International Journal of Art & Humanity Science (IJAHS) e-ISSN: 2349-5235,
www.ijahs.com Volume 2 Issue 1, (Jan-Feb 2015), PP. 14-18

FINANCIAL INCLUSION - PROGRESS SO FAR AND ROAD AHEAD

Karambir Singh, Principal (off.)
Dashmesh institute of higher education,
Zirakpur, Distt. Mohali. (Punjab)
Ph. 09988095610,
Email. Karambir73@rediffmail.com

Abstract- Financial inclusion and inclusive growth are no longer just policy choices, but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic and social order, going forward. Still a large section of Indian society is deprived of basic financial facilities. Indian banking system, led by Reserve Bank of India is making an effort to wipe away the financial exclusion from Indian society. The present paper will take a stock of present financial inclusion status and the initiatives taken by the banks to bring more and more peoples into the ambit of formal financial structure. Efforts have also been made to make some suggestions so as to further the cause of financial inclusion.

Keywords- Financial inclusion, Self-help groups, financial system.

1. Introduction

Financial inclusion has been universally accepted as an important tool to alleviate poverty. Financial Inclusion is basically the delivery of banking services at reasonable cost to the underprivileged and unreached segment of the population. In order to boost economic development in the country, there is an urgent need to expand the reach of financial inclusion. By expanding financial inclusion, the equitable inclusive growth can be achieved in the country. Positive policy measures have already been initiated by the policy makers in this direction. Moreover, to further the goals of national importance it is essential that availability of banking and payment services to the entire population without discrimination be followed as the prime objective of the public policy.

2. Literature Review

In recent times, various measures have been taken by the government to expand the reach of banking sector in India but the term 'financial inclusion' gained importance in financial circles in India, especially after the Reserve Bank of India (RBI) initiated a series of measures in its credit policy for 2006-07 to expand the reach of organized banking sector so as include underprivileged and unreached segment of the society in the banking net.

While defining Financial Inclusion, Rangarajan Committee (2008) stated that: "Financial inclusion may be defined 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."[3] The term financial services is bound to include the services related to savings, loans, insurance, credit, payments, etc., which are being provided by the financial Institutions mainly banks. Moreover, the financial system is expected to provide its function of transferring resources from surplus to deficit units in the society. By providing these services, the aim is to help them come out of poverty.

In the opinion of Indian Institute of Banking & Finance (IIBF), "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society"[8]

A review of earlier literature related to finance and economic development established labor, capital, institutions, etc., as the factors for growth and development. There have been numerous researches related to finding out the role of financial systems in developing economies and there exists a great deal of consistency among economists regarding importance of financial development in prompting economic growth in the economy. Various researches have established that it is the development of financial sector which creates favorable conditions for growth in the economy either through supply side or demand side factors. According to Rajan and Zingales (2003)[2], development of the financial system contributes to the economic growth in the economy.

3. Statement of the Problem

Still, a vast section of the society is deprived of financial services being provided by the organized sector of the financial system. To expand the reach of financial inclusion, financial services should particularly reach the poor and socially excluded groups. Banks and financial institution have played a vital role in filling up this gap. This study is an effort to know the present financial inclusion position and banking initiatives towards spreading financial inclusion.

a) Objectives of the Study:

1. To Take a stock of present position of financial inclusion in India.
2. To look into the initiative taken by Government/RBI in respect to financial inclusion.
3. To give suggestions so as to further the cause of financial inclusion.

4. Findings of the study:

In the light of the above stated objectives of the study, Findings of the study can be enumerated as below:

a) Present position of financial inclusion in India.

Financial Inclusion is aimed at extending financial services to the large hitherto un-served population of the country so as to unlock the growth potential in the economy and to further the aim of inclusive growth in the economy.

Financial services or products rendered by banks, postal savings banks, credit unions, finance companies, microfinance institutions (MFIs), and other formal and quasi-formal non-bank institutions generally form the basis for measuring the financial inclusion.

Table: Position of Households availing Baking Services:

	As per census 2001			As per census 2011		
Households	Total Number of Households	Number of Households availing banking services	Percent	Total Number of Households	Number of Households availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78.865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246.692,667	144,814,788	58.7

Source: www.financialservices.gov.in

As depicted in the table 4.1.1, there is substantial increase in %age no. of households availing banking services, especially in case of rural households.

Table: Group wise Number of Branches as on 31-03-2013

Bank Group	Rural	Semi Urban	Urban	Metropolitan	Total
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector Banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional rural Banks	12722	3228	891	166	17007
Total	37953	27219	19327	17844	102343

Source: www.financialservices.gov.in

As depicted in table 4.1.2, Rural area is mostly served by Public sector banks whereas private banks are mostly concentrated in Semi-urban areas. Foreign banks have restricted themselves only to urban areas.

Table: Number of functioning branches of SCBs during last five years

As on March 31	Rural	Semi-Urban	Urban	Metropolitan	Total
2009	31476	19126	15273	14325	80200
2010	32493	20855	16686	15446	85480
2011	33905	23114	17599	16419	91037
2012	36656	25797	18781	17396	98330
2013	37953	27219	19327	17844	102343
Growth rate %	20.58	42.31	26.54	24.57	27.61

Source: www. Financialservices.gov.in.

As depicted in table 4.1.3, the major growth of branches has been noticed in Semi-urban areas i.e. 42.31%. The expansion rate of growth of branches in rural areas is least as only Public sector banks are concentrating on rural areas and i.e. too due to government guidelines.

Self help groups are the medium to extend financial inclusion in rural and backward areas. The government is using this medium to great extent to further the cause of financial inclusion. The table 4.1.4 depicts the data related self Help Group linkage programme.

Table: Self Help Group-Bank Linkage Programme **(Amount in Billions)**

Year (end March)	No. of SHGs linked during the year	Bank Loans During the year	Refinance Assistance during the year
2001-02	197653	5.45	7.97
2002-03	255882	10.22	14.19
2003-04	361731	18.56	21.24
2004-05	539365	29.94	30.92
2005-06	62-0109	44.99	41.60
2006-07	1105749	65.70	54.53
2007-08	1227770	88.49	70.68
2008-09	1609586	122.54	96.88
2009-10	1586822	144.53	128.62
2010-11	1196134	145.48	128.63
2011-12	1147878	165.35	184.80
2012-13	1219821	205.85	223.96

Source: Reserve Bank of India, Bulletin.
Note: Data relate to Commercial Banks, RRBs and Co-operative Banks.

As depicted in the table 4.1.4, there is a continuous increase in the self help groups linked and the loan amount extended to these groups by the banks.

b) The initiative taken by Government/RBI in respect to financial inclusion:

As per Census 2011, 58.7% households are availing banking services in the country. Scheduled Commercial Banks (SCBs) are having 102,343 branches in the country. Out of which, 37% of bank branches i.e. 37,953 branches are in the rural areas whereas 27,219 branches i.e. 26% of total branches are in semi-urban areas. In a way, branches in rural and semi-urban areas constitute 63 per cent of the total numbers of branches of Schedule commercial banks in India. In spite of such a good progress on the banking front, still a significant proportion of rural households are outside the fold of the organized banking system. To extend the reach of financial inclusion, Government and Reserve Bank of India (RBI) are initiating various initiatives from time to time. Some of these initiatives have been enumerated below:-

1. **Opening of Bank Branches in unbanked areas:** As per the guidelines issued by Government on Financial Inclusion in October 2011, banks have been advised to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. 3402 bank branches have been opened in such identified villages / habitations by the end of April, 2013. Out of it, 2,121 branches are Ultra Small Branches.
2. A**t least one bank account for each household:** Government has further advised the banks to fix the responsibility of service area bank in rural areas and in specific wards in urban area to ensure that every household in that area has at least one bank account.
3. **Business Correspondent Model:** With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion.
   According to the data maintained by RBI, as in December, 2012, there were over 1,52,000 BCs deployed by Banks. During 2012-13, over 18.38 crore transactions valued at Rs.16533 crore had been undertaken by BCs till December 2012.
4. **Swabhimaan Campaign:** Under "Swabhimaan" - the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs). About 40,000 such habitations have been identified to be covered under the extended "Swabhimaan" campaign.
5. **Setting up of Ultra Small Branches (USBs):** Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion.
   A USB would comprise of a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking

transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area. A total of over 50,000 USBs have been set up in the country by March, 2013.

6. **Banking Facilities in Unbanked Blocks:** All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van.
   As a next step it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.
7. **Direct Benefit Transfer (DBT) -** The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013 and would be extended to the entire country in a phased manner.
   The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts. About 75 lakh beneficiaries would be benefitted in these districts.
   Banks play a key role in implementation of DBT and this involves four important steps, viz.
   i. Opening of accounts of all beneficiaries;
   ii. Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper;
   iii. Undertaking funds transfer using the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS).
   iv. Strengthening of banking infrastructure to enable beneficiary to withdraw money.
8. **Pradhan Mantri Jan Dhan Yojana** Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. He categorically declared that a bank account for each household was a "national priority". On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.
9. **Expansion of ATM network:** Pursuant to Budget announcement 2013-14, Banks are required to ensure an onsite ATM in all the branches. Out of 34,668 onsite ATMs thus identified to be installed by Public Sector Banks, 1,097 ATMs have been installed by end of April, 2013.
10. **Further Steps taken by Reserve Bank of India (RBI) :** To strengthen the Banking Infrastructure –
    i. RBI has permitted domestic Scheduled Commercial Banks (excluding RRBs) to open branches in Tier 2 to Tier 6 Centres (with population upto 99,999 as per census 2001) without the need to take permission from RBI in each case, subject to reporting.
    ii. RBI has also permitted SCBs (excluding RRBs) to open branches in rural, semi urban and urban centres in North Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting.
    iii. Regional Rural Banks (RRBs) are also allowed to open branches in Tier 2 to Tier 6 centres (with population upto 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfill the following conditions, as per the latest inspection report:
    a. CRAR of at least 9%;
    b. Net NPA less than 5%;
    c. No default in CRR / SLR for the last year;
    d. Net profit in the last financial year;
    e. CBS compliant.

    iv. Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate atleast 25% of the total number of branches proposed to be opened during the year in unbanked Tier 5 and Tier 6 centres i.e. (population upto 9999) centres which do not have a brick and mortar structure of any SCB for customer based banking transactions.
    v. RRBs have also been advised to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centres).

5. Suggestions

(i) Financial Inclusion as a Policy Priority: Financial inclusion is an increasing priority for developing countries. Accordingly, financial inclusion must be continued as a policy priority for India in order to bring in the vast unbanked rural people into the process of speedier economic development.

(ii) Strategize the Provision of Bank Credit: Need is felt to strategize the provision of bank credit to the rural farmer households. Majority of the marginal farmer households are not at all covered by formal finance. As such, public sector banks and the cooperative banks in the rural areas have to be sensitized about the need for provision of timely and cheaper credit to these segments. RBI in consultation with NABARD should come out with a comprehensive strategy for revitalizing the quiescent rural credit mechanism.

(iii) Cover the Poor: It is imminent to encompass the tenant farmers, oral lessees, share croppers, marginal farmers with small uneconomical land holdings, agricultural laborers, rural artisans and people involved in making handicrafts, and also majority of weavers in the handloom sector.

(iv) Extensive Use of Cooperatives: A large number of Primary Agricultural Cooperative Societies (PACS) and primary cooperatives located in rural areas are not functioning effectively. Many of such organizations are in such districts where the DCCBs are defunct or moribund. Such PACS could provide valuable services to their members if they get access to a commercial bank. In view of these, there is a need to revitalize these cooperatives as per the Vaidyanathan Committee recommendations and use them extensively for financial inclusion in the rural areas.

(v) Procedural/Documentation Changes: It is inevitable on the part of the regulators to find out an easy way of procuring the documents for opening of bank accounts and availing loans. The present guidelines are more tedious and result in huge costs for the poor in accessing the banks for any kind of services.

(vi) Proactive Role of Government: State governments should be asked by the center to play a proactive role in facilitating financial inclusion. Issuance of official identity documents for opening bank accounts, creating awareness, involving district and block level functionaries in the entire process, meeting cost of cards and other devices for pilot studies/projects, and undertaking financial literacy drives are some of the steps that have been taken up by the state and district administration.

(vii) A Role for Rural Post Offices: Post offices in rural areas can be asked to provide their services in accelerating the financial inclusion activity. The Indian postman's intimate knowledge of the local population and the enormous trust that he commands can be of good use in the process of financial inclusion.

(viii) Effective Use of IT Solutions: The use of Information Technology (IT) enables banks to handle the enormously increasing volumes of transactions involving application processing, credit scoring, credit record and follow up. Further, the use of IT solutions for providing banking facilities at the doorstep holds the potential for achieving scalability of the financial inclusion initiatives

(ix) Adequate Publicity for the Project of Financial Inclusion:
In a huge country like India, there needs to be widespread publicity for popularizing the concept and its benefits to the common man. In this direction, a comprehensive approach has to be developed involving all the concerned at all levels to impress upon the need for financial inclusion for accelerating the economic growth in the country.

6. Conclusion

The steps taken by the Government and other financial agencies towards increasing the reach of financial inclusion has resulted into positive consequences which are helping the resource poor people to pull themselves out of abject poverty by accessing the formal financial services. The focus of all these efforts is on the resource poor common man as he is the one who is more often ignored in the process of economic development. Indeed, with the expansion of financial inclusion, a continued coordinated effort amongst the banks, the government and other related institutions is in progress so as remove poverty and initiate equitable inclusive growth. But still a lot is desired to be done on this front.

7. References:

[1] Mohan Rakesh (2006), Economic Growth, Financial Deepening and Financial Inclusion, Address by Rakesh Mohan, Deputy Governor, Reserve Bank of India at the Annual Bankers' Conference 2006, November 3, Hyderabad.
[2] Rajan R G and Zingales L (1998), "Financial Dependence and Growth", American Economic Review, Vol. 88, No. 3, pp. 559-586.
[3] Rangarajan Committee (2008), "Report of the Committee on Financial Inclusion", Final, January
[4] The Hindu Business Line (2008), "Commercial Banks Should Address Inclusion Issue",Tuesday, September 16.
[5] Agarwal Amol (2008), "The Need for Financial Inclusion with an Indian Perspective",Economic Research, March 3, IDBI Gilts, India.
[6] Financial Reports of RBI.
[7] http://financialservices.gov.in/banking/financialinclusion.asp
[8] http://www.iibf.org.in/scripts/iib_financeinclusion.asp