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Financial Inclusion in India: A Study of Progress of Banking Outlets and Basic Saving Bank Deposit Accounts

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Abstract

Financial Inclusion is described as the process of providing banking and financial solutions and services to all members of society regardless of their socioeconomic status. Financial inclusion is a challenge for the Indian economy because the many of the rural people is still excluded from inclusive growth. There are numerous routes for financial inclusion and microfinance today, such as universal banks, small finance banks, micro finance institutions, BCs, and so on. The present study is an attempt to analyse the progress of financial Inclusion in India which is measured in terms of banking outlets and basic saving bank deposit account. The reference period of the study is 11years from 2010 to 2020. In the study, secondary data has been used which is analysed in terms of absolute figures, year-on-year growth, CAGR and graphic analysis. The study found that the banking outlets have increased from 67,694 in the year 2010 to 5,99,217 in the year 2020. The research further highlights that the aggregate amount deposited in the basic saving bank deposit accounts has raised significantly from □55.02 billion to □ 1684.12 billion over a period of 11 years. The aggregate deposit growth rate in BSBD account stayed over 15% with a CAGR of 40.79% over the study period.

Key Words: - Financial Inclusion, Banking Outlets, Business Correspondents, Basic Saving Bank Deposit Account

Introduction

Financial Inclusion is described as the process of providing banking and financial solutions and services to all members of society regardless of their socioeconomic status. Financial inclusion primarily focuses on offering dependable financial solutions to economically disadvantaged members of society without discrimination. Its goal is to offer financial solutions that are free of inequity. Many poor Indian households do not have access to financial services in the country. They have no idea what banks are or what they do. Even if

they are aware of the existence of banks, they do not have access to their services. Many of the people may not meet the bank's basic eligibility requirements, and hence will not be able to use the bank's services. Banks have minimum income requirements, credit score requirements, age standards, and years of work experience requirements. If an applicant passes these conditions only then a bank will provide him or her a deposit or a loan. Due to a lack of knowledge, resources, money, and other factors, many poor people may be unemployed with no prior work history.These economically disadvantaged members of society may also lack the necessary documentation to present to banks for identity or income verification. During the loan application process or the creation of a bank account, every bank has a set of mandatory documents that must be provided. Many of these people are unaware of the significance of these documents. They also lack the ability to apply for government-issued identification. There is a dire need to provide quality financial services in rural areas for economic growth as it will help rural households to fund the growth of their livelihoods (Sujlana, P., & Kiran, C. 2018).

To remove these hindrances basic savings bank deposit (BSBD) account was designed as a savings account that would provide free access to several basic services to account holders. In order to provide better customer service, it has been decided to make certain changes to the account's facilities. The BSBD Account shall be considered a normal banking service available to all. Banks are now encouraged to provide the following basic minimum services in the BSBD Account, free of charge, with no minimum balance required. (i)The deposit of cash at bank branch as well as ATMs/CDMs (ii) Receipt/credit of money through any electronic channel or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments (iii) No limit on number and value of deposits that can be made in a month (iv) Minimum of four withdrawals in a month, including ATM withdrawals (v) ATM Card or ATM-cum-Debit Card. Through the employment of business facilitators and business correspondents, the reserve bank allowed banks to engage middlemen to provide banking services. The BC model enables banks to conduct ‘cash-in-cash-out’ transactions significantly closer to the rural population, thereby addressing the issue of last-mile reach.

Financial inclusion attempts to remove these obstacles and give low-cost financial services to the less fortunate portions of society so that people can become financially self-sufficient

without relying on charity or other non-sustainable sources of funds. In addition, financial inclusion aims to raise public understanding about financial services and financial management. It also strives to establish formal and systematic credit channels for the underprivileged.

Review of Literature

GOI (2008) examined financial inclusion as a delivery mechanism providing financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The recommendations of the report focused on the following areas. First, financial inclusion should include access to mainstream financial products. Second, banking and payment services should be available to the entire population without discrimination. Third, promotion of sustainable development and generation of employment in rural areas should be a priority. Fourth, financial inclusion must be taken up in a mission mode and thereby suggested the constitution of a National Mission on Financial Inclusion (NMFI) in order to achieve universal financial inclusion within a specific time frame. Fifth, the Committee also recommended for the constitution of two funds with NABARD – the Financial Inclusion Promotion and Development Fund, and the Financial Inclusion Technology Fund for better credit absorption capacity among the poor and vulnerable sections of the country and also for proper and appropriate application of technology in order to facilitate the mandated levels of inclusion. In short, the report provided an understanding of one of the best ways to achieve inclusive growth through financial inclusion.

To measure financial inclusion, a multidimensional Index of Financial Inclusion (IFI) has been proposed by Sarma (2008). The IFI is an index that captures information on various dimensions of financial inclusion in one single digit lying between 0 and 1. It captures the penetration of the banking system, its availability to users and its actual usage. Chakravarty and Pal (2010) employ the axiomatic measurement approach for the measurement of financial inclusion. It improves upon the IFI proposed by Sarma (2008) such that the index can be utilized to determine the percentage contributions by the various factors.

Sadhan Kumar Chattopadhyay evaluated the extent of financial inclusion in West Bengal in a working paper for the RBI titled Financial Inclusion in India: A Case-Study of West Bengal (2011). According to the study, there has been an improvement in banking industry outreach

activity, but it is not considerable. The study created an index of financial inclusion (IFI) based on data on three dimensions of financial inclusion: banking penetration (BP), availability of banking services (BS), and banking system usage (BSU). Based on IFI rankings, the research offers a comparable picture between different states on the basis of IFI rankings.

Dixit & Ghosh (2013) found that the percentage of financial inclusion in the different states varies differently across the country. For example, Kerala, Maharashtra, and Karnataka have higher rates of financial inclusion, whereas Gujarat, Manipur, Assam, Bihar, Uttar Pradesh, and Madhya Pradesh have lower rates of financial inclusion. Without a doubt, expanding geographical and demographic reach offers issues in terms of feasibility and sustainability, and appropriate commercial models are continuously evolving, as are various delivery systems being tested by various government agencies at the central and state levels. Financial literacy and level of awareness continue to be a problem when it comes to using financial services and products. To attain the goal of financial inclusion, it is necessary for all stakeholders, including sectoral regulators, banks, governments, civil society, NGOs, and others, to work together. Most states in the country suffer financial exclusion challenges, and in order to address them, each must build its own personalised solutions based on its own experiences and characteristics, as well as those of its peers across the country.

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data, additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit; CRISIL Inclusix at an all-India level stood at a relatively low level of 40.1 for 2011 (on a scale of 100). In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country's rural and also in urban areas.

Iqbal & Sami (2017) discovered that the number of bank branches and the credit deposit ratio of banks (proxies of financial inclusion) have a positive significant impact on the country's

GDP. The growth rate of ATMs, one indication of financial inclusion, has been demonstrated to have a statistically minimal impact on Indian GDP. As a result, the study observed that financial inclusion is highly associated with the progress and development of the economy.Regardless, effective financial inclusion regulations in the country are required to access financial services, as well as client awareness E-banking training and financial literacy programmes should be organized. As a result, financial inclusion is a significant route that India must walk in order to achieve complete success.

Sujlana, P., & Kiran, C. (2018) found that there is a dire need to provide quality financial services in rural areas for economic growth as it will help rural households to fund the growth of their livelihoods. Government of India has taken heartfelt efforts in bringing the citizens of India under the ambit of banking services. But still some segment of the nation is lagging behind even though financial inclusion initiatives are in progressive stage. Rapidly developing technology has also played a vital role in bridging the financial divide of the nation. More number of people have started using ATMs, Immediate Payment Service (IMPS) and mobile banking.

Rahman, S. A., &Soundararajan, P. (2020) concludes that due to the continuous attempts of the government and the banks, development has been made in the optimistic direction towards financial inclusion but still more is to be done to attain 100% financial inclusion in India. From the progress of Pradhan Mantri Jan Dhan Yojana (PMJDY) during the period from Jan, 2015 till Jan, 2017 it can be concluded that government's efforts to ensure financial inclusion and to remove financial untouchability has been commendable. PMJDY has acted as a financial vehicle accelerating the rate of financial accessibility across the country.

Objectives

The present study aims to achieve the followings objectives:

1) To analyse and compare the progress of Banking Outlets in Villages through branches and Branchless mode; and
2) To examine and compare the progress of Basic Saving Bank Deposit Account through Branches and Branchless mode.

Research Methodology

The current analysis is based on secondary data gathered from Report on 'Trends and Progress of Banking in India' and 'Annual Reports of Reserve Bank of India'. The data has been gathered over a period of 11years, from 2009-10 to 2019-20. The study has analysed the data on the variables namely number of banking outlets through branches and branchless mode in the rural locations and basic saving bank deposit account. The performance has been measured using several metrics like absolute values, year-over-year percent growth, compound annual growth rate, and visual analysis etc. The results of the study are presented through tables and appropriate figures.

Analysis and Interpretation

Table: 1 Banking Outlets in Rural Locations from 2010 to 2020

Year Ended	Banking outlets in Rural Locations (No. of Branches)	Y O Y (%)	Banking outlets in Rural Locations (Branchless mode)	Y O Y (%)	Total Banking outlets in Rural Locations	Y O Y (%)
March 2010	33,378	-----	34,316	-----	67,694	-----
March 2011	34,811	4.29	81,397	137.20	1,16,208	71.67
March 2012	37,471	7.64	1,44,282	77.26	1,81,753	56.40
March 2013	40,837	8.98	2,27,617	57.76	2,68,454	47.70
March 2014	46,126	12.95	3,37,678	48.35	3,83,804	42.97
March 2015	49,571	7.47	5,04,142	49.30	5,53,713	44.27
March 2016	51,830	4.56	5,34,477	6.02	5,86,307	5.89
March 2017	50,860	-1.87	5,47,233	2.39	5,98,093	2.01
March 2018	50,805	-0.11	5,18,742	-5.21	5,69,547	-4.77
March 2019	52,489	3.31	5,44,666	5.00	5,97,155	4.85
March 2020*	54,561	3.95	5,44,656	0.00	5,99,217	0.35
CAGR (%)	5.04	-----	31.84	-----	24.37	-----

*Denotes provisional value

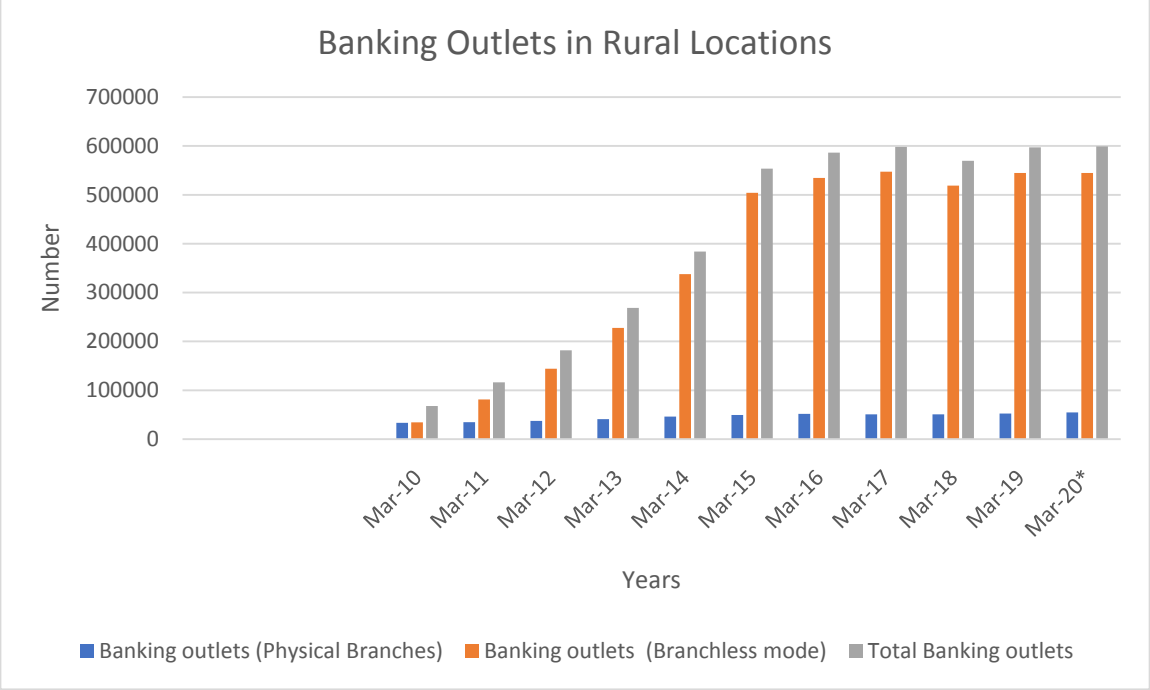

Figure 1

Table 1 shows the number of physical branches outlets and branchless mode outlets over a period of 11years. The number of branches outlets have increased from 33,378 in the year 2010 to 54,561 in the year 2020. On the other hand, branchless mode outlets have increased from 34,316 to 5,44,656 during the corresponding period. The year-on-year growth of branches outlets ranges between 3.31% to 12.95% during the study period except in the year 2017 and 2018 where it was -1.87% and -0.11%. The year-on-year growth of branchless mode ranges between 0 to 77.26% except in the year 2011 where it was 137.20% exceptionally high and in the year 2018 it was -5.21%. The total banking outlets including branches and branchless mode increased from 67,694 to 5,99,217 and the year-on-year growth remained between 0.35% to 71.67% during the study period except in the year 2018 where it was -4.77. The CAGR of banking outlets branches and branchless mode worked out 5.04% and 31.84% respectively whereas combined CAGR was 24.37%. The table indicates that the branchless mode of baking outlets has increased significantly during the study period. The progress of banking outlets in rural locations is further depicted by figure 1.

Table: 2 Basic Saving Bank Deposit Accounts through Branches from 2010 to 2020

Year Ended	BSBDA (No.in million)	Y O Y (%)	BSBDA (Amount in Billion)	Y O Y (%)
March 2010	60.19	------	44.33	------
March 2011	73.13	21.50	57.89	30.59
March 2012	81.20	11.04	109.87	89.79
March 2013	100.80	24.14	164.69	49.90
March 2014	126.0	25.00	273.3	65.95
March 2015	210.3	66.90	365.0	33.55
March 2016	238	13.17	474	29.86
March 2017	254	6.72	691	45.78
March 2018	247	-2.76	731	5.79
March 2019	254.7	3.12	877.65	20.06
March 2020*	261.6	2.71	958.31	9.19
CAGR(%)	15.83	-----	35.98	-----

*Denotes provisional value

Table 2 embodies data regarding the number of basic saving bank deposit accounts through branches and the amount deposited in the basic saving bank deposit account over a period during 2010 to 2020. The number of basic saving bank deposit accounts have increased from 60.19 million in the year 2010 to 261.6 million in the year 2020 with growth rate in double digit up to the year 2016 after that it remained from 2.71% to 6.72% except in the year 2018 with a negative growth rate of -2.76%. The Compound Annual Growth Rate worked out 15.83%. The table further shows that the amount deposited in the basic saving bank deposit accounts has raised from □ 44.33 billion to □ 958.31 billion over a period of study under consideration. The growth of deposits in the basic saving bank deposit account remained above 20% during all the years except in the years 2018 and 2020. The CAGR of amount deposited in basic saving bank deposit account worked out 35.98% during 2010 to 2020.

Table: 3 Basic Saving Bank Deposit Account through Business Correspondents from 2010 to 2020

Year Ended	BSBDA (No.in million)	Y O Y (%)	BSBDA (Amount in Billion)	Y O Y (%)
March 2010	13.27	-----	10.69	-----
March 2011	31.63	138.36	18.23	70.53
March 2012	57.30	81.16	10.54	-42.18
March 2013	81.27	41.83	18.22	72.87
March 2014	116.9	43.84	39.0	114.05
March 2015	187.8	60.65	74.6	91.28
March 2016	231	23.00	164	119.84
March 2017	280	21.21	285	73.78
March 2018	289	3.21	391	37.19
March 2019	319.5	10.55	531.95	36.05
March 2020*	338.8	6.04	725.81	36.44
CAGR (%)	38.26	-----	52.47	-----

*Denotes provisional value

The position of number basic saving bank deposit accounts and the amount deposited in it through banking outlets without physical branches is depicted by the table 3. The number of basic saving bank deposit accounts has climbed from 13.27 million in 2010 to 338.8 million in 2020. Until 2017, the annual increase in the number of accounts remained above 21%, with a particularly high growth of 138.36% in 2011. The CAGR for the number of new accounts opened was 38.26%. The amount deposited in the basic saving bank deposit account has increased from □ 10.69 billion in 2010 to □ 725.81 billion in 2020 with a CAGR of 52.47 %. Deposit growth ranges from 36 percent to 120 percent per year, with the exception of 2012, when it was -42.18 percent. The amount deposited has grown at a compound annual growth rate of 52.47 percent during the study period.

Table: 4 The Aggregate Basic Saving Bank Deposit Accounts through Branches and Branchless mode from 2010 to 2020

Year Ended	BSBDA (No.in million)	Y O Y (%)	BSBDA (Amount in Billion)	Y O Y (%)
March 2010	73.45	-----	55.02	-----
March 2011	104.76	42.63	76.12	38.35
March 2012	138.50	32.21	120.41	58.18
March 2013	182.06	31.45	182.92	51.91
March 2014	243	33.47	312.3	70.73
March 2015	398.1	63.83	439.5	40.73
March 2016	469	17.81	638	45.16
March 2017	533	13.65	977	53.13
March 2018	536	0.56	1,121	14.74
March 2019	574.2	7.13	1,409.60	25.74
March 2020*	600.4	4.56	1,684.12	19.48
CAGR(%)	23.38	-----	40.79	

*Denotes provisional value

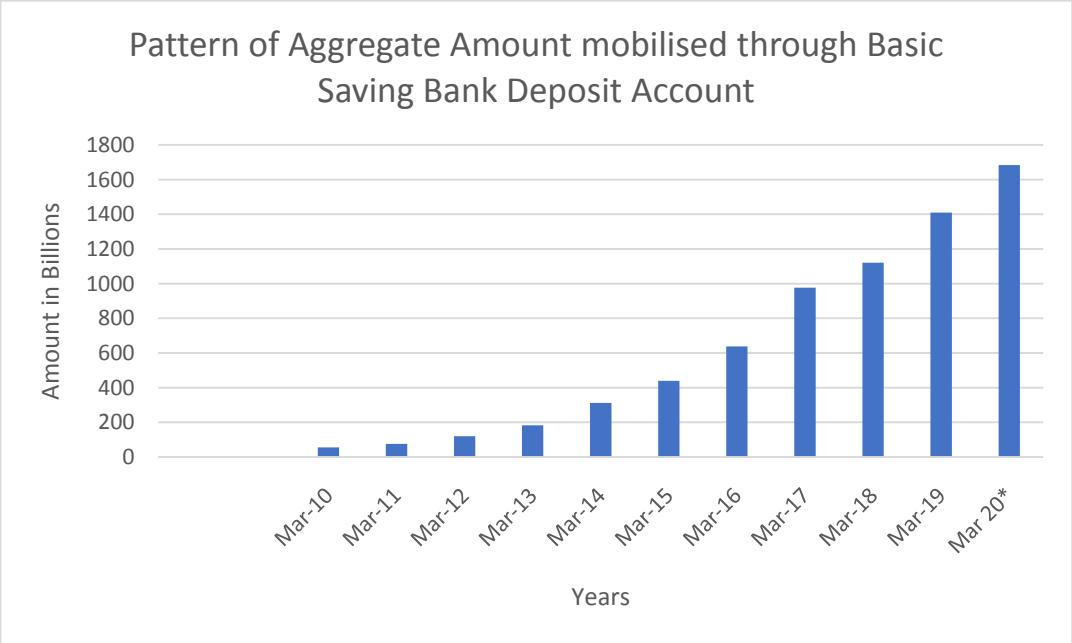

Figure 2

The number of basic savings bank deposit accounts and the sum deposited in them via banking outlets branches and branchless methods are shown in table 4. The number of basic savings bank deposit accounts has increased from 73.45 million in 2010 to 600.4 million in 2020 with a CAGR of 23.38%. The increase in BSBDA openings can be attributed to the government of India's drive under the Pradhan Mantri Jan Dhan Yojana. The table also shows that over a 11-year period, the amount deposited in basic saving bank deposit accounts increased from □ 55.02 billion to □ 1684.12 billion which is the significant growth. Throughout the study period, the deposit growth rate stayed over 15% with a CAGR of 40.79%. The amount deposited in basic saving bank deposit accounts is also shown by figure 2.

Conclusion

The analysis made in the present study indicated that the aggregate banking outlets have increased from 67,694 in the year 2010 to 5,99,217 in the year 2020. The year-on-year growth remained between 0.35% to 71.67% during the study period except in the year 2018 where it was -4.77% with a CAGR of 24.37%. The study found that the branchless mode of baking outlets has increased significantly during the study period. The number of basic saving bank deposit account through branches has grown 15.83% compounded annually whereas it grew 38.26% in case of branchless mode. The CAGR of amount mobilised through branches and branchless mode worked out 40.79 %. The research highlights that over a period of 11-year, the amount deposited in Basic Saving Bank Deposit Accounts significant increased from □ 55.02 billion to □ 1684.12 billion. The aggregate deposit growth rate of BSBD account stayed over 15% with a CAGR of 40.79% throughout the study period.

Banks, NBFCs, FinTechs, and other financial institutions are increasingly focusing on financial inclusion. Small Finance Banks have also been established to help migrant workers, low-income households, small businesses, and other unorganised sector entities have access to financial services. There are numerous routes for financial inclusion and microfinance today, such as universal banks, small finance banks, micro finance institutions, BCs, and so on. As a country that is committed to achieving universal financial inclusion at a reasonable cost, this is a watershed moment, and we should seize it.

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