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A Study on Initiatives and Progress of Financial Inclusion in India

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ABSTRACT

Financial inclusion is evolving as the innovative model of economic development of the nation. It aims to deliver the banking services to grassroots section of the society, reaching to the marginalized section of people at a reasonably priced and receiver friendly way facilitating the accessibility semi urban and remote locations. This study attempts to explore the status and progress of financial inclusion in India, initiatives undertaken to overcome the barriers towards inclusive growth, and highlights the need of financial inclusion in economic development. The currect study attempts to examine the present eminence of financial inclusion,to appraise the initiative introduced by the regulatory authorities on Financial inclusion in India. The secondary data was attained from reports, journals, NABARD supplementary documents, Census, and Economic Surveys. The major finding of the study is that financial inclusion has plentiful latitude for economic growth, and for the upliftment of standard of living of people of a nation. The paper analyses the initiatives taken by policy measures to tackle the disparity in the accessibility of financial services and also the progress of various initiatives is recorded.

Keywords: *Financial inclusion; India; Financial markets; Inclusive growth; Sustainable growth.*

1.0 Introduction

Financial inclusion is the novel exemplary model which aids for growth in economy and plays a pivotal part in mitigating poverty. It aims at providing banking facilities to the underprivileged and people living in below poverty line at reasonable and affordable cost. Dr. C Rangarajan who headed the committee on financial inclusion in 2008 defined financial inclusion as, "The process of ensuring access to financial services, timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost[13]."

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Government and Reserve Bank of India assumes a key position in endorsing inclusive growth for economic development. Regulatory authorities of India have taken numerous measures in enlarging banking penetration in the country viz. nationalization of banks, the institutionalization of Regional Rural Banks, facilitating Micro loan provisions, introduced the concept of SHG bank linkage programme, and policy of one bank account per person to access financial services. The policy intended at facilitating banking and financial services in a reasonable, hassle free and justifiable manner in an inexpensive way.

1.1 Overview financial inclusion in India

Financial inclusion is an initiative of connecting large number of marginalized section of the society for credit provisions and deposit mobilization. One of the most important aims of Financial Inclusion is to broaden the ambit of financial system and financial activities to include the marginalized section of the society. The broad range of financial services include micro-credit; insurance, E-banking, no-frills bank accounts, saving products, pension for old age, microfinance, self-help groups, entrepreneurial credit etc. Hence, it is critical for equivalent prospects to the marginalized section of the community in the economy, it, in turn, will facilitate for robust development of the financial market, development of the economy, and caters to the business prospects. Main constraints for inclusive growth are-high operating cost, lack of connectivity and technology, and low awareness level.

1.2 Financial inclusion and importance in India

1.2.1 Timeline of the progress of the financial inclusion process

Owing to the need for inclusive growth of an economy, many policy initiatives have been taken to address the issues of lack of accessibility of financial products/ services to the major sections of the economy. The major initiatives taken are summarised below:

- 1954: Multi-agency approach was initiated by the All-India Rural Credit Survey Committee for financing agricultural sector and rural sections of the economy.
- 1963: Agricultural Refinance Corporation was formed to facilitate agricultural financing.
- 1969: Major initiative was taken to nationalize 14 major Private Banks, to increase the surge of agricultural and rural credit
- 1972: Priority sectors were identified which are crucial for the economic growth, the system of Priority Sector Lending (PSL) was introduced.
- 1975: Regional rural banks were established to connect to the rural lending.

- 1980:6 more private banks were covered in the ambit of nationalized banks
- 1982: Institutionalization of NABARD
- 1990– To cater to the needs of village level credit, 15-20 villages were allotted to RRBs and Public sector banks
- SHG-Bank Linkage programme was introduced by NABARD as the most appropriate model in the Indian context

Source: *www.affairscloud.com*

2.0 Study Objectives

- To analyze the contemporary setting of financial inclusion in India
- To study the key measures and policy initiatives taken by Reserve Bank of India and GoI for financial inclusion

3.0 Literature Review

According to the report of RBI on 'An assessment of Financial Inclusion in India', financial Inclusion is vital to achieve inclusive and sustained growth of the economy, with more than 40% of its population living in rural area. As per research done by Choubey (1983), Public sector banks have not progressed in filling the serious gap and lack in credit, to the extent of RRB's addition to the credit disbursement. Choubey highlighted that the special attention should be given to the credit needs by the apex bodies like National Bank for Agriculture and Rural Development (NABARD). Sarma (2008) in a paper on Financial Inclusion and development has analysed that socio-economic factors like income inequality, literacy and urbanization are key factors that have an effect on Financial Inclusion. Mendoza (2009) analyzed the aspects which impacted in boosting financial inclusion progress and status in the state of Madhya Pradesh in India. The study concludes that micro-finance was a major tool for enhancing financial inclusion in the state of Madhya Pradesh. The study concludes that microfinance institutions (MFIs) and RRB have played a crucial role in improving financial inclusion in rural areas of Madhya Pradesh. A study by Kumar (2013) examined the current progress of financial inclusion and also studied the determinants. The author mentioned, branch network as one of the determinants to play a pivotal role in financial. It was found that a region's socioeconomic and infrastructural development has a significant role in shaping banking operations in a developing country like India. Kohli (2013) emphasized the issues that significantly augment financial inclusion in India. The paper mentions the correlation between financial inclusion and levels of human development in India. Demographic, Societal and Economical factors, and income levels were considered to be prominent factors that influence the level of financial inclusion.

4.0 Need for the Study

Financial inclusion has gained worldwide interest in the recent past. It has been a primary aim of several developing economies since last decade, several research conclusions stated that financial exclusion is the primary cause for prevailing poverty rate in the emerging economies. As per the study 'Including the Excluded': The scenario of Financial Inclusion in India in a developing country like India where nearly70% section of the people live in the rural areas the policy for financial inclusion presumes supreme significance and is an extreme inevitability for an developing economy which has world's uppermost poverty afflicted population. There is a need to appraise the notion, performance, as well as outcome of this initiation.

5.0 Research Methodology

This paper tries to investigate the implication of Financial Inclusion, to analyze the execution policy and its current status in the Indian Economy. The secondary data has been accessed from a range of sources to investigate the role of Reserve Bank and Government of India in endorsing Financial Inclusion initiative. The results of empirical studies are used to examine function of RBI in achieving complete financial inclusion in India.

5.1 Current status of financial inclusion in India

The central government has been intensifying up financial inclusion initiatives of late. Recent guidelines are paying attention to extending insurance and social security services to the marginalized section of the society. The National Health Protection Scheme announced in the budget for the next fiscal is a milestone initiative that aims to take basic health insurance to over 10 crore underprivileged families. As per the report of the committee on financial inclusion by Rangrajan committee, in 2015, the government launched its life insurance scheme, the Pradhan Mantri Jeevan Jyoti Bima Yojana and the accident insurance scheme, Pradhan Mantri Suraksha Bima Yojana. The Atal Pension Yojana (APY), which was another initiative launched that year, provides basic pension services. The Pradhan Mantri Jan-Dhan Yojana launched in August 2014 has made a remarkable progress, generating over 30 crore deposits. As per the study on exploring the factors impacting financial inclusion, while its first phase targets the provision of collective access to bank facilities to masses, with the exception of regions with connectivity constraints, the next phase provides access to credit, insurance, and pension services. Table 1 summarizes how some of these measures implemented in the past couple of years have impacted the overall mandate of financial inclusion.

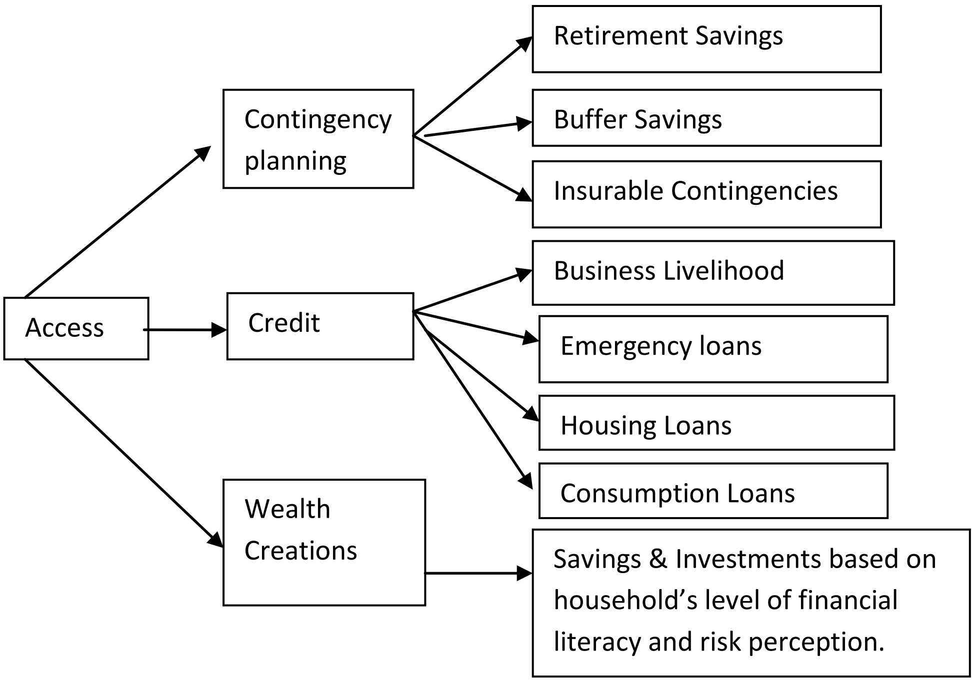
Table 1: Financial Inclusion - Policy and Progress

Cause	Impact	Effect
Jan-DhanYojana	It has created 60 crore new deposit accounts or twice the number opened between fiscals 2010 and 2013. Half of the 42 crore new deposit accounts opened between fiscals 2015 and 2016 were under Jan-Dhan scheme	DP score improved to 78.3 in 2016 from 60.3 in 2013
Focus on financial inclusion	Over 2 crore new credit accounts opened during two years ended fiscal 2016	CP score inched up to 56.0 in fiscal 2016 from 45.7 in fiscal 2013 and caught up with BP
Insurance schemes	Wide agency network benefited insurance penetration in the south and the west	West registered an IP score of 67.0, very close to 72.2 for the south. The east registered an IP score of 49.1: higher than the north (44.3)
Atal Pension Yojana	Nearly 75.2 lakh subscribers were includedin the National Pension System between fiscal years 2013 to 2016. Three-fourths of this pertained to the nongovernment segments, largely driven by APY	NPS coverage catapulted almost 3 times to 18.7 in fiscal 2016

Source: *www.crisil.comcrisil-inclusix-financial-inclusion-surges-driven-by-Jan-Dhan-Yojana*[3]

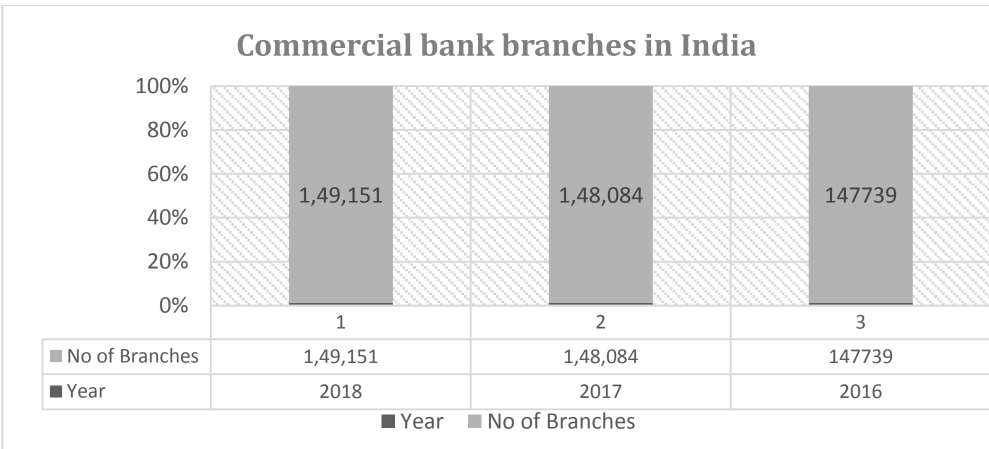
Households necessitate easy access to financial services for several reasons like for generating buffer, to make savings to hedge against inflation and to plan for unforeseen events, to insure themselves against contingencies. Household also needs access to financial services for consumption and their emergencies. Households require financial services to access to an extensive range of saving and investment products for wealth creation and it all has a link with the level of financial literacy and accessibility of financial services and products available in an economy. The policy initiatives of financial inclusion focus on catering to such needs of households (Figure 1).

Figure 1: Household Access to Financial Services



Source: *financialservices.gov.in. Overview and Progress of financial inclusion*

Figure 2: Number of Branches



Source: *www.rbi.org.in*

RBI's concentrated efforts since 2010, has led to a diverse increase in the major indicators of financial inclusion viz. branch penetration, number of accounts, growth in credit and deposit mobilization across length and breadth of the country which indicates an enlargement in the financial service structure of our economy (Table 2 and Figure 2). Digitization in financial services like Mobile telephony, Adhar as a biometric identifier will help in assisting focused and targeted distribution to the needed sections of the society, so as to progress the effectiveness of distribution. Despite these potential benefits, several hurdles continue to be concentrating upon.

Table 2: Position of and Status of Banking Services

Parameter	**March 2010**	**March 2016**	**March 2017**
Number of bank branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch points	142	3,248	3,761
Number of Basic Savings Bank Deposit Account (no minimum balance, no charges levied) (in millions)	73	469	533

Source: *rbi.org.in Financial Inclusion in India, Branch banking statistics, Jun 18 RBI*

5.2 Financial inclusion- initiatives and policy measures

- **Business correspondence model:** Under this model agents are appointed by the financial institutions on commission basis. These agents visit the remote areas which are financially excluded to provide the doorstep facility to the customer in a cost efficient way.
- **Point of sale**
- **No-frills accounts:** This scheme was introduced to encourage people with marginal income to open a bank account with little or minimum balance
- **KCC – Kisan credit card**: Kissan credit card scheme was introduced in the year 1998-99 by Indian banks chiefly to provide agricultural credits to farmers.
- **Lead bank scheme:** This scheme was introduced in the year 1969 with the intention of forming a synchronized approach for providing banking accessibility. This initiative enabled banks to assume a lead role to guide as a syndicated source for coordinating the efforts of other financial and credit institutions for meeting the needs of the marginalized section of the society. District manager was appointed for monitoring of District credit plans.

- **Local area banks: To facilitate inclusive financial growth in** (1996) local banks were established to bridge the gap between the credit demand and supply and to reinforce the institutional credit system in excluded sections. Although these banks have the constraint or limitation of geographical area of functioning, these banks are allowed to perform the operations of scheduled commercial banks. Based on the performance some of these banks assume full-fledged functioning banks in their regional zone.
- **Swabhiman:** To cover the remote are under the ambit of financial services, this scheme enables access to banking services layering the occupancies with the smallest population.
- **Ultra small branches:** This scheme undertakes verification and follows up of banking transactions by bank officials through field visits.
- **Priority sector lending:** Banks have been directed to lend to the priority sectors like agriculture and to the people categorized as below the poverty line to provide them the accessibility to their financial needs.
- **Rashtriya mahila kosh (RMK):** This initiative focuses on poor women and their financial needs**.** This scheme aims to uplift the poor needy women by facilitating their credit requirements.
- **Exclusive bank for women (**National Bank for Women): This initiative was mentioned in the 2013-14 budget. The main objective of the scheme is to broaden the SHG-bank linkages.

Source: *www.affairscloud.com*

6.0 Key Findings and Implications

It is noted in this research study that a larger section of the society and rural household of India lack accessibility to formal banking channels. Hence, to provide the accessibility to banking services to the marginalized sections of the economy, RBI and GoI have taken major initiatives to achieve 100% financial inclusion. For enhancing the financial literacy and for customer awareness E-banking and mobile banking training and education campaign should be organized in the rural areas. With RBI guidelines many bank branches have been opened in remote areas and new ATMs have been set up to enhance financial inclusion. Public sector banks and Regional Rural banks played a key role in the financial inclusion process.

7.0 Conclusion and Suggestions

For overcoming the barrier of remoteness, Business Facilitators and Business Correspondents model have introduced. Furthermore, ATM, Mobile Banking, and online banking also serve the same purpose. The banks opened considerable numbers of branches in the rural areas. BSBDA accounts and Direct Benefit Transfer (DBT) have made considerable growth in including the people who financially excluded. The government of India has overcome the barrier of "Lack of legal documents" by issuing Aadhaar number to everyone. Now the banks are accepting the Aadhaar card as a legal document for an opening bank account. RBI has identified five target groups of people for improving the financial literacy level and conducted many outbound camps. No Frill and BDSA accounts were created for serving poor people. Though the Government of India and Reserve Bank of India has taken many initiatives to include all the citizens, there is still a considerable percentage of people who are financially excluded due to lack of financial literacy and low or irregular income. Apart from these, people are approaching private moneylenders for their financial requirements. Just opening an account in banks will not create much impact in the economy. Bankers are rather giving much importance to opening new accounts, than providing loans to these kinds of people. Therefore, GOI and RBI have to take initiative to provide loans to these people. The following actions can be taken a) Each Bank branch should adopt a particular rural geographical area and extend their service to the people residing in that area. b) Banks may open a special counter for meeting out the needs of these people. c) Regulatory authorities should formulate a policy for providing small loans to the poor people based on their requirements. d) Educational institutions may be included in disseminating financial literacy in the form of including financial knowledge contents in their curriculum. e) Improving employment opportunities for poor people will improve their income. f) Why not adopt a 50-50 percentage system (Urban and Rural Population coverage) in the implementation of all financial services by the Banks and Financial Institutions.

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