IMPACT: International Journal of Research in
Business Management (IMPACT: IJRBM)
ISSN (E): 2321-886X; ISSN (P): 2347-4572
Vol. 3, Issue 7, Jul 2015, 83–90

AN ANALYSIS OF FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Even after 64 years of independence, large sections of Indian population still remain unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However in the recent years the government and RBI has been pushing the concept and idea of financial inclusion. Financial inclusion is the delivery of financial services at an affordable cost to the unbanked environments, especially the low income and under privileged. The Government of India and RBI have taken initiatives to spread banking services such as expanding the number of rural bank branches, allowing the banking correspondent model and adoption of CBS technology. Government of India and the Reserve Bank of India making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include –nationalization of banks, building up of robust branch building network of scheduled commercial banks, cooperatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank schemes and formation of self help groups. In India financial inclusion is necessary to build uniform economic development, both spatially and temporally, and ushering in greater economic and social equity. Again financial inclusion broadens the resource base of the financial system by developing a culture of savings among larger segment of rural population and plays its own role in the process of economic development. This paper analyses the policy initiatives of RBI and the progress of financial inclusion in India.

KEYWORDS: Financial Inclusion, Policy Initiatives, Financial Services

INTRODUCTION

Financial inclusion is a necessity of large chunk of the world's poor resides. Access to finance by the poor and vulnerable groups is prerequisites for poverty eradication and social inclusion. The central theme Millennium Development Goals (MDGs) is reduction of poverty in all its forms. Thus financial inclusion is an essential tool for inclusive and sustainable development, as it helps to attain better capital formation through credit and financial services. In India more than70% of the population living in the rural areas and a significant proportion of Indian villages are still remained without a single bank branch. To a large extent India's economic development hinges on this issue.

Financial inclusion is 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(Dr.Rangarajan-2008).That means financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public goods, it is essential that the availability of banking and payment services be made to the entire population without discrimination. The main focus of financial inclusion in India is on promoting sustainable development and generating employment in rural areas for the rural population. The access to a well defined financial system by creating equal opportunities, enables the economically and socially excluded people to integrate better in to the economy, so as to actively contribute to development and protect themselves against economic shocks. The RBI, therefore formulated the policy of financial inclusion with view to provide banking services at an affordable cost to the disadvantaged and low income groups.

OBJECTIVES AND METHODOLOGY

- To analyses the policy initiative for the promotion of financial inclusion in India.
- To examine the progress of financial inclusion in India

This paper is based secondary data which is mainly collected from the various issues of annual reports of RBI.

Financial Inclusion in India

India is country where a sizeable amount of population living in rural areas are poor. They do not have adequate access to the banks. The access of the poor to the banking services is important for the alleviation of the poverty. Their access to the banking services contribute a lot to the growth and development of our country's economy. It yields uniform economic development, both spatially and temporally, and ushers in great economic and social equity. It helps to bring a large section of the unprivileged to the banking net and thus to the financial mainstream. All this results in accelerating the development of the country.

Policy Initiatives

The concept of financial inclusion is not a new one in India. Nationalization of banks, priority sector lending stipulations, the lead bank scheme establishment of RRBs, launch of SHGs-bank linkage programs are the initiatives to provide financial access to the unbanked and under banked masses. However the movement gathered momentum after 2005,when the regulator highlighted the need for financial inclusion in its annual policy statement. The three phases of financial inclusion in India can be given as

Phase I (1960-1990)

In the first phase RBI gave importance to make available credit to the neglected sectors of the economy. In this phase special emphasis was laid on weaker sections of the society.

Phase II (1990-2005)

In the second phase RBI focused on strengthening financial institutions as part financial sector reforms. SHG-Bank linkage was developed in this stage. Again the schemes likeKissan Credit Card(KCC) andGeneral Credit Card(GCC) were introduced.

Phase III (2005 onwards)

Third phase give thrust on safe facility of saving deposites through "No Frill accounts.Again it focus on providing IT enabled financial services to rural area.

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.

Opening of No Frill Accounts: Basic banking no-frills accounts with nil or very low minimum population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on Know-Your-Customer (KYC) Norms: KYC requirements for opening bank accounts were relaxed for small accounts.

Engaging Business Correspondents (BCs): RBI permitted banks to engage Business Facilitators (BFs) and BCs as intermediaries for providing financial and banking services.

Use of Technology: 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 securing of transactions and enhancing confidence in the banking system

Adoption of Electronic Banking Technology (EBT): Aimed to transfer social benefits electronically to the bank accounts of the beneficiary and deliver government benefits to the doorstep of the beneficiary for reducing dependence on cash and lowering transaction costs

GCC: 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 25000 at their rural and semi – urban branches.

Simplified Branch Authorization: Domestic scheduled commercial banks were permitted to freely open branches in tier III to tier IV centers with a population of less than 50000 under general permission, subject to reporting.

Opening of Branches in Unbanked Rural Centers: To improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and moral branches, besides the use of BCs was felt.

Road Map for Providing Banking Services in Unbanked Villages with a Population of More Than 2000: About 73000 such unbanked villages were identified and allotted to various banks through state level banker's committees

Progress of Financial Inclusion in India

Progress in financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs

Branches of scheduled commercial banks

Due to the concerted efforts of RBI, since 2005 the number of branches of Scheduled Commercial Banks increased from 68681in March 2006 to 102343 in March 2013.In rural areas the number of branches increased from30572 to 37953 during March2006 to March 2013. Compared with rural areas the number of branches in semi-urban areas increased more rapidly.

Table 1: Branches of Scheduled Commercial Banks

Areas	March 2010	March 2011	March 2012	March 2013
Rural	32289	33325	35364	37953
Semi-urban	20358	22419	25076	27219
Urban	16653	17706	18541	19327
Metropolitan	14697	15660	17078	17844
Total	**83997**	**88990**	**95959**	**102343**

Source: RBI Annual Report

Total Bank Outlets in Villages

The number of banking outlets in villages with population more than as well as less than 2000 increased consistently since March 2010.And the total outlets increased from 67694 in March 2010 to 268454 in March 2013 It increased around 4 times during the period of three years. Out of the total branches, the banking outlets through BCs increased from 34174 to 221341 during the same period. That means it increased around 6.5 times.

Table 2: Bank Outlets in Villages

Banking Outlets	March 2010	March 2011	March 2012	March 2013
Villages with population>2000	37791	66447	112130	
Villages with population <2000	29903	49761	69623	
Through Brick & Mortar Branches	33378	34811	37471	40837
Through BCs	34174	80802	141136	221341
Through Other Modes	142	595	3146	6276
Total	**67694**	**116208**	**181753**	**268454**

Source: Annual Report of RBI

BSBD Accounts Opened

The number of BSBD accounts increased from 73.45 million in March 2010 to 182.06 million in March 2013. RBI advised banks to provide small Over Drafts in BSBD accounts. Accordingly up to March 2013 3.95 million BSBD accounts availed with OD facility of Rs.1.55 billion.

Table 3: Number of BSBD Accounts

Items	March 2010	March 2011	March 2012	March 2013
No. of BSBD Accounts in million	73.45	104.76	138.50	182.06
Amounts in BSBD Accounts in billion	55.02	76.12	120.41	
No. of BSBD Accounts with OD in million	0.18	0.61	2.71	3.95
Amounts of OD through BSBD Accounts in billion	0.10	0.26	1.08	1.55

Source: Annual Report of RBI

Kissan Credit Cards (KCC)&General Credit Card(GCC) Issued

The KCCs issued by banks to small farmers for meeting their credit requirements increased to 33.79 million with a total outstanding credit of Rs.2622.98 billion. The credit through the GCC up to Rs. 25000 provided from the rural and semi urban branches aggregating toRs.76.34 billion in 3.63 million GCC accounts..

Table 4: Number o KCCs and GCCs

Particulars	March 2010	March 2011	March 2012	March 2013
KCC-Total No. In million	24.31	27.11	30.23	33.79
KCC-Total Amt. In billion	1240.07	1600.05	2068.39	2622.98
GCC-Total No. In million	1.39	1.70	2.11	3.63
GCC-Total Amt. In billion	35.11	35.07	41.84	76.34

Source: Annual Report of RBI

ICT Based Accounts–Through BCs

In order to provide efficient and cost-effective banking services in the unbanked 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 transaction’s amount increased steadily from Rs 6.92 billion to Rs233.88 billion during the same period.

Table 5: ICT Based Accounts

Items	March 2010	March 2011	March 2012	March 2013
ICT Based Accounts transactions through BCs in million	26.52	84.16	155.87	250.46
ICT Based Accounts transactions amounts in billion	6.92	58.00	97.09	233.88

Source: RBI Annual Report

Expansion of ATM Networks

The total number of ATM s in India witnessed an increase of 30.6% during March2010 to March 2013. The number of rural ATMs increased from5196 in March 2010 to 11564 in March 2013

Table 6: No. of ATM Networks

Areas	March 2010	March 2011	March 2012	March 2013
Rural	5196	7155	8639	11564
Semi urban	14478	18082	22677	27710
Urban	19763	24062	31006	36111
Metropolitan	20716	25206	33364	38629

Source: RBI Annual Report

Financial Literacy Initiatives

Financial education, Financial inclusion and Financial stability are three elements of an integral strategy. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Going forward, these two strategies promote greater financial stability. Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.RBI has issued revised guidelines on the Financial Literacy Centres (FLC)on June 6,2012, for setting up FLCs.

Growth in SHG-Bank Linkages

This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked Self Help Groups (SHGs) with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs.145.57 billion.

Growth of MFIs

Even though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs.At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs.19000 crore as at end September 2013.

Bank Credit to Micro Small and Medium Enterprises(MSME)

MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations. Bank credit to MSME increased by 31.4%during the period March 2006 to March 2012 The public sector banks contributed the major share of total credit to MSME(76%)while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 2012.

Credit to MSME

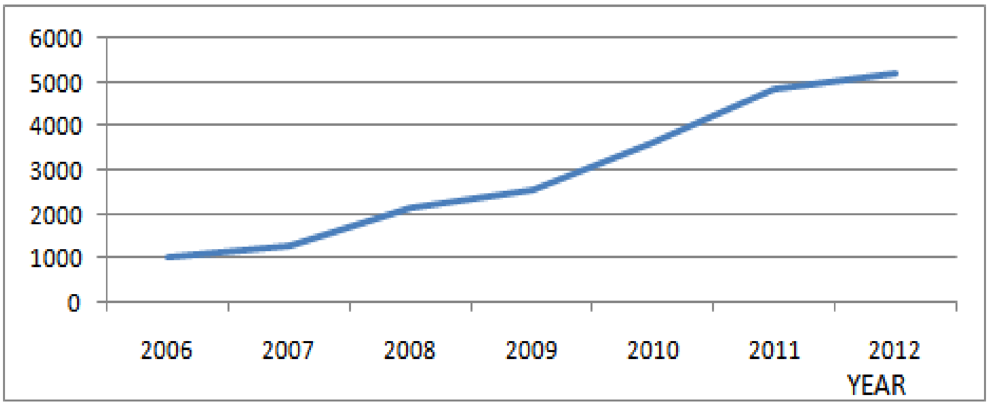

Figure 1

Source: RBI Annual Report

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 period. In other words, there is vast untapped potential as regards insurance penetration.

CONCLUSIONS

For standing out on a global platform India has to look up on the inclusive growth and financial inclusion is the key of inclusive growth. Majority of people living in rural areas Reaching out to the hither-to unreached segment of population and providing basic financial services is the need of the hour. To bring a large segment of society under the umbrella of financial inclusion, banks have to set up more branches in remote corners of the country.

That means there is a long way to go for the financial inclusion to reach to the core poor. According to Chakrabarty RBI Deputy Governor"Even today the facts remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders."Mere opening of no-frill accounts is not the purpose or the end of the financial inclusion while formal financial institutions must gain the trust and good will of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial inclusion has not yielded the desired results and there is a long road ahead but no doubt it is playing a significant role and is working on the positive side.

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