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FINANCIAL INCLUSION - CURRENT STATUS, GROWTH, MEASURES & CHALLENGES OF INDIA

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Abstract
A vast segment of India's population exists on the margins of India's financial system. There is growing concern about people being 'under-banked'. Financial inclusion is important priority of the country in terms of economic growth and development of society .It enables to reduce the gap between rich and poor .It helps to channelize money-flow to the economy. It ensures people who are unable to access financial system so far can access it with ease. The paper discusses the role of financial inclusion in India and how the different stakeholders play an important role in developing the whole initiative. It is concluded that financial inclusion shows positive and valuable changes because of change in strength and technological changes. Therefore, adequate provisions should be inherent in the business model to ensure that the poor are not driven away from banking. This requires training the banks for front staff and managers as well as business correspondents on the human side of banking.

Key Words: Sustainable Development, Inclusive Growth, Financial Access, Financial Exclusion.

1. Introduction

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one percent (RBI, 2011).

Financially excluded people consistently, depend on money lenders even for their day to day needs, borrowing at excessive rates to finally get caught in a debt trap. In addition, people in far –off villages are completely unaware of financial products like insurance, which could protect them in adverse situations. Therefore, financial inclusion is a big necessity for our country as a large chunk of the world's poor resides here. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. A nation can grow economically and socially if its weaker sections can turn out to be financial independent. Access to finance is defined by many in the extant literature .The Rangarajan committee on financial inclusion (2008) defines it as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker section and low income groups at an affordable cost"

In India, getting the poor to bank has been difficult, there by leaving financial inclusion elusive. Technology is the key to financial inclusion. It can reduce costs significantly and can take banking to the masses. However; all technologies are not suitable for financial inclusion due to issues of affordability, accessibility, security, and privacy. In the last decade, mobile phone technology has emerged as the most promising and well suited channel for financial inclusion. The use of mobile phone for inclusive finance is very popular in countries where most of the population is unbanked or under banked. The Indian government has also realized that the mobile phone can be an important mode for the propagation of financial inclusion in the country. The deep penetration of the mobile to the poorest sections has opened up possibilities of their inclusion through this technology.

2. Objectives

1. To examine the current status of financial inclusion in India
2. To assess the growth of financial inclusion in India.
3. To highlight the measures taken by Government of India and RBI for promoting financial inclusion.
4. To identify the challenges faced by the country for strengthening financial inclusion.

3. Review of literature

Financial inclusion has drawn wider attention of the academic researchers and policy makers in view of its important role in aiding economic development of the resource poor developing economics. In this review of literature, findings of some of the scholarly articles are presented below.

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Roy (2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in remote corner of the country. Rules and regulations have been simplified .The study also said that banking industry has shown tremendous growth in the volume during last few decades.

V.Ganesh kumar (2013) in his study on financial inclusion noted that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in India.

Garg & Agarwal (2014) attempted to study financial inclusion and financial exclusion and its importance for overall development of nation and the society. They also examined various measures taken by RBI, GOI and other banks for improving financial inclusion in India. Analyses of past years progress and achievements and concluded that even though many efforts are being made by Government, Financial Institutions and others, the efforts are not yielding the expected result. Innovative products, out of the box service models, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted, Financial Inclusion Program.

Bagli & Dutta, P. (2012) studied the relative importance of the indicators of financial inclusion. They also developed a complex index (Rotated Principal Component Analysis) of financial inclusion for each state in India. They also tried to analyze the relationship between human development and financial inclusion. They concluded that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. There is a high disparity between the Indian states regarding financial inclusion. They also added that there is high degree of association between human development and financial inclusion in India.

Kumar & Venkatesha (2014) attempted to study about financial inclusion using PMJDY. They also tried to list out the negative implication of PMJDY. They concluded that it was one of the greatest steps ever taken to eradicate poverty is financial inclusion through PMJDY. For the success of any scheme constant review and regular check is very much essential. Successful implementation would not only reduce poverty but also puts a check on corruption.

4. Research design and Methodology

This study is exploratory in nature. In accomplishing the objectives of the study, data has been collected from secondary source. The secondary data is composed of the literature available in different scholarly research articles belonging to several national and international journals, business magazines, committee reports, and RBI reports. The data collected for a period of 6 years from 2009-2010 to 2014-2015.

5. Empirical Results and Discussion

5.1 Financial Inclusion Current Status

The level of financial inclusion in India can be measured based on three tangible dimensions i.e. branch penetration, credit penetration and deposit penetration. Among the three dimensions of financial inclusion, credit penetration is the key problem in the country as the all India average ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply. The highlights of financial inclusion for the year 2014-2015 are given in the below table no: 1.

Table No 1: Financial Inclusion 2014-2015

Banking Outlets in Villages – No: of Branches	49,571
Banking Outlets in Villages – No: of Branchless mode	504,142
Banking outlets in villages-Total	553713
Basic savings bank deposit A/c through branches	210.3
Basic savings bank deposit A/c through branches	365
Basic savings bank deposit A/c through branches BCs	187.8
Urban locations covered through BCs	96847
Basic savings bank deposit A/c through branches BCs	74.6
Basic savings bank deposit accounts Total (No. in billions)	398.1
Basic savings bank deposit accounts Total (Amt .in billions)	439.5
Over draft facility availed in Basic savings Bank Deposit accounts	7.6
Over draft facility availed in Basic savings Bank Deposit accounts	19.9

KCCs-(No. in millions)	42.5
KCCs-(Amt. in millions)	4382.3
GCC-(No. in millions)	9.2
GCC-(Amt in billions)	1301.6
Information (and communication technology A/Cs-BC-Transaction.(No. in million) during the year)	477
Information (and communication technology A/Cs-BC-Transaction.(Amt. in millions)during the year)	859.8

Source: RBI Anuual Report 2014-2015

Other highlights of financial inclusion in India 2014-2015

- The Reserve Bank of India continued with its efforts to ensure extension of banking facilities to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allotted to banks for coverage under the ongoing Phase-II of the roadmap
- Pradhan Mantri Jan Dhan Yojana (PMJDY) - The Government of India launched PMJDY on August 28, 2014, for extending formal financial services to the excluded population.
- A financial inclusion conference was organized by the Reserve Bank in Mumbai on April 2, 2015. The Prime Minister encouraged the Reserve Bank to prepare a roadmap for achieving financial inclusion objectives by setting targets in a phased manner till the centenary year of the establishment of the Reserve Bank
- Simplifying Credit Dispensation-SCBs have been advised to dispense with no due certificate from individual borrowers (including SHGs and JLGs) for all types of loans, irrespective of the amount involved. Banks have been encouraged to use an alternative framework of due diligence for credit appraisal.
- Financial Literacy Camps-Apart from direct initiatives; the Reserve Bank's efforts to expand financial literacy are channelized through banks. Almost 1181 operational financial literacy camps were organized in the financial year and it is reported that 5,238,358 people attended the camp.

5.2 Comparison of the Growth of Financial Inclusion from the Financial Year 2009-2010 to 2014-2015

An attempt has been made to study the progress of financial inclusion over the years in shown in the table no: 2

Table No 2: Financial Inclusion Progress

Particulars	March 2010	March 2011	March 2012	March 2013	March 2014	March 2015	CAGR(% per year)
Banking outlets in villages-Total Number	67694	116208	181753	268454	383804	553713	41.95
Basic savings bank deposit A/c through branches (No. in millions)	60.19	73.13	81.2	100.8	126	210.3	23.18
Basic savings bank deposit A/c through BCs (No. in millions)	13.3	31.63	57.3	81.27	116.9	187.8	55.47
Urban locations covered through BCs	447	3771	5891	27143	60730	96847	145.07
Basic savings bank deposit accounts Total (No. in billions)	73.45	104.76	138.5	182.06	243	398.1	32.54
Over draft facility availed in Basic savings Bank Deposit accounts (No. in millions)	.18	.61	2.71	3.95	5.9	7.6	86.61
KCCs-(No. in millions)	24.3	27.11	30.24	33.79	39.9	42.5	9.76
GCC-(No. in millions)	1.4	1.7	2.11	3.63	7.4	9.2	36.86
Information and communication technology A/Cs-BC-Transaction.(No. in million)	26.5	84.16	155.87	250.46	328.6	477	61.89

Source: Compiled from RBI Annual reports

It was observed from table-1 that, during 2010 to 2015,total banking outlets in villages have a Combined Annual Growth Rate(CAGR) of 41.95% per year and it is increased by 4,86,019 when compared with that of the previous year. This shows that due to financial inclusion, the number of bank branches have a significant growth in their number.

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Basic saving bank deposit accounts through branches and through business correspondent (BC) have a CAGR of 23.18% 55.47% respectively. And the urban locations covered through BC also show a very positive trend of CAGR being rated the highest percentage-145.07%. The basic saving deposit accounts in total had an increase of 324.65 million within this 6 years.

The Kisan credit Card (KCC) and General Credit Card (GCC) also increased but the growth of GCC is more than that of KCC. Information and communication technology A/Cs-BC-Transaction (ICT) is also increasing day by day showing CAGR of 61.89 which is really noteworthy.

In a nutshell, we can see an overall positive picture of financial inclusion in our country and it is showing an increasing trend year by year.

5.3 Measures Taken by Government of India and RBI

The Government of India, in concert with the RBI, has embarked upon the mission of fostering inclusive growth in the country through the process of financial inclusion by insuring access to appropriate financial products and services needed by vulnerable group such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner. Though a number of measures have been initiated by the GOI, RBI and NABARD, the status of financial inclusion in the country still needs more support. (Garg & Agarwal, 2014)[1] presented the measures based on different approaches. These measures are presented in Table No: 2

Table No 2: Measures Taken by GOI, RBI and NABARD and Other Banks

Approaches	Measures
Product Based Approach	• No- Frills Account (NFAs) • Kisan Credit cards (KCCs) • General Purpose Credit Cards (GCC) • Saving account with Overdraft facility
Bank Led approach	• Self Help Group - Bank Led Initiative (SLBP) • Business Facilitators (BFs)/Business Correspondents (BCs)
Regulatory Approach	• Simplified KYC Norms • Simplified bank saving account opening • Bank branch authorization
Technology Based approach:	• Mobile Banking • Kiosk / ATM based banking • Branchless Banking • Aadhaar Enabled payment services
Knowledge Based Approaches	• Financial Stability Development Council (FSDC) which focus on financial inclusion and financial literacy • Guidelines on the financial literacy Centres (FLC) by RBI
Government Initiatives	• Induction of SHG-2 • Women SHGs Development Fund • Swarnjayanti Gram Swarozgar Yojana (SGSY) • National Rural Livelihood Mission (NRLM) • The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) • Aadhaar- Unique Identification Authority of India (UIDAI)

Source: (Garg & Agarwal, 2014)[4] and RBI annual reports

5.4 Challenges for Strengthening Financial Inclusion

There are several issues, and challenges to achieve the target of complete financial inclusion, only major challenges have been dealt with.

[1]*Garg, S., & Agarwal, P. (2014). Financial Inclusion in India – a Review of Initiatives and achievements. IOSR Journal of Business and Management Volume 16, Issue 6. Ver. I , 52-61.*

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5.4.1 Change in the Approach of Banks

Only access to credit or banking is not the financial inclusion. It is often noticed that opening a bank account is taken or claimed as achieving the target of financial inclusion .Many empirical studies reveal that after opening such bank accounts, hardly there are any transactions take place in such bank accounts. Banks must genuinely strive to provide the directed services under the category or scheme of financial inclusion to the rural population, since they are the main pillars for the desired success.

5.4.2 Product Initiative

To ensure that more and more people come within the banking fold the banks should offer all the customers a basic savings deposit account with certain minimum common facilities and without the requirement of minimum balance. The services provided in this account should include deposit and withdrawal of cash at the bank branches as well as ATM. (Khan 2012)

5.4.3 Aadhaar-Enabled Payment System (AEPS)

The AEPS having the ability to service customers of many banks based on the unique biometric identification data stored in the Aadhaar data base is expected to empower a bank customer to use Aadhaar as his/her identity to access the respective Aadhaar enabled bank account and perform basic banking transactions like balance enquiry, cash withdrawal and deposit through the BC.A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are to their Aadhaar enabled bank accounts.

5.4.4 Financial Literacy and Awareness

There is a strong concern about the pathetic attitude of the banks to arrange regular campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified. Banks need to put effort in this area through innovative dissemination channels including films documentaries, pamphlets and road shows.

5.4.5 Challenges in IC Based Financial Services

Tapping technology platforms: Banks need to make significant investments in technology based applications, related research and development efforts, comprehensive Management Information service(MIS) and monitoring and evaluation system on one hand collaborate with technology service providers (TSPs), mobile network operators(MNOs) corporate houses and various categories of BCs to develop efficient delivery models with a strategy aiming to create a facilitating eco-system, leveraging on technology and promote partnerships of brick and mortar branches including ultra-small branches with ICT-based BC outlets for evolving an effective financial inclusion delivery mechanism.

5.4.6 Mobile Banking

With the rapid growth in the number of mobile phones subscribes in India, banks in collaboration with telecom companies are seeking to develop an alternate channel of delivery of banking services. Keeping in view the issues relating to diversity of network providers in India, remittance centre approach of such model and know your customer (KYC) related concerns the RBI has advocated bank-led mobile banking model and issued operative guidelines to banks for effecting mobile based banking transactions. The empirical studies indicate that banks are yet to fully exploit this technology even for their existing customers.

6. Findings

Depositing money and sending money to the family member for a poor migrant labour is costly, as he ha s to spend 10% of the transaction amount as charges .This might be one of the reasons for poor for not opening a bank account and a bank account and availing various financial services given by them.

Administrative formalities for account opening, credit appraisal, KYC, loan disbursal etc typically take seven to ten days in villages as these formalities are being ratified at main branch.

High BC attraction in short time is resulting in high training cost and is creating disruption in banking services. Currently daily transactions limit are placed which deter big ticket customers from using Kiosks and ultra small branches .Also this restricts the commissions of the Kiosks. Unavailability of insurance and fully fledged remittance products is further limiting the financial inclusion.

Though there is potent technology framework, uniform application across bank, serviceability and maintains of the device pose a major hurdle, more so for the smaller technology partners. Frequent machine breakdown and connectivity issue hamper the seamless experience and at times result in huge delays resulting into bad customer experience.

7. Suggestions

More than 50% of the poor rural people with income Rs: 0-43.750 does not have saving banking account with an exception to this is the recent Jan Dhan scheme launched by the government. The problem of financial exclusion can be solved only when the poor are educated with the benefits of saving and encouraging them to operate account.

Many of the remote villages are cut off from the main stream activities of financial inclusion initiatives taken by government. All these remote villages in the country can be bought into the fold of financial inclusion by introducing new technologies like mobile banking; personal Digital assistants can be introduced in remote places. This type of digital assistants helps in easy, quick and cost effective processing of financial transactions.

8. Conclusion

From the above study, it can be concluded that India is moderate level in achieving the objective of financial inclusion and sustainable developments. Although India is showing a progressive trend in financial inclusion, it has to improve the position of number of bank branches, ATMs, credit and deposits in the rural India. RBI have adopted various strategies such as no-frill account, use of regional languages, simple KYC norms etc. to strengthen financial inclusion. To cope up with the challenges of financial inclusion, there is a need of viable and sustainable business models with focus on accessible and affordable product and processes, partnerships with technology service providers for efficient handling of low value, large volume transactions.

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