ISSN NO. 2320-5407

Journal homepage: http://www.journalijar.com
Journal DOI: 10.21474/IJAR01

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH

RESEARCH ARTICLE

Financial inclusion in Indian Perspective.

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Manuscript Info

Manuscript History:

Received: 14 February 2016
Final Accepted: 29 March 2016
Published Online: April 2016

Key words:
Financial inclusion, financial, Banking, below poverty line, direct benefit transfer.

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Abstract

Financial inclusion through banking system from top to bottom of the society has become the objective of the Governments of the world. The present paper makes an attempt to understand the concept of financial inclusion with the world and Indian scenario. The paper also discusses the initiatives of financial inclusion taken in India and the issues which remain as challenging in the way of financial inclusion. India is home to a big young unskilled population, 179.6 million people live below poverty line in India among which most of them reside either in urban slums or rural areas. Direct benefit transfer could control corruption up to certain extent but without proper training of employment generation and skill enhancement the credit facility to people will become a burden on both banks and individuals.

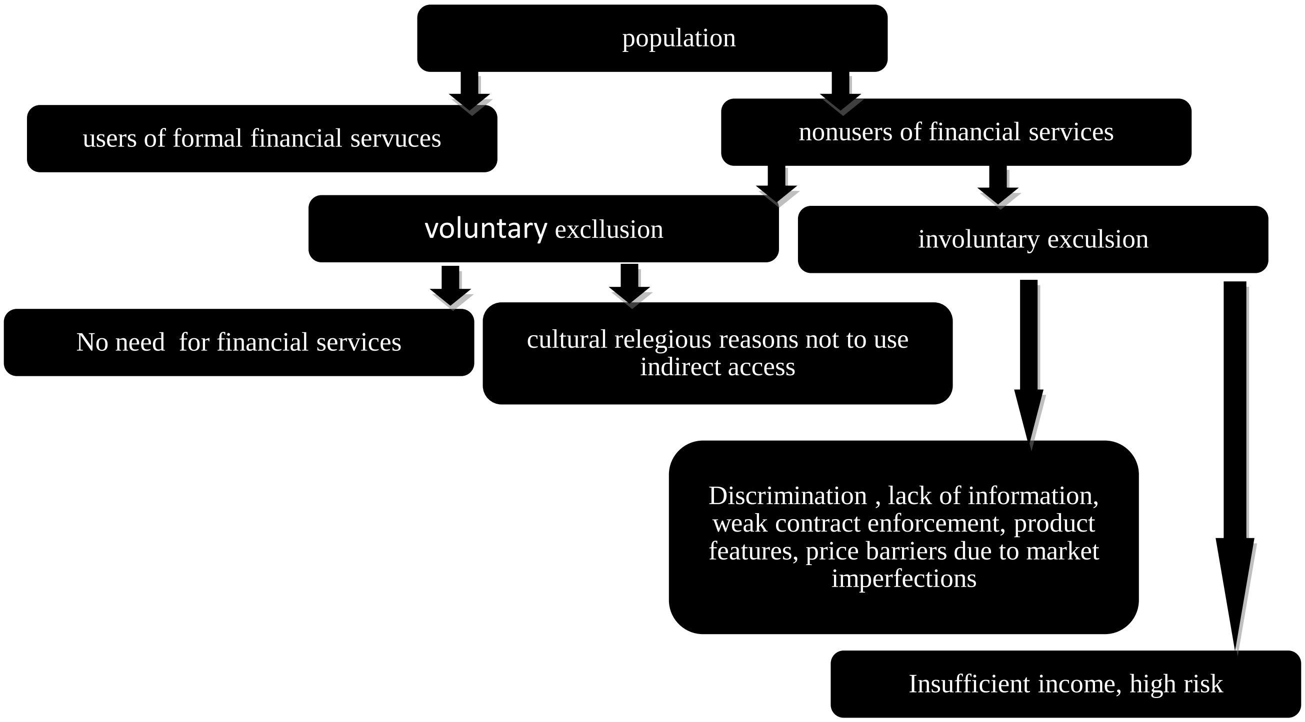
Introduction:-

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. Though India is world’s largest economy and fourth in terms of purchasing power parity and huge number of millionaires but its growth is challenged by disproportionate distribution of income and gap between rich and poor as wealth of the country is shared by only 10% Indian population. 24% of Indian population is still living below poverty line and as per World Bank survey in 2012 only 35% in India had access to a formal bank account and only 8% borrowed from institutional and formal sources. To combat the situation financial inclusion has been important policy goal for quite some time and though Pradhan Mantri Jan-Dhan Yojana has helped a majority of poor households in India open bank accounts, there are many activities of financial inclusion which is still required. Exclusion of the urban poor is one of the most important issues which require attention. The other thing which is lacking is credit facility as it is not even available to 10% of the current lot of customers.

The term financial exclusion was first coined in 1993 by geographers when bank branch closure occurred in several countries and in 1993 the term financial exclusion was first used in border sense which implied the constrained access to mainstream financial services of people. In 1995 the World Bank said that everyone should have access to bank transactions, saving account, credit facility, insurance services and pension plan. Financial exclusion could be viewed in two ways including supply of financial services and demand of financial services. Supply refers to the finance option like loan facilities, credit cards, debit cards, saving accounts etc and demand refers to the acceptability of financial products by the people. Access to financial services and use to financial services are two separate things as access refers to the timely availability of adequate financial services at affordable cost and use refers to actual consumption of financial services.

Huge disparities is found in the use of financial services in both developed and developing economies as it is almost double percentage wise in developed nations. Around 44% people regularly use bank accounts and in developing nations only 23% people regularly use bank. In developing nations the problem of financial inclusion is very deep and is deeper among people who are poor, young, unemployed people, out of workforce, less educated or live in rural areas. All over the world only 2.5 billion adults use formal financial services which are about half of the world's population and these nonusers live in Africa, Asia, Latin America and Middle East. 1.2 billion Adults of Africa, Asia and Middle East who use formal financial services live on less than $5 per day.

According to Global Findex survey based on responses from more than 70000 adults across the world, the lack of money is the main reason behind not having a formal bank account and the other reasons include too expensive, too far away and lack of documentation. Exclusion is also the consequence of structural factors and non-availability of products suiting the requirements, stringent documentation and collateral requirements.



Importance of financial inclusion:-

Financial inclusion benefits the entire national financial system which leads to economic growth as the savings are mobilized in productive investments. It brings the large section of the society under formal financial network and income and consumption growth is increased. It provides multiple effect of the economy through higher savings from vast segment of the society and people from the bottom of the society get access to formal saving arrangements which result in expansion of credit and investment by banks. It leads to improvement in financial condition and living standards of improvised sector of the society as they are able to generate income and financial assets which enable them to build resilience to meet livelihood shocks. Government easily transfer welfare benefits to disadvantaged groups of people in a leakage proof manner. The monetary policy of the country becomes effective which enhances the prospects of non-inflationary growth. It also reduces the reliance on informal sector and enables a country against anti-money laundering and combating of financing terrorism. It reduces the chances of dependence upon unreliable and expensive finance and promotes financial literacy among weaker section of the society through financial advices. It will be also helpful in lean period of a nation as the history of financial transactions could be used as an asset and that will enable the access of financial services. It also promotes innovative cost effective delivery of financial products through technology.

International experience in Promotion of Financial Inclusion:-

Kofi Annan, former UN secretary said on 29th December 2003, "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit, or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives." During last decade in many researches it is found that there is a direct link between financial exclusion and poverty prevailing in developing nations. Hence financial Inclusion has become core objective of many developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." Financial inclusion is different in different countries and in terms of financially excluded households India ranks second after China.

In UK a financial inclusion fund is established to promote financial inclusion. The country has identified three areas for financial inclusion including access to banking, access to affordable credit and access to free face to face money advice. A post office card account is create in UK for those who are unwilling to access a basic bank account. Community learning initiatives is also introduced to promote financial literacy. In USA, civil rights law, 'Community Reinvestment Act' promotes no discrimination for low and moderate income groups and the law makes it necessary for each banking institute for low cost banking services. In Bangladesh, Gramin bank works on providing access to credit and deposit services for low income households. The country also provides necessary space for NGOs too. Even in Sri Lanka and Pakistan the Governments have resorted to nationalization of banks.

Select Indicators of Financial Inclusion-Cross Country Analysis- 2011:-

Table 1: Select Indicators of Financial Inclusion, 2011

		Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
S.No	Country	Per 1000 KM		Per 0.1 Million		as % to GDP	
1	India	30.43	25.43	10.64	8.9	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Swtzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

Country	No. of branches	No. of ATMs	No. of branches	No. of ATMs	Bank credit	Bank Deposits
	Per 1000 Km		Per 0.1 million		(as percent of GDP)	
India	30.43	25.43	10.64	8.9	68.43	51.75
China	1428.98	2975.05	23.81	49.58	433.96	287.89
	Brazil	7.93				

Source- World Bank, financial access survey,* data refers to 2009:-

The United Nations defines the goals of financial inclusion as:-

• Access for all households to a full range of financial services, including savings or deposit services, payment and transfer services, and credit and insurance, at a reasonable cost
• Clear regulation and industry performance standards governed by sound and safe institutions
• To ensure continuity and certainty of investment Financial and institutional sustainability is required.
• Competition to ensure variety and cost effective services for customers

In United Kingdom financial inclusion task force has identified three areas for financial inclusion including access to baking, access to affordable credit and access to free face to face money advice. In USA, a civil law ‘Community reinvestment Act’ prohibits discrimination between low and high income neighborhoods and New York Banking Department ensures low cost banking services in each banking institutions. In Bangladesh Grameen Bank provides credit services and deposit services to low income households. In Sri Lanka and Pakistan the Government resorts to nationalization of banks.

A Brief Background of Financial Inclusion in India:-

Most of the developed countries implemented policies of financial inclusion and foucused on subsidized credit especially to people residing in rural areas and in 1950s India too implemented the same in the country including IRDP (integrated rural development program) with the belief that capital could increase income and reduce poverty. The police makers also believed that every household has a project to invest but in reality people in India have very low awareness about finance and in other words they are either financially illiterate or the literacy level is very low and with improves access to credit facility make them vulnerable to excessive financial risk and most products offered by banks are not suitable to the needs of the improvised sector.

Present Scenario of Financial inclusion in India:-

India is an emerging economy but financial inclusion is still a question of both access to financial products and also the knowledge about their transparency. Only about 55% of the population in the country has a deposit account and around 9% has credit accounts with banks. According to data from Reserve Bank of India (RBI), India is the home to largest number of unbanked families (more than 145 million). There is only one bank branch per 14,000 people. The total number of villages in the country is estimated to be more than around 6 Lakh, but the number of scheduled commercial banks (SCBs) and Regional Rural Banks (RRBs) stand at only 33,495.

A huge percentage of Indian population depends directly and indirectly on agriculture and as per 2011 census report 24% of Indian population is cultivator. 60% of people in India are either semi literate, semi skilled or unskilled and illiterate and they only contribute 22% to the Gross Domestic product of the country. The unbalanced growth in the country has lead to exclusion of 51% of the population including landless labors, self employed people, marginal farmers, urban slum dwellers, unorganized sector enterprises and socially excluded groups, from basic financial services.

In India there is only one bank branch per 14000 people and for about 6 lakh villages, rural branches of SCBs including RRBs numbered only 33495. Only 20% of the population is having any kind of life insurance and 9.6% of the population has no life insurance coverage. 18% of people have debit cards and less than 2% had credit cards. Overall 73% of farmer households have no access to formal sources of credit.

There is region wise disparity in terms of financial inclusion and in central, northern and eastern region financial exclusion is more acute.

Table 4.5 Financial Inclusion and Access Progress

No. of Scheduled Commercial Banks				Basic Savings Bank Deposit Accounts Opened			
Mar 2006		Mar 2013		Mar 2010	Mar 2013	Mar 2014	
68,681		102,343		73.45	182.06	242.96	million
No. of Rural Branches				Expansion of the ATM Network			
Mar 2006	Mar 2010	Mar 2013	Mar 2014	Mar 2010		Mar 2013	
30,572	33,378	40,837	46,126	60,153		114,014	
No. of Villages Covered				Rural ATMs			
Mar 2010	Mar 2013	Mar 2014	Population	Mar 2010		Mar 2013	
27,353	74,414	n/a	>2,000	5,196		11,564	
26,905	65,234	183,993	<2,000				
Total Bank Outlets				Kisan Credit Cards Issued*			
Mar 2010	Mar 2013	Mar 2014		Mar 2010	Mar 2013	Mar 2014	
67,964	268,454	383,804		24.31	33.79	39.94	million
Bank Outlets by Business Correspondents (BC)				General Credit Cards Issued			
Mar 2010	Mar 2013	Mar 2014		Mar 2010	Mar 2013	Mar 2014	
34,316	227,617	337,678		1.39	3.63	7.43	million

ATM = automated teller machine.

*for small farmer credit requirements

Source: Compiled by author based on Joshi (2014a, 2014b).

Financial Exclusion Across states

Extent of Financial Exclusion	States
Above 75%	Meghalya, Arunachal Pradesh, Uttrakhand, Assam, Mizoram, Manipur, Jharkhand
50% to 75%	Bihar, Chattisgarh, Himachal Pradesh, Jammu & Kashmir, Nagaland, Odisha, Sikkim , Tripura , Uttar Pradesh
25%-50%	Karntaka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, West Bengal
Below 25%	Andhra Pradesh

Source- Indian Bank: Banking the unbaked

In India 256 districts out of 640 districts which is 40% of the total districts spread over 17 states and one union territory have critical exclusion threshold in respect of access to formal credit. In Meghalya, Arunachal Pradesh, Uttrakhand, Assam, Mizoram, Manipur, Jharkhand, the extent of financial exclusion in over 75%, in Bihar, Chattisgarh, Himachal Pradesh, Jammu & Kashmir, Nagaland, Odisha, Sikkim , Tripura and Uttar Pradesh, the financial exclusion extent is 50% to 75% , in Karntaka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, West Bengal, the financial exclusion extent is 25% to 50% and in Andhra Pradesh the financial exclusion extent is below 25%.

Financially excluded people in India are mostly:-

- In India the financially excluded sections are mostly-
- Marginal famers
- Women
- Migrants
- Landless labors
- Urban slum dwellers
- Senior citizens
- Socially excluded groups and ethnic minorities
- Unorganized sector enterprises and self employed

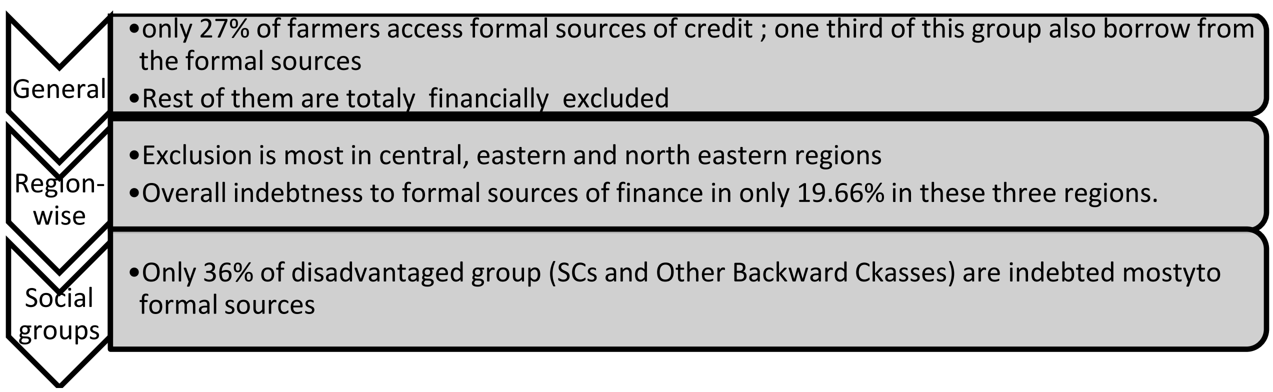
Characteristics of financially excluded people:-

The financially excluded people in India are either financially illiterate or less financially educated. They lack understanding of financial products and services and it becomes very difficult for them to avail available financial services for their betterment. Many illiterate people go away from financial services due to complex documentation. The people who have low and cyclic variable income like farmers and labors and people with low income and migrant life styles also tend to be financially excluded. Banks find difficult to extend credits to people who have no credit history and absence of formal and verifiable identity also drag people towards financial exclusion. Mostly poor people require credit for their personal use including marriages, celebrations, medical emergencies etc which makes difficult for them to take loans from formal institutions.

Financial Exclusion in India:-

As per RBI, 41% of the population in India is still unbanked among which 40% urban areas and 61% in rural areas, 63% in north eastern regions and 59% in eastern regions. Only 14% of adult population have loan accounts among which 9.5% in rural areas and 14% in urban areas, 7% in North eastern regions and 8% n eastern regions. There 203 million households in India

Very low percentage in people having bank accounts in annual income less than Rs.50, 000 bracket in urban and rural area. The people with higher income are more financially included but financially exclusion exists in higher income bracket too.



As per 59th NSSO survey, in general only 27% farmers have access to formal credit sources in Indian and one third of them also borrow from non formal sources. Rest of the farmers resort to non-formal sources in other words around 73% farmers are totally financially excluded. Region wise huge disparity is found in India. In central, eastern and north eastern region the scenario of exclusion is acute and only 19.66% people borrow from formal sources in these regions. The country is divided into social groups and only 36% of disadvantaged groups including SCs and OBCs, are indebted to formal sources

Financial Inclusion initiatives in India:-

Financial inclusion process in India can be divided into three phases.

First Phase (1960-1990):-

In the First Phase (1960-1990), the government focused on channeling of credit to the neglected sectors and weaker sections of the economy.

Second Phase (1990-2005):-

During second Phase (1990-2005) focused was on financial reforms under which strengthening the financial institutions was done. Self help group linkage program became instrumental in this phase. In 1990 Kisan credit cards (KCCs) were introduced for providing credits to farmers. In 1992, National Bank for Agriculture and Rural Development (NABARD) introduced SHG-bank linkage program which had policy support from Reserve Bank. It was intended to facilitate collective decision making by the poor and provide ‘door step’ banking.

Third Phase (2005 onwards):-

In the third Phase (2005 onwards), the 'financial inclusion' was clearly included in policy objective and thrust was on providing the facility of safe savings deposits through 'no frills' accounts.

The steps taken by RBI for greater financial inclusion:-

Opening of no-frills accounts: Most of the people face problems in having bank account due to money requirement at the initial stage and now RBI has introduced no frills account which requires nil or low minimum balance.

Business correspondents (BCs) in banks: BCs and BFs (business facilitators) are intermediaries for providing banking services. .As per BC model banks are able to provide door step deliveries including cash-in cash-out transactions, From September 2010 companies are also allowed to work as BCs.

Simplification know-your-customer (KYC) norms: in August 2005, for small accounts, KYC requirements for opening bank accounts were relaxed; it can now be opened on the basis of introduction of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number

General Credit Card:-

RBI has directed banks to introduce general purpose credt card facility up to Rs.25000 at semi urban and rural branches. The scheme provides easy and hassle free credit to poor and disadvantaged. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit.

Simplified branch authorization:-

Domestic scheduled commercial banks can open branches in 3 tier and 4 tier cities and in Sikkim and north eastern states under general permission. Commercial banks could open branches and there is no need to take permission for this from RBI.

Opening of branches in unbanked rural centres:-

As per April monetary statement at least 25% of the bank branches need to be opened in unbanked areas.

Use of information and communication technology:

With the use of biometrics now illiterate customers could have the account easily and without any security problem. It has infused confidence in the minds of customers.

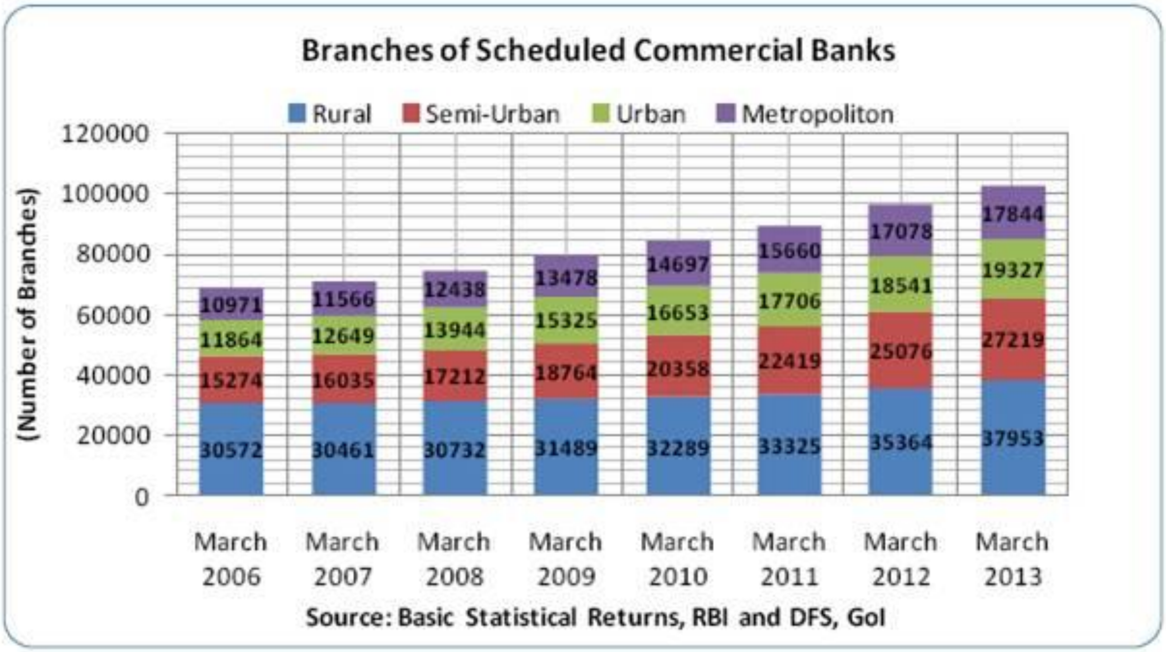
Adoption of Electronic Bank transfer:-

Through information and communication technology electronic bank transfer is possible and the welfare schemes benefit could be easily transferred to the account of beneficiaries. It reduces the transaction cost and also minimizes the chances of fraud and corruption.

Pradhan Mantri Jan-Dhan Yojana (PMJDY):-

PMJDY is a financial inclusion scheme which was announced by PM on Independence Day 2014 and was launched on 28th August. Though on its inaugural day 1.5 Crore bank accounts were opened under this scheme and 12.58 crore accounts were opened, with around ₹10590 crore by 28 January 2015, were deposited under the scheme. It has also an option for opening new bank accounts with zero balance, however, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria. Under the scheme the account holder will have interest on deposit, Accidental insurance cover of Rs.1.00 lac, Life insurance cover of Rs.30,000/-, easy transfer of money, overdraft facility of Rs. 5000 after completion of 6 months only one account per household, preferably lady of the household, access to insurance products , accidental insurance cover and pension.

Chart 4: Branches of Scheduled Commercial Banks



Progress under Financial Inclusion Plans, All SCBs including RRBs

Sr. No.	**Variable**	**Mar-13**	**Mar-14**	**Absolute Change (2013-14)**
1	Banking Outlets in Villages - Branches	40,837	46,126	5,289
2	Banking Outlets in Villages – Branchless Mode	2,27,617	3,37,678	1,10,061
3	Banking Outlets in Villages – Total	2,68,454	3,83,804	1,15,350
4	Urban Locations covered through BCs	27,143	60,730	33,587
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	101	126	25.2
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	165	273	108
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	81	117	35.7
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs.billion)	18	39	20.7
9	BSBDA Total (in million)	182	243	60.9
10	BSBDA Total (Amt. in Rs.billion)	183	312	129
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	4	6	2
12	OD facility availed in Basic Savings Bank Deposit Account (Amt. in Rs. billion)	2	16	14.5
13	KCCs-Total (No. in million)	34	40	6.2
14	KCCs-Total (Amt. in Rs. billion)	2,623	3,684	1,061.0
15	GCC-Total (No. in million)	4	7	3.8
16	GCC-Total (Amt. in Rs. billion)	76	1,097	1,021.0
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	250	329	-
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	234	524	-

Note : Absolute change could be slightly different as numbers have been rounded off to million/billion.

Challenges in Financial inclusion-

Even as the Prime Minister's Jan Dhan Yojana (PMJDY) has helped a majority of poor households in India open bank accounts, there are many activities of financial inclusion still pending fulfillment. In urban territories there is huge number of urban poor who go unnoticed, unreported and unattached. Thus it is important to include them in the financial inclusion agenda. Another issue plaguing the banking system is the lack of credit available to those who had opened accounts under the financial inclusion agenda even before PMJDY came into being. Not even 10% of the customers have credit facility and it could be said that in case of opening accounts financial inclusion exists but in case of extending credit financial exclusion exits for the same customer. Frequent loan waivers by the politicians are not good as it gives the people a habit of taking loans and spending on other than income generation avenues. India as huge population who is young but most of the youth is unskilled and for skilling them around Rs. 60000 to Rs. 70000 is required which is only possible through bank loans in such condition the government has to check the repayment terms and make the youth spend the money in skill enhancement and employment. There is also need to launch multiple products to make financial inclusion viable.

Zero balance, free infrastructure and over draft facility under **PM Jandhan Yojna** may result I duplication as many people who already have bank accounts may get open a new bank account under the scheme to avail insurance cover and overdraft facilities. However the overdraft facility is left totally over the banks and the banks will extend the facility with the people who have satisfactory transactions. In such condition it will difficult for many people to get the facility as banks will avoid NPAs. The claimed accidental insurance is a non-existing scheme as the Rupay card holders have got no legal paper for any such accidental insurance.

Conclusion-

It is clear from the above discussion that in India a huge number of people are still financially excluded and they are either suffering with poverty or both illiteracy and poverty. Credit facility is still away from them and without enhancing financial literacy and training for employment generation and skill development all the efforts of financial inclusion will turn into a business of heavy burden of loans on the shoulders of both banks and customers and loan heavy loan waivers by politicians which will actually harm the economy and move the country towards a different type of financial exclusion where the loans will be misused and the dream of poverty alleviation will remain a dream.