



REACHING THE UNTAPPED: CURRENT FINANCIAL INCLUSION PERSPECTIVE IN INDIA

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ABSTRACT

Rural India has a great prospect for financial institutions and banks to help the poor and bring them in mainstream with financial inclusion. The economy of India is growing at a great pace and rural India is the future that banks cannot miss. Reserve Bank of India (RBI) has been making enormous efforts so that financial inclusion is promoted with a gigantic leap across the length and breadth of the country. The benefits from serving this mass will be maximum but with an added input of cost can be a major deterrent in short term. Banking Institutions thus need to take big decisions and reach the India's rural population. In this paper we will try to present the current situation of Financial Inclusion in India, to analyse critically the steps taken by RBI, Scheduled Commercial Banks (SCB) and Government of India (GoI) for Financial Inclusion and to reduce poverty in India. This paper will highlight how formal credit, deposits have increased across the years and inclusive growth model is working purposefully.

KEYWORDS: Financial Inclusion, SCB, ATM, Business Correspondents, Financial Inclusion, Financial access, RBI initiatives, GoI Policies

INTRODUCTION

Banking and financial services play very critical role in the growth and development of an economy. Research shows that a inclusive financial system is linked to a faster and impartial growth. There is a wide spectrum of personal finance options for population in middle or high income groups which are innovative products while a significantly large section of population still is deficient in access to the most basic banking services that is holding a bank account. This is termed as “financial exclusion” which in society leads to social exclusion. So it is necessary to provide individuals with easy and affordable institutional financial services or products.

Across the world, a broad objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its compass the low income group people. In India, there is a need for coordinated action amongst the banks, the government and related agencies to smooth the progress of access to bank accounts to the financially excluded. Twenty-six years after economic reforms unfurled in India, the financial sector still suffers from many bad practices. There are various economic issues & socio-cultural that hinders the process of financial inclusion. For example lack of financial literacy, poor bank penetration, and high cost involvement.

Normally the economically weak sections of the society are completely ignored by the formal financial institutions in the process of making profits. Financial inclusion enhances and broadens the supply base which is of low income group of the financial system by developing a pattern and cultural confidence of savings among large chunks of rural population and helps in continuously enhancing the process of economic development. Further, by bringing weaker sections of the society to be a part of formal banking sector; financial inclusion also reduces the abuse of weaker sections of the society by the money lenders through easy access of formal credit and banking system.

WHAT IS FINANCIAL INCLUSION?

Report of the Committee on Financial Inclusion in India (Chairperson C. Rangarajan) (2008) defines 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.*”

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*”.

SIGNIFICANCE OF FINANCIAL INCLUSION

- It helps in promoting savings which in turn increases economic growth
- It helps in promoting financial literacy of the rural population and hence they can understand the difference between reliable and unreliable financial services.
- This helps the weaker sections to direct their income into buying proper assets.

RESERVE BANK OF INDIA'S POLICY INITIATIVES TO BOOST FINANCIAL INCLUSION IN INDIA

1. Expansion of branches in rural areas.
2. Business Correspondent Model
3. Combination of Business Correspondent model and branches
4. Relaxation in Know Your Customer (KYC) norms
5. Opening of No frill Accounts
6. KCC and GCC cards

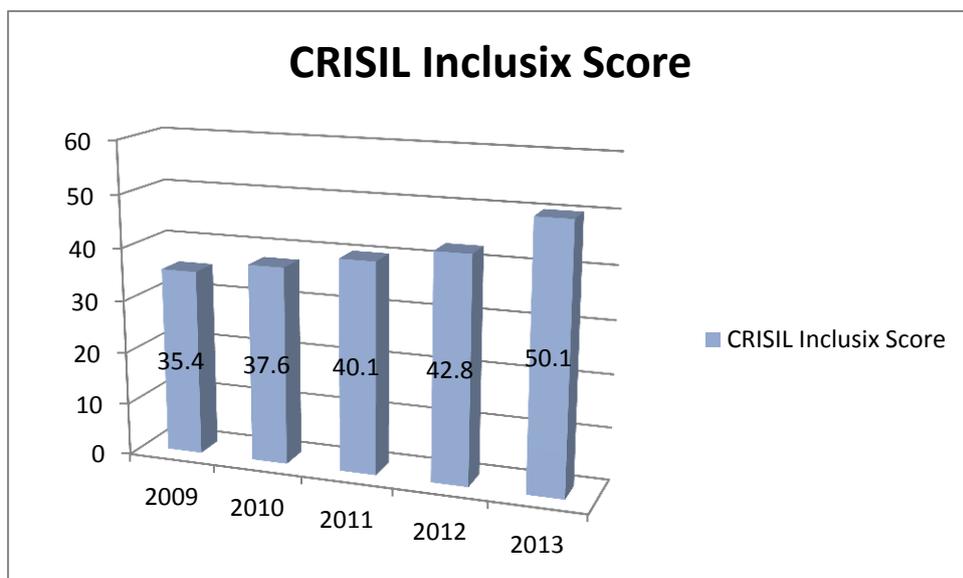
RECENT MEASURES TO ENHANCE FINANCIAL INCLUSION

The Government of India launched the Pradhan Mantri Jan-Dhan Yojana in August 2014 to aid access to different kinds of financial services to the excluded sections of society. The first phase targets provisioning of access to bank facilities in all areas, except for those areas which have connectivity constraints, and increase in the level of financial literacy. The phase two aims to provide access to insurance, credit and pension related products and services. RBI has also taken several measures in 2014 to supplement financial inclusion, permitting non-banking financial companies to act as business correspondents for banks, and issuing guidelines on differentiated banking licenses for small banks and payments banks based on the recommendations of the committee chaired by Dr Nachiket Mor, on *"Comprehensive Financial Services for Small Businesses and Low Income Households"*.

RESEARCH METHODOLOGY: The nature of the study is descriptive. The data utilised for the study is majorly secondary in nature and has been collected from bulletins of RBI, annual reports of Reserve Bank Of India and Ministry of Finance, Govt. of India, Report on trend and progress of banking in India, newspapers and websites of RBI, and Ministry of Finance, Government of India various reputed journals.

ANALYSIS& FINDINGS

1. Crisil has been publishing the annual report on financial inclusion known as CRISIL INCLUSIX; on analysing the CRISIL INCLUSIX score we can there has been a continuous growth in terms of Inclusivity in our country as CRISIL takes into account 3 major dimensions of financial inclusion namely being Branch Penetration, Deposit Penetration and Credit Penetration.



(CHART-I)

Source: CRISIL INCLUSIX INDEX REPORTS (I, II, III)

As per the chart-I depicted above there has been a growth 6.21% in score of 2010 which increases to 6.64% in 2011. The growth percentage is 6.75% in 2012. The score of 2013 has inclusion of MFI's for the first time thus making the score more inclusive and better, overall it can be said that inclusion is moving positively with consistent growth in India as per the scores of CRISIL INCLUSIX.

2. The second analysis is done on the basis of the growth in outreach of branches, Business correspondents; Savings accounts opened and credit flow.

TABLE: I

Sr. No.	Variable	Mar-10	Mar-13	Mar-16	Growth
					Percentage
1	Banking Outlets in Villages - Branches	33378	40,837	51,830	55.28 %
2	Banking Outlets in Villages – Branchless Mode	34316	2,27,617	5,34,477	1457.52%
3	Banking Outlets in Villages – Total	67694	2,68,454	5,86,307	766.11%
4	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	60.2	101	238	295.34%
5	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	44.3	165	474	969.97%
6	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	13.3	81	231	1636.84%
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	10.7	18	164	1432.71%

8	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	4	8	3900%
9	OD facility availed in Basic Savings Bank Deposit Account (Amt. in Rs. billion)	0.1	2	29	28900%
10	KCCs-Total (No. in million)	24.3	34	47	93.41%
11	KCCs-Total (Amt. in Rs. billion)	1240.1	2,623	5,131	313.75%

Source: RBI report on Progress in Financial Inclusion

INTERPRETATION

- a.) The banking outlet in villages (Branches) has grown by 55.28% across 6 years.
- b.) The banking outlets in villages (Branchless) have grown by 1457.52% across 6 years.
- c.) The Total banking outlet in villages (Branches+ Branchless) has overall grown by 766.11% across 6 years.
- d.) The BSBDA in terms of numbers through branches have increased by 295.34% across 6 years.
- e.) The BSBDA in terms of amount through branches have increased by 969.97% across 6 years.
- f.) The BSBDA in terms of numbers through BC Model have increased by 1636.84% across 6 years.
- g.) The BSBDA in terms of amount through BC Model have increased by 1432.71% across 6 years.
- h.) OD facility in terms of numbers has increased by 3900% across 6 years.
- i.) OD facility in terms of amount has increased by 28900% across 6 years.
- j.) KCC in terms of Numbers has increased by 93.41% across 6 years.
- k.) KCC in terms of amount has increased by 313.75% across 6 years.

As it can be seen from the table-I that all the variables taken into study have shown a growth percentage of minimum 55.28% to a maximum of 28900% across a span of 6 years. We can easily deduce that all the aspects of financial inclusion have been growing positively with quantum jumps. The network of branches has increased by 55.28% in span of 6 years while the branchless mode 1457.52% showing the ground level work done by institutions in increasing the number of Business correspondents and touch points where branches are not accessible. This also reflect in the BSBDA account opening numbers and the amount deposited in those accounts where the percentage of increase is 1432.71% for BC model while branch model has an incremental percentage of 969.97% showing that the grass root outreach is working. Even the Overdraft (OD) and KCC facilities have increased massively showing the credit penetration of the formal banking institutions across the six years taken into consideration.

3. The third analysis is done on the basis of Pradhan Mantri Jan Dhan Yojna accounts which is a flagship programme started in August 2014.

TABLE: II

No of Accounts opened under PMJDY			
Year	Rural	Urban	Balance In Accounts(In lac)
Mar-15	87844803.0	59318676.0	1567029.4
Mar-17	168663484.0	113014787.0	6297242.8
Growth Percentage	92.0	90.5	301.9

(Source: www.financialservices.gov.in)

Interpretation: The data shown in table-II shows that growth in opening of rural accounts is slightly higher at 92% as compared to urban areas where growth is 90.5% across two years of the data taken into consideration. Even the balance in accounts across have grown by 301.9% showing the appetite of the people of the country to be a part of PMJDY and be a partner in financial inclusion.

CONCLUSION

Customary banking solutions may not be the exact solution to address the predicament of financial inclusion in India. Banks, therefore, need to find new and 'out-of-the-box' solutions to beat the problem of financial exclusion in India. They need to set up state of the art new technologies which are easy to use and access and create financially workable models to take forward the process of financial inclusion in a successful manner. The problem of financial exclusion needs to be tackled with urgency if we want our country to grow in a reasonable and sustainable manner.

In one of the world's fastest growing economies like India the poor are the future middle class of tomorrow and banks cannot sideline this section. Some of the major public sector banks in India have played an important role in financial inclusion and their success should encourage the rest of the banks to put their financial inclusion efforts on fast track to create a fully inclusion society..

Financial inclusion may be a social responsibility for the banks in the short-run but will turn out to be a business opportunity in the long-term. As per Dr. C. Rangarajan, "Financial Inclusion is no longer an option; it is a compulsion". The experiment of Financial Inclusion is looking to be successful in India and with continuous improvements the inclusion can be deepened.



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