Volume No:2, Issue No:11 (November-2017) ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

A Study on the Financial Inclusion in India

Kavitha Dasa
Flat no 202, Ammasani Residency
Near CS Brothers, Boduppal, Hyderabad-500039, India.

Abstract:
The present paper discusses about financial inclusion in India, it evolution over six decades and progress achieved so far. The paper also compares the financial inclusion in India with United States, United Kingdom, Germany, Russia, Brazil and China. The article concludes that, considering the vastness of the country, the progress is too small and banks and financial institutions need to synchronize all their energies towards financial inclusion because the development of the economy depends to a large extent on the extent of financial inclusion in the country.

Keywords: Financial Inclusion, Banks.

Introduction:

Over the past decade inclusive growth has been the priority in India. Inclusive growth becomes impossible without financial inclusion. Financial inclusion is also must for the economic development of the country. Without Financial Inclusion we cannot think of economic development because a large chunk of total population remains outside the growth process. Financial inclusion refers to delivery of financial system of an economy to its members (Chakravathy, 2010) [1]. The Rangarajan committee defined 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” (Rangarajan Committee, 2008). Financial Exclusion is the process by which a certain section of the population or a certain group of individuals is denied the access to basic financial services.

Most of the un-banked or financially excluded population of India lives in rural areas; nevertheless, there is also a significant amount of the urban population of India who face the same situation even with easy access to banks. Many of the financially excluded in these areas are illiterates earning a meager income just enough to sustain their daily needs. For such people, banking still remains an unknown phenomena or an elitist affair. It is easier for them to keep their money at their house or with some moneylenders and easily make immediate purchases (which make up most of their expenditure) rather than to follow the cumbersome process at banks. A lot of the financially excluded populations are at the mercy of moneylenders or pawn shop owners [2].

They should be made a part of the formal banking structure so that they could also have the benefits that the others enjoy. By making them financially inclusive, we are making their financial position less volatile. At the same time, we are treating them on an equal par with other members of the population so that they would not be denied of access to a basic service such as banking. 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. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the ‘super-included’, i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products [3].

Cite this article as: Kavitha Dasa, "A Study on the Financial Inclusion in India", International Journal of Research in Management Studies, Volume 2, Issue 11, 2017, Page 1-5.

Volume No:2, Issue No:11 (November-2017) ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

Evolution of Financial Inclusion:

India financial service is available to limited number of people, therefore government of India has taken few steps in three phase process which has tried to cover majority of the population under financial services [4].

First Phase (1969-1991):

In 1969, the banks were nationalized to spread bank's branch network in order to develop strong banking system which can mobilize resources/deposits and channel them into productive/needy sections of society and also government wanted to use it as an important agent of change. So, the planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner [5]. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met satisfactorily. Several initiatives were undertaken for enhancing the use of the banking system for sustainable and equitable growth.

These included:

1. Nationalization of private sector banks,
2. Introduction of priority sector lending norms,
3. The Lead Bank Scheme,
4. Branch licensing norms with focus on rural/semi-urban branches,
5. Interest rate ceilings for credit to the weaker sections and
6. Creation of specialized financial institutions to cater to the requirement of the agriculture and the rural sectors having bulk of the poor population.

Second Phase:

With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such no frills account so as to ensure greater financial inclusion [6].

RBI came out with a report in 2005 (Khan Committee) and subsequently RBI issued a circular in 2006 allowing the use of intermediaries for providing banking and financial services. Through such policies the RBI has tried to improve Financial Inclusion. Financial Inclusion offers immense potential not only for banks but for other businesses. Through an integrated approach the businesses, the NGOs, the government agencies as well as the banks can be partners in growth. RBI has realized that a push is needed to kick start the financial inclusion process. Some of the steps taken by RBI include the directive to banks to offer No-frills account, easier KYC norms, offering GCC cards to the poor, better customer services, promoting the use of IT and intermediaries, and asking SLBCs and UTLBCs to start a campaign to promote financial inclusion on a pilot basis [7].

Volume No:2, Issue No:11 (November-2017) ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

Third Phase - Rangrajan Committee:

Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and the remaining by 2015. This would require semi-urban and rural branches of commercial banks and RRBs to cover a minimum of 250 new cultivator and non-cultivator households per branch per annum. The Report of the Committee on Financial Inclusion Committee has also recommended that the Government should constitute a National Mission on Financial Inclusion (NaMFI) comprising representatives of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives [7].

The major recommendations relating to commercial banks included target for providing access to credit to at least 250 excluded rural households per annum in each rural/semi urban branches; targeted branch expansion in identified districts in the next three years; provision of customized savings, credit and insurance products; incentivizing human resources for providing inclusive financial services and simplification of procedures for agricultural loans. The major recommendations relating to RRBs are extending their services to unbanked areas and increasing their credit-deposit ratios; no further merger of RRBs; widening of network and expanding coverage in a time bound manner; separate credit plans for excluded regions to be drawn up by RRBs and strengthening of their boards [8].

In the case of co-operative banks, the major recommendations were early implementation of Vaidyanathan Committee Revival Package; use of PACS and other primary co-operatives as BCs and co-operatives to adopt group approach for financing excluded groups. Other important recommendations of the Committee are encouraging SHGs in excluded regions; legal status for SHGs; measures for urban micro-finance and separate category of MFIs.

Banks have been mandated to open 25 % of all new branches in unbanked rural centers.

Progress of Financial Inclusion in India:

Table-1 shows the progress of Financial Inclusion in India from March 2010 to June 2012 in various parameters. The table shows commendable progress in all the parameters like total number of branches, total number of rural branches, banking outlets in population greater than 2000 and banking outlets in population lesser than 2000, brick and mortar branches, banking outlets through BCs, no frill accounts and amount in no frill accounts. In spite of all the progress it has been observed that the progress is much less in comparison to the vastness of the country and this made RBI to come with mobile banking as a tool of financial inclusion [9].

Financial Inclusion: A cross country comparison across the World:

In table-2 we have cross country comparison of access to financial services to the proportion of population in United States, United Kingdom, Germany, Russian Federation, Brazil, China and India. In the various credit parameters, US tops, followed by UK and Russia. India is on par with China and in Credit to bottom 40% Brazil ranks very low. In health and agricultural insurance India’s population covered is very less but still on par with other developing countries like Brazil and China. In modes of making payments again US tops (65%) with UK (50%) following it and the wide gap between the UK and Germany which has only 7.2% people using cheques. India’s has 6.7% of population using cheques for making payments. Electronic payments are quite popular in US, UK, Germany and Brazil. In India only 2% of population makes use of Electronic medium for making payments.

Volume No:2, Issue No:11 (November-2017) ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

Coming to mobile banking India has relatively done well i.e.2.2%, while for other countries it is much less and for three developed countries data is not available [10].

Coming to savings in financial institutions India's population is 11.6% while for China it is 32%.

Table-1: Progress of Financial Inclusion in India

Progress of Financial Inclusion in India					
Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Quarter ended June 12	Progress April 11- March 12
Total No. of Branches	85457	91145	99242	99771	8097
No. of Rural Branches	33433	34811	37471	37635	2660
No. of CSPs Deployed	34532	60993	116548	120098	55555
Banking outlets in Villages with population >2000	37791	66447	112130	113173	45683
Banking outlets in Villages with population <2000	29903	49761	69623	74855	19862
Banking Outlets through Brick & Mortar Branches	33378	34811	37471	37635	2660
Banking Outlets through BCs	34174	80802	141136	147167	60334
Banking Outlets through Other Modes	142	595	3146	3226	2551
Total Banking Outlets	67694	116208	181753	188028	65545
Urban Locations covered through BCs	447	3771	5891	6968	2120
No Frill A/Cs (No. In million)	73.45	104.76	138.5	147.94	33.74
Amount in No Frill A/Cs (Amt In billion)	55.02	76.12	120.41	119.35	44.29

(Keynote Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012) Available at http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?id=749

Table 2: Financial Inclusion: A cross country comparison across the World

Cross Country Analysis: Select Indicators on Financial Inclusion - 2011 (Proportion of Population of Age 15+)							
Indicator Name	United Sta	United Kin	Germany	Russian Fe	Brazil	China	India
CREDIT:							
Loan from a financial institution in the past year	20.1	11.8	12.5	7.7	6.3	7.3	7.7
Loan from a financial institution in the past year, income, bottom 40%	17.6	11.1	12.3	6.3	3.5	7.7	7.9
Loan from a financial institution in the past year, income, top 60%	22.3	13.2	13.7	8.7	8.2	7	7.5
INSURANCE:							
Personally paid for health insurance	NA	NA	NA	6.7	7.6	47.2	6.8
Purchased agriculture insurance (% working in agriculture, age 15+)	NA	NA	NA	3.7	11.2	7.2	6.6
Payments							
Checks used to make payments	65.5	50.1	7.2	5.2	6.7	1.8	6.7
Electronic payments used to make payments	64.3	65.3	64.2	7.7	16.6	6.9	2
Mobile phone used to pay bills	NA	NA	NA	1.7	1.3	1.3	2.2
SAVINGS:							
Saved at a financial institution in the past year	50.4	43.8	55.9	10.9	10.3	32.1	11.6
Saved at a financial institution in the past year, income, bottom 40%	32.1	43.5	55.1	8.8	5.8	18.3	10.4

Source: Financial Inclusion – Issues in Measurement and Analysis (Keynote Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012) Available at http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?id=749

Conclusion:

In conlusion it can be said that finacial inclusion has picked up in India in the last few years with many new innovations like mobile banking, ultra small branches etc, but still it is far from adequate. Mobile banking has covered only 2.2% of total population. India has six lakh villages and number of bank branches are far from adequate. In India we find mobile phone connections even with the poor people but they are not aware of mobile banking. Banks need to create awareness amongst people through various means of mass communication like television channels, which have reached rural India.

Reference:

[1] Basu, Priya and others. 2004. Scaling-up Access to Finance for India's Rural Poor. World Bank. Draft Report.

[2] Beck, Thorsten, Asli Demirguç-Kunt and Ross Levine. 2004a. Finance and Poverty: Cross- Country Evidence, World Bank Policy Research Working Paper 3338.

[3] Beck, Thorsten, Asli Demirguç-Kunt and Ross Levine. 2004b. SMEs, Growth, and Poverty: Cross-Country Evidence, World Bank Policy Research Working Paper.

[4] Demirgüç-Kunt, A., T. Beck and P. Honohan (2008). Finance for All? Policies and pitfalls in expanding access, A World Bank Policy Research Report, World Bank, Washington.

[5] Financial Inclusion – Issues in Measurement and Analysis Keynote Address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012 downloaded from http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?id=749

Volume No:2, Issue No:11 (November-2017) ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

[6] K.C. Chakravarthy speech retrieved from http://www.bis.org/review/r111114d.pdf

[7] Rangarajan Committee (2008). Report of the committee on financial inclusion, Government of India.

[8] Satya R. Chakravarty and Rupayan Pal (2010). Measuring Financial Inclusion: An Axiomatic Approach" downloaded from http://www.cafral.org.in/docs/Measuring%20Financial%20Inclusion%20%20Satya%20R%20Chakravaty%20and%20Rupayan%20Pal.pdf

[9] Sridharan (n.d.): Hindu Business Line retrieved from http://www.thehindubusinessline.com/features/mentor/article2565331.ece?ref=wl_features

[10] "Use of CRM tools in E-BankingM-banking." Retrived from http://www.hiray.org.in/data/Use%20of%20CRM%20tools%20%20in%20E-BankingM-banking.pdf 28 Nov. 2012.