



GROWTH OF FINANCIAL INCLUSION ON BANKING IN INDIA

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Abstract

In world more than 150 million people have access to collateral free loans. However, there are still large sections of the world population that are excluded from the financial services market. In India half of the poor are financially excluded from the country's main stream of the banking sector. Still, in India, 22 per cent of the people are living below the poverty line. Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy.

The main attempt is to discuss the growth of financial inclusion on banking in India and to examine the region-wise coverage of banking services in India. The results of this study imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. The study may suggest that it is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in India. It may be concluded that the Government of India and formal financial institutions should take initiative to cover all rural and urban poor people to formal financial services. It will lead to more awareness on financial literacy or improvement in knowledge of uneducated rural poor people in India.

Key Words: Poverty, Financial Inclusion, Household, Bank & Investment Opportunities.

INTRODUCTION

In world more than 150 million people have access to collateral free loans. However, there are still large sections of the world population that are excluded from the financial services market. In India half of the poor are financially excluded from the country's main stream of the banking sector. Still in India, 22 per cent of the people are living below the poverty line. Their monthly income is less than \$1 per day and they are living in most un-liveable conditions. In India, growth with equity has been the central objective right from the inception of the planning process.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

REVIEW OF LITERATURE

The purpose of literature review is to convey the readers about the knowledge and ideas that have been established on the study.

Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.



Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

OBJECTIVES OF THE STUDY

1. To study the position of the Indian Banking Services compared to other countries.
2. To examine the Region-wise Coverage of Banking Services in India.
3. To know the various Problems in Financial Inclusion.

METHODOLOGY OF THE STUDY

The secondary data has been used in this study and data has been collected from different sources like published articles, journals, newspapers, reports and books.

FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced that, to from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50, 000. General Credit Cards (GCC) 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 (BF) or business correspondents (BC) 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 have 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 road block to financial inclusion in many states. Apart from this there are certain concepts in Current model which is followed. There is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture. Along with Microfinance we need to focus on Micro insurance too.

Table No. 1, India's Position Compared with Other Countries

(Per 0.1 Million Adults) (As per cent of GDP)

SL. NO	Country	Number of branches	Number of ATMs	Bank credit	Bank deposits
1	India	10.91	5.44	43.62	60.11
2	Austria	11.81	48.16	35.26	32.57
3	Brazil	13.76	120.62	29.04	47.51
4	France	43.11	110.07	56.03	39.15
5	Mexico	15.22	47.28	16.19	20.19



6	UK	25.51	64.58	467.97	427.49
7	US	35.74	173.75	46.04	53.14
8	Korea	18.63	250.29	84.17	74.51
9	Philippines	7.69	14.88	27.57	53.02

Source: World Bank, Financial Access Survey.

Table 1 reveals the out of per 0.1 million adults covered in nine countries (including in India). Maximum no of 43.11 branches in France, 250.29 no of ATMs in Korea, 467.97 bank credit in UK, 427.29 bank deposit in UK. India has 10.91 no of branches in seventh place, 5.44 no of ATMs in ninth place, 43.62 bank credit in fifth place, 60.11 bank deposit in third place compare with other nine countries. As a whole India's position is in a moderate level when compared with other countries.

There are 24,701 rural branches, 1, 20,355 BC outlets, 2,478 other modes, 1, 47,534 total, 103.21 million total of 'No frill accounts', Increase of 39.6 per cent operation in NFA (2011-2012) Rs 932.89 billion outstanding balance, Rs 3.39 billion overdrafts, 119.77 million transactions through ICT based BC outlets, Rs 2.15 million KCC credit, Rs 0.22 million GCC credit were recorded as on March 31 2012.

Table No.2, Progress of Financial Inclusion Plan as on March 31, 2012

Sl.No	Banking Outlets	Amount
1	Rural Branches	24,701
2	BC Outlets	1,20,355
3	Other Modes	2,478
4	Total	1,47,534
5	Total number of 'No frill accounts'	103.21 million
6	Operations in NFA (2011-12)	(Increase of 39.6%)
7	Outstanding Balance	Rs.932.89 billion
8	Overdrafts	Rs.3.39 billion
9	Transactions through ICT based BC outlets (2011-12)	119.77 million
10	KCC credit	Rs.2.15 million
11	GCC credit	Rs. 0.22 million

Source: World Bank, Financial Access Survey.

Table No.3, Coverage of Banking Services (Current Account) in India

Sl. No.	Region	Current Accounts	Percentage (%)
1	North Region	4215701	25.47
2	North East Region	476603	2.88
3	East Region	1814219	10.96
4	Central Region	2202217	13.30
5	West Region	317802	19.19
6	South Region	4666014	28.18
	All India	16552856	100

Source: World Bank, Financial Access Survey.

Table No.3, it is clearly explained treat, out of 1,65,52,856 current account of banking services in India, 28.18 per cent of the current account holders are in South Region, followed by 25.471 per cent of the current holders in North Region and Lowest number of current holders in North East Region. From the result, we may conclude that the North East Region have not yet completely included in the formal financial services.



Table No.4,Coverage of Banking Services (Saving Account) in India

Sl.No.	Region	Savings Account	Percentage (%)
1	North Region	52416125	17.22
2	North East Region	6891081	2.26
3	East Region	47876140	15.73
4	Central Region	64254189	21.11
5	West Region	49525101	16.27
6	South Region	83386898	27.39
All India		304349534	100

Source: World Bank, Financial Access Survey.

Table No.4 expresses treat, Out of 100 per cent Saving Account of banking services in all India. 27.39 per cent of total Saving Account in South Region, followed by Central Region (21.11%) and least coverage of banking services in North East Region in India.

Table No.5.Coverage of Banking Services (Total Population) in India

Sl. No.	Region	Total Population	Percentage (%)
1	North Region	32676462	3.18
2	North East Region	38495089	3.75
3	East Region	227613073	22.16
4	Central Region	255713495	24.89
5	West Region	149071747	14.52
6	South Region	223445381	21.76
All India		1027015247	100

Sources: National Sample Survey Organization.

Table no .5 reveals that, out of 1,02,70,15,247 total population of banking services in India, 24.89 per cent of total population in Central Regions, 22.16 per cent of total population in East Region and Lowest number of total population in North Region in India. It shows that there was insufficient coverage of Banking Services in India in North & East Regions.

Table No.6, Coverage of Banking Services (Total No. of Account) in India

Sl. No.	Region	Total no. of Accounts	Total no. of Accounts (%)
1	North Region	56631826	17.65
2	North East Region	7367684	2.30
3	East Region	49690359	15.48
4	Central Region	66456406	20.71
5	West Region	52703203	16.42
6	South Region	88052912	27.44
All India		320902390	100

Sources: National Sample Survey Organization.



Chart No.1, Coverage of Banking Services in India

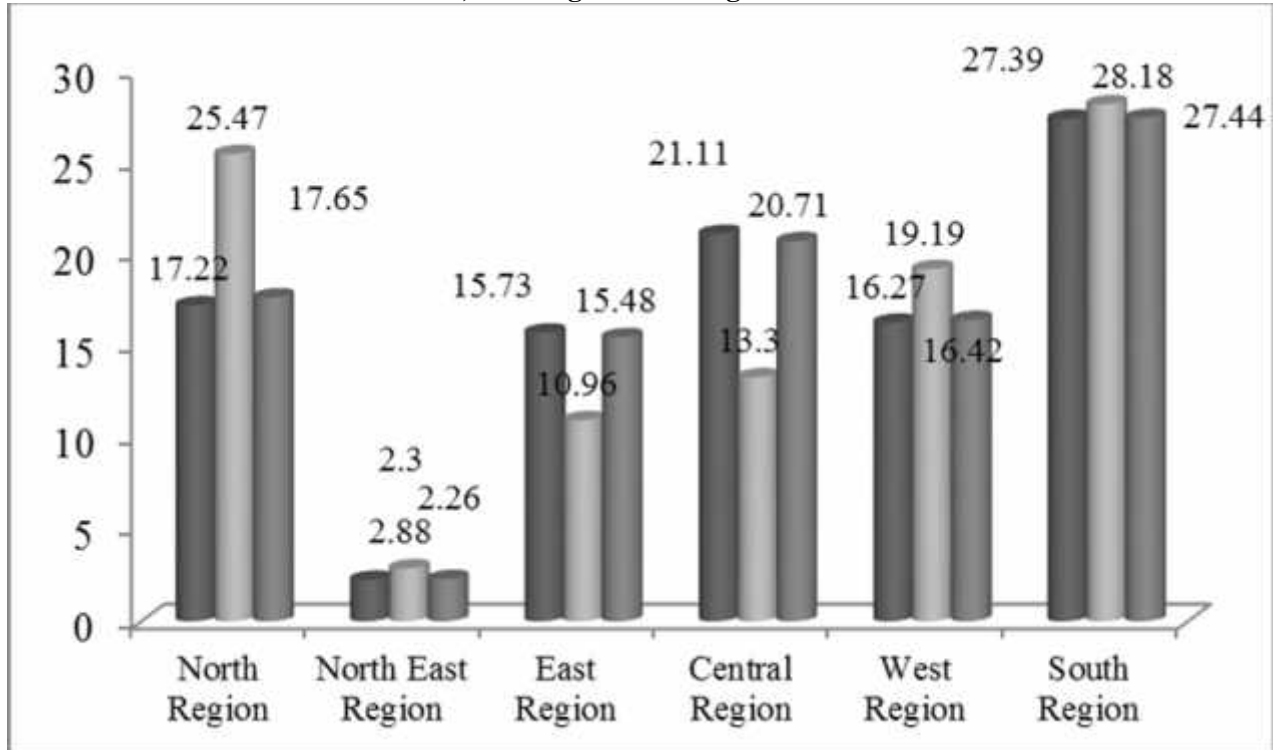


Table 6 indicates that, out of 32902390 total current account and savings account of banking services in India, 27.44 per cent of total account in South India, 20.71 per cent of total account in Central India, 17.65 per cent of total account in North India, 16.42 per cent of total account in West India, 15.48 per cent of total account East India, 2.3 per cent of total account in North East India. So, it is concluded that, the maximum no of 27.44 per cent of total account in South India, and Least number of total account in North East Region. The study result has expressed treat in balance coverage of banking services in rural India.

PROBLEMS IN FINANCIAL INCLUSION

- The banks are faced with high operating cost in extending the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also adding to the problem.
- Reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode.
- The challenge also lies in offering a single loan product which is not based on or linked to the purpose of the loan, the collateral or assets held or income earned by the household but is purely based on cash flow and credit record of the household.

FINDINGS & RECOMMENDATION

- It is identified that the North East Region has not yet sufficiently offered formal financial services to rural people.
- It is found treat the imbalanced coverage of banking services to all regions in India.
- It is observed that, there was an insufficient coverage of banking services to rural people in North & East Region in India.
- It is also expressed that as a whole, the position of India compared with over countries in Moderate Level.



- The study identified that the Maximum Number of 27.44 percent of total accounts was in South Region and Least Number of total accounts was in North Region.

CONCLUSION

Literacy is a prerequisite for creating investment awareness, and it seems to be a key tool for financial inclusion. The results of this study imply 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 an India. It may be concluded that the Government of India and formal financial institutions should take initiative to cover all rural and urban poor people to formal financial services. It will lead to more awareness on financial literacy or improvement in knowledge of uneducated rural poor people in India.

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