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AN ANALYTICAL STUDY OF FINANCIAL INCLUSION FOR DEVELOPING NATIONS

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Abstract
For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if it's weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Key Words:-Financial Inclusion, Business Correspondents, Financial Stability, No Frill Accounts, KCC.

I. Introduction

1.1Financial Inclusion

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in 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." The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It's been surprising fact that India ranks second in the world in terms of financially excluded households after china .For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion.

Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. Thus the term Financial Inclusion can 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.

1.2 Objective of Study

1. To explore the need and significance of financial inclusion for economic and social development of society.
2. To analyse the current status of financial inclusion in Indian economy.
3. To study the access of rural people to bank branches and the number of ATM opened in those areas.
4. To study the progress of State Cooperative Banks in financial inclusion plan.

1.3 Research Methodology

Research methodology is partly descriptive, partly exploratory and partly casual .For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report and Report of NABARD etc.

II. Need of Financial Inclusion

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
3. Financial and institutional sustainability as a means of providing access to financial services over time
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

There has been a many objectives related to the need for financial Inclusion such as

- **Economic Objectives:** For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.
- **Mobilisation of Savings:** If the weaker sections are provided with the facility of banking services the savings can be mobilised which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.
- **Larger Market for the Financial System:** To serve the requirements and need of the large section of society there is a surgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
- **Social Objectives:** Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advance.

  Sustainable Livelihood: Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.
- **Political Objectives:** There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

III. Initiation of Financial Inclusion Concept in India

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

IV. Survey Reports on Financial Inclusion

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011, which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The survey suggest in developing countries India lags behind in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions.

In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies as can be seen from the table 1. The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Index sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money. Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centres.

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Table 1: Key Statistics on Financial Inclusion in India: A Survey

(percent)

Share with an account at a formal financial institution				Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All Adults	Poorest income quintile	Women	Using a formal account	Using a Community based Method	From a formal financial institution	From family or friends				
1	2	3	4	5	6	7	8	9	10	11	12
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Source: Asli Demirguc - Kunt and Klapper, L. (2012): „Measuring Financial Inclusion", Policy Research Working Paper, 6025, World Bank, April

Thus a lot has to be done at to done to bridge the gap between the formal financial institutions and the rural people needs. To make them aware of the fact about the facilities available for their benefit and which can help India to turn out to a developed nation from a developing nation. As can be seen from the below table-2 that the financial inclusion plan has shown a tremendous growth in the past two years. Banks are gaining momentum in areas like opening up of new banking outlets in rural areas, deploying new business correspondents (BC"s),opening of new frills accounts, granting more credit through KCC(Kisan Credit Card) AND GCC"s(General Purpose Credit Card).

Table 2: Progress of SCBs in Financial Inclusion Plan (excluding RRBs)

Particulars	March 2010	March 2011	March 2012	Variation March 2012 over March 2010
1	2	3	4	5
No. of BCs/BC Agents Deployed	33,042	57,329	95,767	62,725
Number of banking Outlets in villages with population	27,353	54,246	82,300	54,947
above 2,000 Number of banking outlets in villages with populationless than 2,000	26,905	45,937	65,234	38,329
Total number of banking outlets in villages of which	54,258	1,00,183	1,47,534	93,276
a) Through branches	21,475	22,662	24,701	3,226
b) Through BCs	32,684	77,138	1,20,355	87,671
c) Through Other Modes	99	383	2,478	2,379
Urban Locations covered through BCs	433	3,757	5,875	5,442
No-Frill accounts				
Number (millions)	50.3	75.4	105.5	55.2
Amount (` billions)	42.6	57.0	93.3	50.7
Overdraft availed in No-Frill Accounts				
Number (millions)	0.1	0.5	1.5	1.4
Amount (billions)	0.1	0.2	0.6	0.5
Kisan Credit Card KCC				
Number of Accounts(millions)	15.9	18.2	20.3	4.4
Outstanding amount (billions)	940.1	1237.4	1651.5	711.4
General Purpose Credit Card (GCC)				

Number of Accounts (millions)	0.9	1.0	1.3	0.4
Outstanding amount (billions)	25.8	21.9	27.3	1.6
ICT Based Accounts through BCs				
Number of Accounts (millions)	12.6	29.6	52.1	39.5
Number of transactions during the year (millions)	18.7	64.6	119.3	183.9

Source: Asli Demirguc - Kunt and Klapper, L. (2015): „Measuring Financial Inclusion‟, Policy Research Working Paper, 6025, World Bank, April

As can be seen from the above statistics the number of Business Correspondents have increased and the number of rural banking branches have increased from 27,353 in 2010 to 82,300 in 2012.The primary mode which has gained momentum for opening new saving account in rural banks is through Business Correspondent (BC‟s). There is can see the account opened by business correspondents in 2010 is 32,684 which has increased to 1,20,355 in 2012.Also the opening of new no-frill account is on the higher side i.e from 50.3 million account to 105.5 million account. The distribution of KCC (Kisan credit cards) and GCC (General purpose credit card) has also been on increasing side but still there is major scope for reaping its benefits. Hence the survey states that though the govt has initiated many steps and the steps are also moving in positive direction and the financial inclusion has shown an immense growth which if channelize in proper manner can make the life of many rural villagers easy and steady.

Table 3: Outreach of Banking Sector Country Wise Position – India vis-à-vis the World

Geographic and demographic penetration indicates the outreach of banking sector. Geographic penetration can be measured in terms of number of bank branches per 1000 sq km and number of ATMs per 1000 sq km. larger number of branches and ATMs per Sq. kms. The following table represent the comparison of Geographic and Demographic penetration of Banking Services of various countries.

Country	Geographic Penetration		Demographic Penetration	
	No of bank branches per 1000 sq km	No of ATMs per 1000 sq km	No of branches per 100,000 people	No of ATMs per 100,000 people
Korea	65.02	436.88	13.40	40.03
U.K	45.16	104.46	18.35	42.45
India	22.57	-	6.30	-
Indonesia	10.00	5.73	8.44	4.84
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.80
Russia	0.19	0.53	2.24	6.28

Source: Reaching Out: Access to and use of banking services across countries, Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria, World Bank Policy Research, WPS 3754, World Bank, 2005 # - As per Trends and Progress of Banking in India, RBI, 2006-07 (Appendix Table III.35) , end March 2007 there were 27,088 ATMs of Scheduled Commercial Banks in India.

As can be seen from the above table India being the developing nation and having a large number of rural sector still it lags behind in providing the basic facility of opening of number of bank branches in the rural areas.

V. Forthcoming Plan of Banks For Financial Inclusion

The Reserve Bank had advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April 2010 to March 2013. These FIPs contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no-frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no- frills accounts and GCCs for small deposits and credit. Some of these steps are:

1. **Opening of No-Frills Accounts:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such account
2. **Relaxation on Know-Your-Customer (KYC) Norms**: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks

were also permitted to take any evidence as to the identity and address 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.

3. **Use of Technology:** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system. thus ensuring the security of transactions and enhancing confidence in the banking system.
4. **Adoption of EBT:** Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.
5. **GCC**: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. 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. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.
6. **Simplified Branch Authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north - eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.
7. **Opening of Branches in Unbanked Rural Centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.
8. **Engaging Business Correspondents (BCs):** In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

VI. Conclusion

For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor according to K.C. Chakrabarty RBI Deputy Governor “Even today the fact remains that nearly half of the Indian population doesn’t have access to formal financial services and are largely dependent on money lenders”. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

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