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Financial Inclusion: The Road to India's Development

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Abstract

To achieve inclusive growth rapidly, India has taken various important steps towards financial inclusion (FI). FI as a policy drive entered the banking wordbook only after the Rangarajan Committee recommendations in 2008. The authors have tried to understand the need, its importance to ensure its reach to the unbanked population; various measures have been taken to promote it, status and the progress in this direction; recommendations to enhance it further throughout the country. There is an alarming need to give quality financial services in the rural areas for economic development and growth as it will help households in financing their livelihood in a meaningful way. Financial literacy and the awareness level have been an issue from a long time in respect of usage of financial products/services. This requires proper coordination among all the stakeholders which includes banks, government, sectoral regulators, NGOs, civil societies, etc. to achieve the financial inclusion goal. Still there are many states which are facing the challenges of financial exclusion, states have to develop its own ways and solution and have to work actively for this problem.

The upcoming phase of FI is thereby less about the policy and more about enlightening people, dissemination of digital and financial awareness in the society. Banks and RBI must coordinate with institutions like CBSE, State Education Boards, AICTE and University Grants Commission to incorporate FI as a necessary subject at various educational levels from schooling to a higher education level, ensuring that our next generation becomes digitally savvy.

Keywords: Financial Inclusion, Financial Literacy, Availability, Accessible, Affordability.

Introduction

Financial inclusion concept is about ensuring accessibility to the financial services at an economical cost to all the individuals in the country. Inclusion is the procedure of making promise of financial services access and adequate and timely credit whenever needed by endangered groups such as low income groups and weaker sections at a low cost. It is necessary to understand that an individual with a rational access to all the important financial services is contemplated as 'financially included' and just one off accessibility to certain financial services only for the sake of finishing the financial inclusion mandate does not interpret as inclusion in the real sense. India is not only the country which faces the problem of exclusion. Statistics show that in emerging markets, 70% of the adult population is excluded from the advantages of banking, and the same is not too varied in India. India at this stage, has been embracing best practices from across the world which are relevant and with its inherent strengths, country is gearing up to accelerate the efforts further towards larger financial inclusion—a critical economic and social issue of the country. Reasons for exclusion of financial services include financial illiteracy, lack of banking and many other financial services, scarce confidence in the Banking System, poverty, traditional cultural values, complex parameters for accessing financial services etc.

There are five A's under financial inclusion which are discussed as follows: The first factor is *availability* which implies that financial inclusion means making all types of financial services available to the all individuals irrespective of income and size of credit. The second factor implies such services' availability at an *affordable* price. The third factor entails that services like savings, credit, insurance, etc. must not only be availed with the banks but must also be *accessible* to the people living in even the remotest part of the country. Varied bank branches number got set up by public sector banks in the rural areas as per this factor. The fourth factor infers that only making products and services accessible and available at a lower cost would not suffice, but rather there is a alarming need to disseminate *awareness* about it. Under this varied advertisement were rolled out, various campaigns were organized in the villages spotlighting the importance of insurance and savings. Lastly, all type of financial services need to be *adequate* in nature,meaning, as focus is on the poor sections of society who may need loans in small amounts; but if the loans are offered in large amount, it will not beacceptable for such section of the country.

Review of Literature

Sharma, (2007) first computed the financial inclusion indices for 45 countries for the year 2004; taking into consideration various indicators - the bank account number for every hundred populations, the bank branches number for every thousand population and the ratio of credit and savings to GDP of the country. Michael Chibba (2009), states that financial inclusion offers complementary and incremental solutions to combat poverty, to address the challenges related to MDGs and to achieve inclusive development. Islam (2012) inferred that micro-finance institutions in India have played an important role in enriching the financial inclusion status. Dixit Radhika and Ghosh Munmun (2013), concludes that Financial literacy and the awareness level continues to remain a challenge with respect to financial products/services usage; this requires a great coordination among all the stakeholders such as banks, governments, sectoral regulators, NGOs, civil societies, etc. to fulfil the financial inclusion goal. Anurag B Dr., Tandon Priyanka; infers that financial services access in terms of remittances, savings and insurance are highly important to alleviate poverty and foster development; further, to achieve the total financial inclusion goal; MFIs, NGOs, regulators, policymakers, and banks have in sync. Desai M.P. (2016), quotes that financial inclusion for the unbanked population is a crucial step for which; bureaucratic support, political will and consistent RBI efforts in this direction is required, as this is expected to exploit the untapped prospective of bottom strata of the society in the country.(Mittal, Mittal, & Goyal, 2018a, 2018b) points out demonetization and a move towards cashless economy in India is aimed to curb corruption and expand reach to enable enhanced financial inclusion in India.

Objectives of the Study

The study has set the objectives as follows:

1. To study the in-depth understanding of Financial Inclusion by understanding its importance and need for it.
2. To understand various measures, status and various progress made in respect of Financial Inclusion in the country.
3. To make suitable recommendations to successfully penetrate the Financial Inclusion goal in India.

Methodology and Data

The analysis in the study is based on secondary data collected through survey/ information sources. Newspapers, books, relevant websites and Journals have been referred. Keeping in mind the need of FI in the country, suitable recommendations have been made for the country to extensively achieve the purpose of FI in the country.

Financial Inclusion Need in India

Financial services provision to the lower income groups assists them in protecting their financial wealth. The formal credit easy availability shall protect the vulnerable people of society from extorting money. The main objective of FI in India are discussed as follows: (i) *Provisioning formal credit channels:*Till now, major part of the population that is in need of any formal credit accessibility depends on their respective moneylenders, family and friends for realizing their financial needs. Formal banking network shall enable people form lower income groups in stabilizing their livelihood and improve their livingstandards. (ii)*Creating a platform for imbibing the habit of saving money:* By aiming for financial inclusion Government wants to raise the financial resource base by encouraging all individuals to own a bank account; thus,instill a habit of saving (Singh and Singh, 2016). (iii)*Providing direct benefits of welfare programme and subsidies:* A major challenge faced by Government is that the amount of money designated for the rural masses under various schemes does not actually reach them. If every individual residing in rural area shall have a bank account, the cash disbursal will be transparent and quick. As a consequence, government opted for direct cash transfers in the beneficiaries accounts.

The Tectonic Shift in Financial Inclusion

The biggest turnaround came with the programme of '*Pradhan Mantri Jan Dhan Yojana* (PMJDY)' during August 2014. PMJDY was outlined to ensure faster access to varied financial services like need-based credit, affordable, savings bank accounts, remittances facilities, and pension and insurance for excluded sections. Such deep penetration at an inexpensive cost can only be possible with effectual use of technology. Hence, the banking system operating on the core banking approach; the NPCI's ability to scale-up debit cards issue has enabled effectual implementation of PMJDY, enabling new savings accounts being opened by the financial system under the scheme.

Table 1: Measures Adopted by NABARD, GOI and RBI to enhance FI

National Rural FI Plan	"e-Grama" project
Customer Service Centres	Adhaar Scheme
Financial Literacy Project	SHG-Post Office Linkage
Credit Counselling Centres	Micro Pension Model
Know Your Customer	General Credit Card
Farmers" Club Program	Financial Inclusion Fund
Role of NGOs, SHGs, and MFIs	Financial Inclusion Technology Fund
Pradhan Mantri Jan DhanYojna	No-frill Account
Financial Literacy via Visual, Audio medium - Doordarshan	Micro Finance Development Fund
Separate Plan for Electronic Benefit Transfer Scheme and Urban FI	Nationwide Electronic Financial Inclusion System
Support to RRBs and Cooperative Banks for setting up Financial Literacy Centres	The National Agricultural Insurance Scheme
Source: Dangi (2012), Paramasivan and Ganeshkumar (2013), Kumar (2013), Mehar (2014), Ambarkhane et al (2016), Gupta (2018)	

Financial Inclusion Measurement

The progress of implementation of FI has to be measured to decide on future policy framework. It is believed that as banks on boarded the FI formal journey, only 40% of Indian adults had their savings accounts, with only a small proportion of the population receiving the formal credit from the banks. Though there is lack of precise data on the success level, informal data suggest that around 62% of adult Indians are now covered. India's FI index for the first time was introduced in 2013 basis four major dimensions to ensure the index is more comprehensive in nature: (i) credit penetration, (ii) insurance penetration, (iii) branch penetration, and (iv) deposit penetration.

Perspective and Status of FI in India

Only 33% of rural population in India is part of the formal financial system; situation is even worst for low income group wherein only 26% of them are associated with financial expansion in the country, while 34% of the lower income group of urban India and 41% of the urban India population participate in the financial system, which is relatively better than the rural India. So, there is an alarming urgency to foster financial inclusion programs especially in rural area.

Empirical evidences have suggested that certain indicators must be defined for formulating appropriate financial inclusion policies. Experts from IMF, World Bank and other global foundations have defined certain strong FI indicators for the economy. Some of them are total bank branches, number of automated teller machines installed, bank deposits, bank credit extended and so on. Data pertaining to such indicators of some economies have been presented in Table 2. It deflects that China inspite of being most populated country, has a strong structure for FI with 1428.98 bank branches for every 1000 km area.

Table 2 : Indicators of Financial Inclusion 2011

S. No.	Country	Total Bank Branches	Total Number of ATMs	Total Bank Branches	Total Number of ATMs	Deposits with Bank	Bank Credit
		Per 1000 KM		For every 0.1 Million population		as percentage of GDP	
i)	India	30.4	25.4	10.6	8.9	68.4	51.7
ii)	China	1428.9	2975.0	23.8	49.5	433.9	287.8
iii)	Brazil	7.9	20.5	46.1	119.6	53.2	40.2
iv)	Indonesia	8.2	15.9	8.5	16.4	43.3	34.2
v)	France	40.2	106.2	41.5	109.8	34.7	42.8
vi)	Philippines	16.2	35.7	8.0	17.7	41.9	21.3
vii)	Mauritius	104.9	210.8	21.2	42.7	170.7	77.8
viii)	Sri Lanka	41.8	35.7	16.7	14.2	45.7	42.6
ix)	Mexico	6.1	18.9	14.8	45.7	22.6	18.8
x)	Malaysia	6.3	33.9	10.4	56.4	130.8	104.2
Source: Financial Access Survey, IMF							

To give strength to the FI drive in India, it has been recommended by the Government that all private and public sector banks to organise a financial inclusion plan for three years which will mainly contain information regarding the number of constructed bank branches in the rural areas, branches status of Kisan Credit Cards, branches opened through business correspondents, General Credit Cards and so on. Table 3 below shows a picture of the FI plans progress in India.

Table 3: Progression made under FI Plans

S. No.	Particulars	March 2010	March 2011	March 2012	March 2013	March 2014	March 2016	March 2017
i)	Banking branches in Rural locations	33378	34811	37471	40837	46126	51830	50860
ii)	Banking outlets in Rural locations - Branchless mode	34316	81397	144282	227617	337678	534477	547233
iii)	Banking outlets in Rural locations - Total	67694	116208	181753	268454	383804	586307	598093
iv)	Urban locations covered through BC*	447	3771	5891	27143	60730	102552	102865
v)	Total Kisan Credit Cards (KCC, No. in million)	24.3	27	30	34	40	47.3	46
vi)	KCCs -Total (Amount in Rs. billion)	1,240	1,600	2,068	2,623	3684	5,131	5805
vii)	Total General Credit Cards (GCC, No. in million)	1.4	2	2	4	7	11.3	13
viii)	GCC-Total (Amount in Rs. billion)	35	35	42	76	1097	1,493	2117
*BC: business correspondents								
Source: RBI								

Conclusion and Suggestions

There is an appalling need to give quality financial services in the rural areas for economic development and growth as it will assist households in financing their livelihood in a meaningful way. Government has taken genuine efforts in bringing country's citizens under the banking services ambit. But certain segments of the nation are still lagging notwithstanding the fact that many financial inclusion initiatives are in a progressive stage. Rapidly developing technology has played a necessary part in bridging the financial gap in the nation. More number of people have started using ATMs, Immediate Payment Service and mobile banking; therefore, it can be inferred that India is vastly pacing towards achieving financial inclusion and this can be sped up by a combined effort of Government, RBI and the country citizens. Certain suggestions can be incorporated in Indian Banking system to improve the progress of achieving FI in India. (i) The branches number increased manifold in 2011 with the RBI's initiative suggesting banks to develop Financial Inclusion Policy (FIP). Thus, to prolong this growth rate, RBI must keep introducing new policies for commercial banks. (ii) As per the data, private sector banks are not quite vigorous participants of financial inclusion, as they assume that activities towards FI will not be beneficial in terms of making good amount of profits. Rather private banks should equally focus on the untapped potential in the rural banking segment, as it can help in raising their customer base to a larger extent. (iii) Having evolved a strong FI infrastructure and PMJDY speeding up the progression, the next breakthrough must be to bring a cultural and mindset shift among the new beneficiaries to obtain advantages from the formal financial structure in terms of borrowing from banking sector and repaying loans within stipulated time. This can push micro and small enterprises, help in poverty alleviation; and also raise the living standard of the community. The upcoming phase of FI is thereby less about the policy and more about enlightening people, dissemination of digital and financial awareness in the society. (iv) Banks and RBI must coordinate with institutions like CBSE, State Education Boards, AICTE, and University Grants Commission to incorporate FI as a necessary subject at various educational levels from schooling to higher education level, ensuring that the futuregeneration becomes digitally savvy.The project works of FI must therefore, earn better ranking to speedily achieve digital and financial literacy. (v) Banks, NBFCs, NGOs, corporate sector and government departments currently engaged in FI must be be prompted to increase thrust. Needless to specify, global research already has associated poverty alleviation with the FI stimulated through financial literacy. Having invested huge money in the FI infrastructure building, the next inclusion wave must be to encourage beneficiaries to switch to formal financial services access for improving their social and economic welfare. (vi) To enrich financial inclusion further through direct link between small borrowers and small lenders and to address the matter regarding consumer protection, the Reserve Bank has introduced another category of NBFC known as NBFC- Peer to Peer Lending Platform (NBFC- P2P) with emphasis on sufficient disclosures and light touch regulation.

Different states has different percentage of financial inclusion. For example: Maharashtra, Karnataka and Kerala accounts for higher rate of financial inclusion but the states namely Bihar, Gujarat, Madhya Pradesh and Uttar Pradesh etc. stand badly on the FI ground. Viability/Sustainability Perspective and business models are the major challenges which create issue in expanding the geographical reach. Financial literacy and the awareness level have been an issue from a long time in respect of usage of financial products/services. This requires proper coordination among all the stakeholders which includes banks, government, sectoral regulators, NGOs, civil societies, etc. to achieve the financial inclusion goal. Still there are many states which are facing the challenges of financial exclusion, states have to develop its own ways and solution and have to work actively for this problem. These challenges are still progressing, and varied delivery mechanisms are being explored by the various agencies of the government at the state and central level. But efforts taken are not that much effective to encounter this staggering issue of financial exclusion.

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