

Rising Financial Inclusion in India

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ABSTRACT

Despite India boasting economic growth rates higher than most developed countries in recent years, a majority of the country's population still remains unbanked. Financial inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged. Global trend have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance the study has revealed that Financial Inclusion has a high positive correlation with economic growth represented by Gross Domestic Product (GDP) and GDP per Capita. The role played by Business Correspondents, General Credit Cards and ICT have led to a considerable progress of financial inclusion in India.

1. Introduction

Financial stability of an economy depends on three important pillars: Financial Inclusion, Financial Literacy & Consumer Protection. Financial Inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups at an affordable cost (Rangrajan Committee, 2008).

Since independence, several attempt shave been made towards financial inclusion of the poor, particularly in rural areas, the initiatives include the cooperative movement, followed by priority sector lending, lead bank scheme, service area approach, creation of national bank for agriculture and rural development, microfinance, Kisan credit cards, business correspondence and finally Pradhan Mantri Jan Dhan Yojana.

India records significant improvement in CRISIL report on financial Inclusion. Financial Inclusion has improved significantly, with the all India score surging to 58.0 in fiscal 2016, compared to 50.1 in fiscal 2013. Digital Inclusion is leading to financial inclusion in India.

2. Review of Literature

C. Rangrajan (2008) through his committee report emphasized the need to modify the credit and financial services delivery system to achieve greater inclusion. He further suggested that while banks and other financial institution can also take some efforts on their own to improve the absorptive capacity of the clients, it is equally important for Government at various levels to initiate actions to enhance the earning capacity of the poorer sections of the society. The two together can bring about the desired change of greater inclusion quickly. **Sharma and Kukreja (2013)** in their study focused on the relevance of financial inclusion in strengthening the India's position in relation to other countries economy. **Singh and Nisha (2014)** in their study established a direct relationship between human development and financial inclusion.

3. Financial Inclusion

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. Financial inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial service such as insurance and equity products.

Measuring Financial Inclusion:

There has been a marked increase in both deposit and loan accounts. Nearly 600 million deposit accounts were opened between fiscals 2013 and 2016, or twice the number between 2010 and 2013. This is reflected in the surge of deposit penetration by over 16 points. On the credit side, there was sharp increase of 31.7 million new credit or loan accounts (banks and microfinance Institution) in the two years upto fiscal 2016, which is the most since fiscal 2013.

4. Financial Literacy

A bank account acts as a means of fulfilling these needs However, merely opening accounts for the unbanked will not help unless they are actively used them for managing their money. To make this possible, people have to be given the ability to understand and execute matters of personal finance, including basic numeracy and literacy, budgeting, investing and risk diversification. This skill is known as financial literacy. It is a combination of financial awareness, attitudinal and behavioural changes necessary to make sound microeconomic conditions.

5. Financial Inclusion in India

Financial inclusion is the way the governments strive to take the common man along by bringing them into the formal channel of economy thereby encouraging the poor person to same, safety invest in various financial products and to borrow from the formal channel when (s) he need to borrow. This, the policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs.

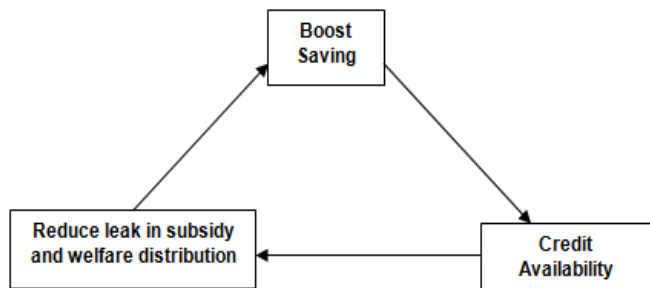
- Creating a platform for Inculcating the habit to save money.
- Providing formal credit avenues.
- Plug gaps and leaks in public subsidies and welfare programmes.

India's overall CRISIL Inclusive score has risen by 2.7% in financial year 2012 (the highest annual increase since 2009)

Key points of CRISIL Inclusive:

- Agricultural credit accounts increased by 11.1%, which is the most since fiscal 2009.
- The number of bank branches in the bottom 100 districts increased by 6%, faster than the all-India growth of 5-6%.
- Now deposit accounts in three regions - North, South and East, Contributed 42% to the rise in CRISIL Index.
- The Index's readings for fiscal 2016 show financial inclusion improved significantly in India, with the all-India score rising to 58.0 in Fiscal 2016, compared with 50% in fiscal 2013.
- On the credit side, there was a sharp 31.7 million increase in new credit or loan (banks and microfinance) accounts.
 - Among states, Kerala was well ahead with a CRISIL Inclusive score of 90.9 while Rajasthan moved up from "below average" to "above average" and Haryana from "above average" to "high".

Why is financial inclusion needed in India? - A Graphical Representation



6. Crisil Financial Inclusion

Index (Inclusix)

The **Credit Rating Information Services of India Limited (CRISIL)** stated that financial inclusion gained momentum in India with a significant rise in new saving accounts, increase in agriculture credit account and expansion of bank branches in deeper geographics.

Table : Progress on Financial Inclusion by Banks (Year ending March)

Year	Amount					(Rs. Billion)
	BSBDA		OD	KCCs	GCCs	ICT
	Branches	BCs				
2010	44	11	0.1	1240	35	7
2014	273	39	16	3684	1097	524
2017	691	285	17	5805	2117	2652

Year	Volume					(Million)
	BSBDA		OD	KCCs	GCCs	ICT
	Branches	BCs				
2010	60	13	0.2	24	1	27
2014	126	117	6	40	7	329
2017	254	280	9	46	13	1159

Table : Outstanding Credit of Commercial Banks

	1996				2016			
	Rural	Semi-Urban	Urban	Metro-politan	Rural	Semi-Urban	Urban	Metro-politan
Northern Region	77	53	85	261	1774	1990	2964	10502
North-Eastern Region	12	8	8	-	181	252	220	-
Eastern Region	59	37	46	116	866	714	1351	2837
Central Region	66	58	71	47	1352	1226	2231	1708
Western Region	64	57	60	646	913	1368	1414	20703
Southern Region	109	155	172	278	2270	3813	4784	9789
All-India	386	369	444	1348	7358	9363	12966	45540

Source : RBI, Basic statistical Returns of Scheduled Commercial Banks (SCBs) in India.

7. Government of India Approach to Financial Inclusion

1. Bank Accounts

- Pradhan Mantri Jan Dhan Yojna

- Jan Dhan, Aadhar and Mobile (BHIM App).

2. JAM for Direct Benefits Transfer (DBT)

3. Social Security Schemes

- Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- Pradhan Mantri Jeevan Jyoti Beema Yojana (PMJJBY)
- Atal Pension Yojana

4. ATM coverage expansion

- White Label ATMs
- Rupay Debit Cards
- Micro ATMs in rural areas

5. Financial Literacy

- Financial literacy Centres' (FLCs) started by Commercial banks at the request of RBI.

6. Institutional Finance

- Venture Capital Scheme (for SC/ST/entrepreneurs)

8. Pradhan Mantri Jan Dhan Yojana for Financial Inclusion

A transformational decision was taken by the Prime Minister of India in the form of Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28 August 2014. The main objective of this scheme is to ensure universal access to banking facilities with at least one basic bank account for every household. Till 1st November 2017, 305.6 million beneficiary banked so far under the scheme with Rs. 672.6472 billion balance in the accounts. One of the survey reported in English daily indicates that "The dominant reason for opening PMJDY accounts is to deposit savings, which is cited by 52% of account holders. The next highest reason is to avail of insurance attached to the accounts, followed by the desire to avail of direct benefit transfers and subsidies (16%). These are very good for creating an environment for Financial Inclusion.

**Status of Pradhan Mantri Jan Dhan Yojana
(As on December 6, 2017)**

Bank Name/ Type	Number of Beneficiaries			Deposits in Accounts (Rs. Crore)	Number of Rupay Debit Cards issued to beneficiaries
	Rural	Urban	Total		
Public Sector Banks	13.3	11.5	24.8	55646.6	18.6
Regional Rural Banks	4.2	0.8	4.9	12033.9	3.6
Private Sector Banks	0.6	0.4	1.0	2160.60	0.9
Grant Total	18.1	12.7	30.7	69841.2	23.1

Source : GOI- <https://pmdv.gov.in/account>

Table : Number of Bank Branches by Population Group

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
1969	1833	3342	1584	1503	8262
1979	13337	7889	5037	3939	30202
1989	33014	11166	7524	5995	57699
1999	32857	14168	9898	8016	64939
2009	30943	19282	15356	14288	79869
2017	48806	38201	24574	26478	138059

9. Darpan Project Launched to improve financial inclusion of rural population

The Union Ministry of Communication has launched DARPAN (The Digital Advancement of Rural Post Office for a New India) that intends to provide low power technology solution to each branch post master (BPM). This will enable each of approximately 1.29 lakhs branch post offices (BOs) to improve service delivery. It aims to increase rural reach of Department of Posts (DoPs) and enable BOs to increase traffic of all financial remittances, savings accounts, Rural Postal Life Insurance and Cash Certificates. It also aims to improve mail operations processes by allowing for automated booking and delivery of accountable article. The project has an outlay of Rs. 1400 crore and is targeted to complete by March, 2018.

10. Women and Digital Financial Inclusion in India

Women in rural areas are more prone to gender based social and cultural barriers, have low literacy rate, low income which limits their access to digital financial services.

PMJDY led to increase in bank accounts in the name of women, in order to increase inclusion of women in digital financial ecosystem:-

- Banks should make an effort to increase inclusion overall access to financial services like insurance, credit to rural women.
- Awareness about accessing bank accounts, credit rating, debit and saving accounts, insurance and recurring deposits etc should be disseminated in the simplest way to rural women.
- Financial literacy and credit counseling centres should be set up in all districts by RRBs for rural women.

11. Way Forward

Financial inclusion calls for significant investment in technology based applications, related research and development efforts, comprehensive MIS and monitoring and evaluation systems. Banks, especially those who desire to have much longer exposure to under banked/unbanked population could collaborate with technology service providers (TSPs), mobile network operators (MNOs), corporate houses and various categories of BCs to develop efficient delivery models. Banks have to look at their policies and procedures to develop new product lines rather than merely adopting the complex products of urban India in the rural milieu providing simple and basic banking services in the form of deposit account with remittance services and small credit facility would

ideally suffice for bringing the unbanked into the folds of banking system.

Campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified. Along with financial literacy and education, customer service is another issue that needs closer attention.

12. Conclusion

In developing economies like India, the banks work as mobilizers of saving and allocators of credit for production and investment, have a very critical role. RBI and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration, installation of new ATMs and implementation of various schemes in the country. The Reserve Bank has used financial inclusion plans (FIPs) to

guage the performance of banks under their financial inclusion initiatives. During the first phase of FIPs 2010-2013 a large number of bank accounts have been opened RBI has been applied a fresh three-year FIPs during 2013-2016 for ensuring meaningful access to banking services to the excluded population. The Study observed that financial inclusion is strongly associated with the progress and development of the economy. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness. E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

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