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Review of Financial Inclusion Practice and its Success in India

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Abstract: *Financial inclusion is a systematic effort to provide essential financial services to all and especially to poor people. This concept has been pushed up by government of India and RBI because even after so many years of independence high population of India remain unbanked because high population of India lives in rural area and poor people and they are not literate enough to understand the pros and cons of various essential financial services. In this paper efforts are made to review various schemes initiated by Government, RBI and others to promote financial inclusion. A model has been designed in this paper to explore various dimensions of financial inclusion. Financial inclusion has increased in overall in India but its effectiveness is still doubted.*

I. Introduction

Financial Inclusion (FI) is a formulated process of providing financial products to every constituents of the society especially the poor or you can say economically backward. RBI have developed the panel for this and implementing it by keeping in mind the main banks. This was done because the burden of financial services to poor people has been made a large prerogative for rural banks and cooperative banks, who are not the mainstream players and therefore mainstream players are not involved in it which leads to many problems. As per many surveys like FITS (Financial Inclusion Tracker Survey) project conducted in India there is high rate of financial inclusion, this concept has been pushed up by government of India and RBI because even after so many years of independence high population of India remain unbanked because high population of India lives in rural area and poor people and they are not literate enough to understand the pros and cons of any specific factor means they don't know what to do and what not to do.

Financial Inclusion program is established by Reserve Bank of India so that all income groups of India can avail the financial services at affordable rates. In many developing countries there are many microfinance institutes whose main focus is on lower income group so that they can work and remove the financial inclusion from developing countries and they can move to their betterment, and become developed countries.

In past 20 years poverty of India has gone down from 55% to 30%, but still lower income group is 40% in India. In approximation there are 25% of people in India who can't afford two times meal in a day and their monthly wages is less than Rs.1500, therefore to improve the welfare of society, RBI establishes Financial Inclusion concept so that lower income group can move to middle income group at least, in these program banks provide individual financial services like they give loans on low interest rate so that they can do their some work. There are many banks who are providing loans to farmer so that they can yield good crops and can sale it and can earn good profit from it.

Each household to have at least one bank account: Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.
Financial inclusion is a key element in the strategy to achieve inclusive development of a nation. **By P. Chidambaram, CRISIL Report**
"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom."- **Nelson Mandela**

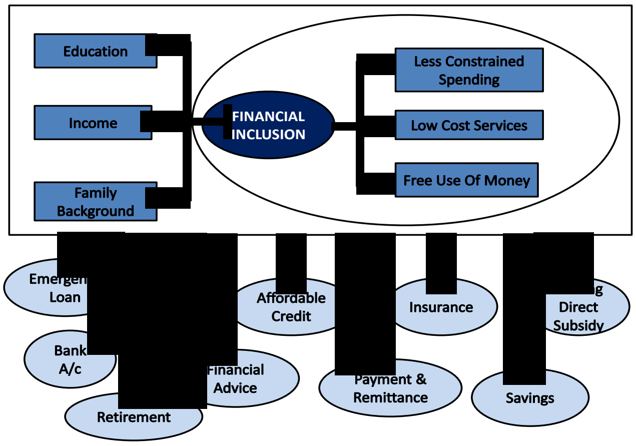
II. Significance Of Financial Inclusion

Besides giving access to banking, it also enables government subsidies and social security benefits to be directly credited to the accounts of the beneficiaries, enabling them to draw the money from the bank **SAATHI** or business correspondents in their village itself.

This initiative enables small and marginal farmers to obtain credit at lower rates from banks and other financial institutions. This would insulate them from exploitation of the money lenders. Government's emphasis on bankers is to take up this task with a sense of responsibility and understanding and exercise courtesy and respect, especially to small borrowers.

The initiative is also important to protect the customers, especially the most vulnerable ones, from harsh financial practices and prevent them from being overburdened by debt. All in all, the end objective should be to empower people to achieve their own goals through enhancing their financial capabilities.

Model Of Financial Inclusion



III. Past Scenario Of Fi In India

Financial inclusion is certainly not just a recent phenomenon. In India, the earliest effort at financial inclusion can be traced back to 1904, when the co-operative movement began in the country.

In a big nation like India, providing banking facilities across the length and breadth of the country, especially in rural areas, has always been a great challenge for the successive governments since Independence. Even though nationalisation gave a big boost to expansion of banks in rural areas with Public Sector Banks becoming important instruments for advancement of rural banking and changing lives of rural populace.

RBI set up the 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 to achieving greater financial inclusion to make available a basic "no-frills" banking account.

The period 1969 to 1991 is witness of a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. In 1991 along with reforms for liberalising and opening the economy, financial sector reform aimed at deregulation, increased competition and strengthening the banking sector through recapitalisation and adoption of prudential measures. The Indian banking industry today is quite robust and strong to be able to take on the challenges of achieving greater financial inclusion.

In the Annual Policy of the Reserve Bank for 2004-05, the Governor, Dr. Reddy observed and I quote - "There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector".

RBI introduced a three-year financial inclusion programme in April 2010 that witnessed banks opening outlets in 200,000 villages. The banking regulator has asked banks to draw up a financial inclusion plan for 2013-2016 to broaden access. According to the panel, by 1 January 2016, each low-income household and small business would have "convenient" access to providers that have the ability to offer them "suitable" investment and deposit products, and pay "reasonable" charges for their services.

'**SWABHIMAAN**' – a financial security program was launched jointly by the Central Government and the Indian Banks' Association (IBA) to ensure banking facilities in habitation with a population in excess of 2000 by March 2012. This nationwide program on financial inclusion was launched in February, 2011 with its focus on bringing the deprived sections of the society in the banking network to ensure that the benefits of economic growth reach everyone at all levels. Through this program government is making effort to transform rural India through financial inclusion.

The Financial Education Campaign provided complimentary resources to organizations with a desire to share financial education information with those they serve. Qualified organizations receive the training and resources they need to deliver a comprehensive financial education program.

RBI governor Raghuram Rajan announced the setting up of the Mor panel in September 2013 to study various aspects of financial inclusion, including institutional frameworks and regulations and a comprehensive monitoring framework to track the progress of the financial inclusion of small businesses and low-income households in India.

Table-1 Financial Inclusion status in India

	As per Census 2001	As per Census 2011
Households	Percentage of households Availing banking services	Percentage of households Availing banking services
Rural	30.1	54.4
Urban	49.5	67.8
Total	35.5	58.7

Source: Rangarajan (2008)

Table-2 Coverage of Banking Services (Ratio of Demand Deposit Accounts to the adult population)

Region/State/Union Territory	Adult Population (Above 19 years)	Total No. of accounts	No. of acc. Per 100 of population	No. of acc. Per 100 of adult pop.
NORTHERN REGION	**67822312**	**56631826**	**43**	**84**
Haryana	11308025	8604132	41	76
Himachal Pradesh	3566886	2567880	42	72
Jammu & Kashmir	5379594	3372319	33	63
Punjab	14185190	14898338	61	105
Rajasthan	28473743	12828959	23	45
Chandigarh	546171	1207303	134	221
Delhi	7929589	13152895	95	166
NORTH-EASTERN REGION	**19708982**	**7367684**	**19**	**37**
Arunachal Pradesh	544582	219611	20	40
Assam	14074393	5449787	20	39
Manipur	1222107	213107	9	17
Meghalaya	1088165	483084	21	44
Mizoram	476205	121326	14	25
Nagaland	995523	209271	11	21
Tripura	1784212	671498	21	38
EASTERN REGION	**122136133**	**49690359**	**22**	**41**
Bihar	40934170	13689753	17	33
Jharkhand	13737485	6000348	22	44
Orissa	21065404	7258164	20	34
Sikkim	288500	129462	24	45
West Bengal	45896914	22487486	28	49
Andaman & Nicobar Islands	213660	125146	35	59
CENTRAL REGION	**129316677**	**66456406**	**26**	**51**
Chhattisgarh	11209425	3538965	17	32
Madhya Pradesh	31404990	12285299	20	39
Uttar Pradesh	82229748	47128859	28	57
Uttaranchal	4472514	3503283	41	78
WESTERN REGION	**86182206**	**52703203**	**35**	**61**
Goa	891411	1665728	124	187
Gujarat	28863095	17176226	34	60
Maharashtra	56207604	33695424	35	60
Dadra & Nagar Haveli	122765	75384	34	61
Daman & Diu	97331	90441	57	93
SOUTHERN REGION	**135574225**	**88052912**	**39**	**65**
Andhra Pradesh	44231918	25130985	33	57
Karnataka	30623289	20234481	38	66
Kerala	20560323	18269788	57	89
Tamil Nadu	39511038	23839326	38	60
Lakshadweep	33686	23488	39	70
Pondicherry	613971	554844	57	90
ALL-INDIA	**541031553**	**320902390**	**31**	**59**

Source: Leeladhar (2005)

Mumbai: A panel of Reserve Bank of India (RBI) has recommended that a special category of banks, called payments banks, be set up to widen the spread of payment services and deposit products to small businesses and low-income households in Asia's third-largest economy, where about 40% of the population still do not have access to formal financial services.

Such banks will have a minimum entry capital requirement of Rs. 50 crore, one-tenth of what a full-service bank requires, since they will have a near-zero risk of default, said the panel headed by **Nachiket Mor,** a member of RBI's central board. Payments banks will be required to comply with all RBI guidelines relevant for commercial banks.

The Mor panel has also proposed the creation of a universal electronic bank account (UEBA) for all adult Indian citizens and access to formal credit for low-income households and small businesses by January

2016 and major changes in priority sector lending norms, among other things. The country should have enough number and distribution of electronic payment access points so that "every single resident would be within a 15 minute walking distance from such a point anywhere in the country" by January 2016, the panel said.
To enable non-banking financial companies (NBFCs) to become more active in spreading financial inclusion, the Mor panel has recommended a partial convergence of norms for NBFC and banks with regard to bad loan norms. Besides, the panel has proposed to restore the permission of non-deposit taking NBFCs to act as business correspondents of a bank.

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Some experts say that existing institutions such as **GRAMEEN** banks can be used effectively to expand access to financial services to the poor. India has 57 **GRAMEEN** banks with more than 17,000 branches across the country. Some other information on FI i as follow:
1. The Financial Inclusion Taskforce was established by HM Treasury following the publication of 'Promoting financial inclusion' and was formally launched in April 2005.
2. The Taskforce terms of reference cover the three key priority areas identified in 'Promoting financial inclusion': access to banking, affordable credit and free face-to-face money advice.
.3. Following the PAT14 report on access to financial services in 1999, the banking industry worked with the Government to introduce the basic bank account which is specifically designed to address the needs of the financially excluded. In April 2003, the Government began the process of transforming the payment of benefits to direct electronic payment. A significant proportion of benefit recipients were without a bank account and basic bank accounts were expected to meet much of this need. The Post Office Card Account (POCA) was introduced, with a financial contribution from the banks of £182 million over five years, as a stepping stone into electronic money management.
4. Despite this, the Family Resources Survey indicated that in 2002/03 there were 1.9 million households without a bank account of any kind, containing around 2.8 million adults. In December 2004, the Government and the banks agreed to work together towards the shared goal. The 2002/03 Family Resources Survey data is the baseline for the goal.

IV. It Solutions For Financial Inclusion

The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the FI initiatives. Pilot projects have been initiated using smart cards for opening bank accounts with bio metric identification.

On June 25, 2013, CRISIL India's leading credit rating and Research Company launched an index to measure the status of financial inclusion in India. CRISIL Inclusive is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusive is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration —into one metric.

- The **all-India CRISIL Inclusive score** of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.
- **Deposit penetration** is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- **618 out of 632 districts** reported an improvement in their scores during 2009-2011.
- The **top three states** and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

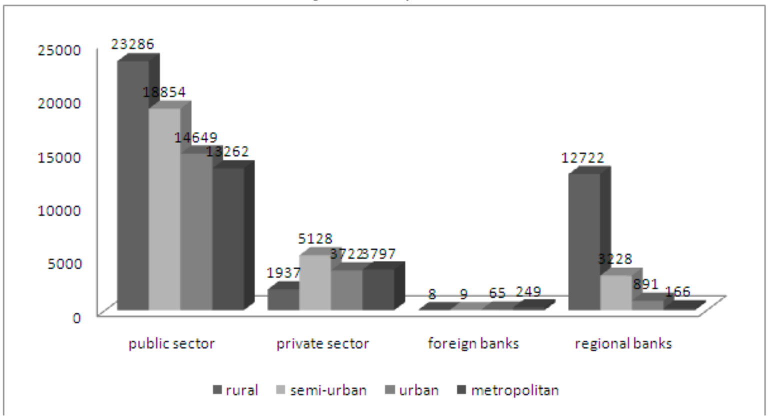
Table-3 **Financial Inclusion Index by CRISIL**

Region	Inclusion 2011	Inclusion 2010	Inclusion 2009
India	40.1	37.6	35.4
Southern Region	62.2	58.8	54.9
Western Region	38.2	35.8	33.9
Northern Region	37.1	34.8	33.3
Eastern Region	28.6	26.3	24.3
North-eastern Region	28.5	26.5	23.8

Source: Crisil Inclusix (2013)

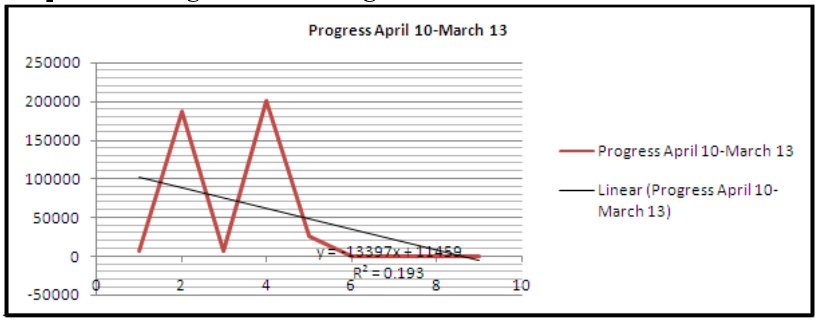
CRISIL Inclusix scores for 618 districts (of the total 632 districts in India) improved in 2011 from their 2009 levels.

Chart-1 Banking Industry Financial Inclusion



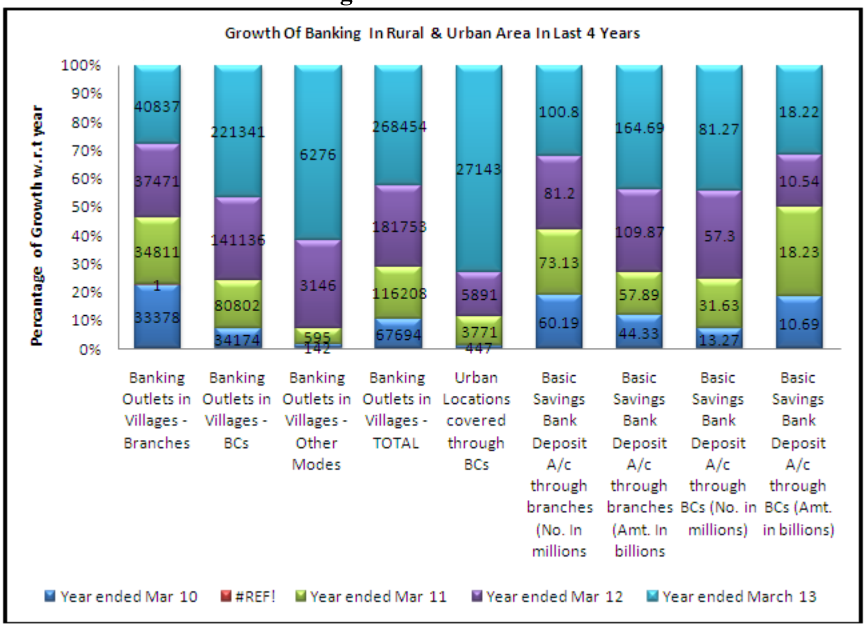
Source: Rangarajan (2008)

Chart-2 Overall Progress in Banking in Urban and Rural Areas in Last 4 Years



Source: Rangarajan (2008)

Chart-3 Growth of Banking in Rural and Urban Area in Last 4 Years



Source: Rangarajan (2008)

V. Conclusion

The financial system in India has grown rapidly in the last three decades and more. The functional and geographical coverage of the system is truly impressive. Nevertheless, data do show that there is exclusion and that poorer sections of the society have not been able to access adequately financial services from the organized financial system. There is an imperative need to modify the credit and financial services delivery system to achieve greater inclusion. There is a long way to modify particularly the credit delivery system of the banks and other related institutions to meet the credit requirements of marginal and sub-marginal farmers in the rural areas in a fuller measure. However, creating an appropriate credit delivery system is only a necessary condition. This needs to be supplemented by efforts to improve the productivity of small and marginal farmers and other entrepreneurs so that the credit made available can be productively employed. While banks and other financial institutions 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 earnings capacity of the poorer sections of the society. The two together can bring about the desired change of greater inclusion quickly.

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