needs of average rural customers

- **Setting up of New ATMs:-**Off-site ATMs have more significance than on-site ATMs for banking penetration. Off-site ATMs play an important role by providing the basic banking services like cash withdrawal, transfer of funds even without the presence of full-fledged brick-and-mortar branches. During 2011-12, there was an addition of

14,365 new off-site ATMs. However, metropolitan areas accounted for the maximum number of newly Opened ATMs. Southern region had maximum number of newly opened ATMs, followed by northern region. However, the share of rural areas in the total number of ATMs continued to remain small.

- **Function of Public Sector Banks and Regional Rural Banks in FI Process-** Bank group-wise analysis of new banking outlets in identifying villages showed that public sector banks as well as RRBs played a key role in increasing the banking network in rural India.

THE FUTURE PROSPECTS

With a vision to attain inclusive growth, the Government, RBI and the implementing agencies are required to put mind and hearts together to develop methods and measures to take forward financial inclusion. Though the BC model of the initial stage may not be commercially feasible due to high transaction costs for banks and customers, the proper use of technology can help in reducing this. The need is to develop and apply scalable, platform-independent technology solutions which, if implemented on a large scale, will bring down the high cost of operation. Proper and efficient technology, thus, holds the key for financial inclusion to take place on an accelerated scale. So, there should be implementation of ICT (ATMs, Smart Cards, and Mobile banking). In India, only 55% of the population have deposit accounts and 9% have credit accounts with banks. The numbers showing access to other financial services are even more unsatisfactory. Less than 20% of Indian population have life insurance coverage and only 10% have an access to any other kind of insurance coverage. The number of credit cards has remained stagnant at around 20 million for last 5 years. Thus India has a large number of households and rural population excluded from banking. Financial Inclusion can be seen as a prospect of improving and upgrading the existing working style of banks and financial institutions. There is also an opportunity for banks to improve delivery mechanism and the existing structure of operations. The mass banking with no-frills accounts can become a win-win situation for both the banks and the customers. The financial institutions, especially the banks, can speed up the financial inclusion process by increasing enrollment of SHGs through the bank linkage programme. Rural penetration and banking is the solution to financial inclusion. Population in remote and rural areas have not accessibility and entrance of proper and basic Financial and banking services at present in India. So this untapped and non-penetrated market can be targeted to improve and enhance the bottom line by focusing on the schemes and policies related to rural banking. Mobile banking can be a key tool for rapid up scaling of financial inclusion, targeting and improving quality and tune to deliver for the untapped customers. Thus, there is an opportunity or prospect in the future to achieve 100% financial inclusion.

KEY FINDINGS AND IMPLICATIONS

- It is found that a large number of population and rural households of India do not have access to banking and other financial services. Therefore, to provide access to these services to them RBI and GoI has taken various initiatives. The target of RBI and GoI is to achieve 100% financial inclusion. Many obstacles are there in the path of promoting and achieving financial inclusion. It should not be taken as an obligation by banks and financial institutions, but should be seen as a future prospect and opportunity for growth and for tapping and targeting untapped and unorganized market. For building customer awareness E-banking and mobile banking training and education programmes should be conducted. New bank branches have been opened and new ATMs have been installed for the purpose of achieving financial inclusion. PSBs and RRBs played a key role in the financial inclusion process. Initiatives have been taken for the implementation of EBT in the process of financial inclusion.

Table 1.2 : Progress Under Financial Inclusion Plans

Sl. No.	Particulars	As on March 2011	As on March 2012
I	II	III	IV
1	Total No. of customer service points deployed	60,993	1,16,548
2	Total Banking outlets in villages, of which		
	2.1Branches	1,16,208	1,81,753
	2.2 BCs	34,811	37,471
	2.3 Other Modes	80,802	1,41,136
		595	3,146
3	Urban locations covered through BCs	3,771	5,891
4	ICT Based A/Cs through BCs (No. in million)	32	57
5	ICT Based A/Cs Transactions (No. in million)	84	141
6	ICT Based A/Cs Transactions (Amt.in billion)	58	93
7	Number of No Frills Accounts (In million)	105	139
8	Amount in No Frills Accounts (In billion)	76	120
9	Number of No Frills Accounts with OD (in million)	0.6	2.7
10	Amount in No Frills A/Cs with OD (in billion)	0.3	1.1
11	Number of KCCs outstanding (in million)	27	30
12	Amount in KCCs outstanding (in billion)	1,600	2,068
13	Number of GCCs outstanding (in million)	1.7	2.1
14	Amount in GCCs outstanding (in billion)	35	42

(Source: Report on trends and progress of banking in India for the year ended June 30, 2012, RBI)

SUGGESTIONS

- The RBI and commercial banks should plan a coordinated campaign in partnership with the trainers and professional to educate customers about the basic financial products, services and offerings.
- The MFIs (Micro Financial Institutions) needs to function under and be held answerable to clear regulations that are overseen by a single regulator RBI. In an eco-system for profit, MFIs can play a convincing, dependable and sustainable role. So, there is need to have financial inclusion regulation in our country.
- Financial Inclusion should be taken as a business prospect rather than compulsion so that probable business opportunity can be utilized by tapping and targeting untapped and unorganized market. For building customer awareness, E-banking and M-banking training and education programme should be conducted.

CONCLUSION

It can be concluded that for achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals, but the ball is set in motion!

SCOPE FOR FURTHER RESEARCH

Financial Inclusion or access to financial products and services by the poor is an impressive thought. The thought is that MFIs have delivered on by bringing in more than 23 million disadvantaged people into the financial system. But with the RBI cutting the wings of MFIs, the big query now is who will lend money to the poor? The RBI is approaching banks to drive financial inclusion. But is it the best way out for the poor and banks? What can be further done in this regard is needed to be answered?

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