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Financial Inclusion: Indian Initiatives in the Global Perspective

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Abstract: *This comprehensive paper attempts to critically evaluate the initiatives taken by India through the Reserve Bank of India in achieving financial inclusion and the efforts made by the Banks and other organs in India for offering financial services and financial products as envisaged under the Financial Inclusion Scheme, on the basis of the objective data derived from the RBI'S reports and other empirical studies. This paper attempts to develop an overview of approaches to and trends in Indian Economy in the International perspective for achieving Inclusive growth through Financial Inclusion Scheme, to offer access to finance by the poor, disadvantaged and underprivileged group which is a prerequisite of poverty alleviation on one hand and the economic growth on the other. This paper argues that in the struggle against poverty, the financial inclusion is a crucial element. This paper pinpoints that the large sections of the rural population have no access to financial services and their only recourse is to borrow from moneylenders at the exorbitant charges causing exploitation; and the main reason why the large section of the rural population still remains under below poverty is financial exclusion, which is proving to be a major obstacle in the path of India's economic growth. The Reserve Bank of India (RBI)'s dictate (2005) obligated the Banks to adopt the national policy of financial inclusion and take initiatives and suitable measures therefor. The objective data derived from the RBI'S reports and other empirical studies unequivocally pinpoint that the main reasons of financial exclusion are lack of opportunities and access to finance, financial illiteracy, besides poor performance, apathy and negative approaches of the Banks. Therefore, financial inclusion, today, has become the national objective and major concern for the economic policy decision makers. This paper critically addresses all concerned issues involved in achieving the national objective of achieving the complete financial inclusion. This paper stresses the need of matured, positive attitude and approach and sound strategy to achieve complete financial inclusion. This paper also looks at some of the business models and essential elements of profitable models for financial inclusion so as to increase the meaningful and whole hearted participation of the banks in achieving complete financial inclusion.*

Keywords*: Poverty alleviation, financial exclusion, financial illiteracy, RBI, Financial Inclusion, Global Financial Inclusion Index.*

I. Introduction

The problem of financial exclusion varies widely across countries and is especially pronounced between developed and developing countries. In developed countries, the nature of the problem is to include small percentages of people who are outside the banking net and to improve access to people who suffer due to switching of banks from branch banking to internet banking. In developing and underdeveloped countries such as India, South Africa and other African countries, the nature of exclusion is very different because majority of the population in these countries do not have access to basic financial services at an affordable cost. A variety of schemes have been designed and implemented across the world to tackle financial exclusion. The United States passed the Community Reinvestment act in 1977 that prohibits banks from targeting rich neighborhoods alone. The law of exclusion in France makes holding bank account as a right. Credit unions in the US and the UK offered flexibility in providing affordable credit to customers. South Africa has 'MZANSI' account which is a low cost card-based savings account with easy accessibility. Mexico has a microfinance program called 'PATMIR' where savings take precedence over credit. Canada has free encashment of government cheques even for non-customers. The UK has set up a separate independent financial inclusion task force which mainly looks at three priority areas namely access to banking, access to affordable credit and access to free face to face money advice. The government also allotted 120 million pounds to the fund for financial inclusion over three years. Banks in various countries have extended basic savings accounts similar to 'no frills' account, though with different names, with a view to making financial services accessible to the common man.

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognised (RBI, 2008) as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and

actively contribute to development and protects themselves against economic shocks. Despite the board international consensus regarding the importance of access to finance as a crucial poverty alleviation tool, it is estimated that globally over tow billion people are currently excluded from access to financial services (United Nations, 2006). In most developing countries, a large segment of society, particularly low-income people, has very little access to financial services, both formal and semi-formal. As a consequence, many of them have to necessarily depend either on their own or informal sources of finance and generally at an unreasonably high cost. The situation is worse in most least developed countries (LDCs), where more than 90 per cent of the population is excluded from access to the formal financial system.

Bringing the larger population within the structured and organised financial system has explicitly been on the agenda of the Reserve Bank of India since 2005. There are a large number of people, potential entrepreneurs, small enterprises and others, who may not have adequate access to the financial sector, which could lead to their marginalization and denial of opportunity to grow and prosper. In a fast growing economy, an important issue is how to sustain and diversify growth so that the risk to growth process is diversified across sectors.

The large section of population below the expenditure curve also points to a worrying inequity in incomes, something that should concern planners as the government looks to target benefits for those who need them through initiatives like food security and employment guarantees.

In an underdeveloped financial system, certain segments of the population experience difficulties in obtaining appropriate access to financial services. As a result, they have to resort to high cost informal sources such as moneylenders.

Below given in Table I are the eye-washing figures depicting that it is still a serious matter of concern that 60% of population in most states is below poverty line, (Sunday Times, 2012).

Table I : Population Below The Average Monthly Spending

	Rural		Urban	
State	Average monthly spending	% Below This	Average monthly spending	% Below This
Andhra	1,234	63.9	2,238	67.8
Arunachal	1,546	64.0	1,947	61.9
Assam	1,003	59.4	1,755	60.2
Bihar	780	60.6	1,238	66.2
C’garh	784	62.1	1,674	66.0
Delhi	2,068	62.1	2,654	63.2
Goa	2,065	61.2	2,644	62.5
Gujarat	1,110	60.6	1,909	60.0
Haryana	1,510	60.6	2,321	69.2
Himachal	1,536	64.5	2,654	64.9
J&K	1,344	61.0	1,759	66.6
J’khand	825	64.6	1,584	67.9
K’taka	1,020	62.8	2,053	64.6
Kerala	1,835	67.3	2,413	69.0
MP	903	64.0	1,666	66.8
M’rashtra	1,153	61.0	2,437	69.1
Manipur	1,027	60.1	1,106	68.7
Meghalaya	1,110	61.0	1,629	59.8
Mizoram	1,262	59.5	1,947	58.0
Nagaland	1,476	60.8	1,832	60.8
Orissa	818	62.4	1,548	67.0
Punjab	1,649	65.9	2,109	65.5
Rajasthan	1,179	67.0	1,663	65.3
Sikkim	1,321	68.7	2,150	53.5
TN	1,160	63.3	1,948	64.9
Tripura	1,176	63.8	1,871	64.4
UP	899	62.8	1,574	70.0
U’khand	1,747	83.6	1,745	62.6
W Bengal	952	60.6	1,965	68.4
All India	1,054	64.47	1,984	66.7

Notes : Average daily consumption expenditure per capita per day for rural areas is Rs. 35.10 and for urban areas in Rs. 66.10.

Source: Sunday Times of India, “Times Nation” New Delhi Edn. 29 April 2012-P 15

The 60-plus% of population below the average monthly spending is clearly not progressing as fast as the segment whose income and expenditure is disproportionately influencing the statistical mean. This might point to the need to examine the nature of employment and be a wake-up call for efforts to improve skills.

Among the states, there is not much to choose between those often stigmatized as "backward" like UP and Bihar, Gujarat and Maharashtra. Even in the better off states, the percentage of rural populations below the average monthly expenditure line is above 60%. In urban areas, it is a shade under 60% for Gujarat, but almost 70% for Maharashtra.

Lack of opportunities and access to finance besides financial illiteracy (*RBI, 2008*) are the main causes of financial exclusion. Financial exclusion is proving to be a major thorn in the path of Indian economic growth. Access to finance by the poor, disadvantaged and unprivileged group is a prerequisite for poverty reduction and social upliftment. One of the main reasons why the large section of the rural population still remains under below poverty line is lack of opportunities and access to finance besides financial illiteracy. Large sections of the rural population have no access to financial services and their only recourse is to borrow from money lenders, who charge exorbitant rates. Also, ignorance is rife, with concepts like insurance virtually unheard of. One of the main reasons why mass poverty is persisting in India is that the problem of financing the poor still remains unresolved.

In the struggle against poverty (Nadkarni, 2012) financial inclusion is a crucial element. One of the main reasons why mass poverty is persisting in India is that the problem of financing the poor still remains unresolved. Availability of timely and adequate credit tailored to the needs of the poor and at affordable cost makes all the difference between survival and sinking. The poor need financial services mainly for three purposes, (*Stuart Rutherford, 2001*), all of which call for equal attention. First, to defray expenses related to education, house-building, invariably go in for loans. Secondly, there are emergencies such as serious illnesses, death in the family, and property loss due to accident. Thirdly, there are investment needs to buy or build income-earning assets.

Financial inclusion does not mean (Karmakar et al., 2011) mere quantitative or geographical expansion of bank branches, although it certainly is an important aspect of inclusion. Financial Inclusion is the process of providing this vital element.

Traditionally, institutional finance (Nadkarni, 2012) has tended to address the last of these three types, to the neglect of the other tow, even where its' targeted beneficiaries were the poorer sections of the population. And this led to ironical situations like the one where the borrower felt compelled to sell off the income-earning asset he had acquired on the strength of loans. The resultant trust deficit percolated even to production loans. The deep distrust banks have traditionally shown towards the economically weaker sections particularly in the matter of giving consumption loans stands in sharp contrast to the fierce competition they get into while extending credit to the affluent for buying, say, posh houses and luxury cars. Inevitably, the poor were pushed into the stranglehold of the private moneylenders and made to wallow in perpetual poverty.

In India, growth with equity has been the central objective right from the inception of the planning process. Accordingly, over the years, initiatives have been taken continuously by the Government and the Reserve Bank to address the issue of inclusive growth. Notwithstanding the rapid increase in overall GDP and per capita income in recent years, a significant proportion of the population in both rural and urban areas still experiences difficulties in accessing the formal financial system. Recent concerns have arisen from an inadequate reduction in poverty levels, sectoral divergences in growth and employment opportunities and tardy improvement in other social indicators, despite higher economic growth. The Eleventh Five Year Plan, therefore, re-emphasised the need for a more inclusive growth in order to ensure that the per capita income growth is more broad-based. The farming, micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth as these sectors contribute to output and employment generation in a significant way with capacity to expand regionally diversified production and generating widely dispersed off-farm employment.

II. Access to Finance: Conceptual Framework

Concept and Definition

Defining financial inclusion is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to low level of access to the financial system. A review of literature suggests that there is no universally accepted definition of financial inclusion.

The definitional emphasis of financial inclusion varies across countries and geographies, depending on the level of social, economic and financial development; the structure of stake holding in the financial sector; socio-economic characteristics of the financially excluded segments; and also the extent of the recognition of the problem by authorities or governments. Broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate from due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities.

Over the years, several definitions of financial inclusion/exclusion have evolved (Table 7.1). The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services. The focus narrows down mainly to the products and services provided by the

mainstream financial service providers. Such financial products may include money transmission, home insurance, short and long-term credit and savings (Bridgeman, 1999).

The review of literature suggests that the most operational definitions are context-specific, originating from country-specific problems of financial exclusion and socio-economic conditions.

The operational definition of financial inclusion, based on the access to financial products or services, also underscores the role of financial institutions or service providers involved in the process.

Nature, Causes and Consequences of Financial Exclusion

Financial Exclusion – India vs World

The extent of financial exclusion in India is found to be higher compared with many developed and some major emerging economies, as seen in Table II. This table clearly depicts the wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, and credit and debit cards.

Table II : Financial Access : Cross Country Analysis

Country	No. of branches (per 1 lakh adults)	No. of ATMs (per 1 lakh adults)	Bank credit (as % of GDP)	Bank deposits (as % of GDP)
India	10.91	5.44	43.62*	60.11*
Austria*	11.81	48.16	35.26	32.57
Brazil	13.76	120.62	29.04	47.51
France	43.11	110.07	56.03	39.15
Mexico	15.22	47.28	16.19	20.91
UK*	25.51	64.58	467.97	427.49
United States	35.74	173.75*	46.04	53.14
Korea	18.63	250.29*	84.17	74.51
Afghanistan	2.25	0.50	11.95	21.4
Philippines	7.69	14.88	27.57	53.02

Source : World Bank, Financial Access Survey, RBI, published in Indian Express, July 27, 2012.

Notes: (1) Data given in the Table pertains to 2010. However, for rows/cells indicated as* Data pertains to 2009. (2) As at end of 2010-11, [a] the number of ATMS per 1 Lakh population stood at 6.3, [b] Bank Credit and Bank Deposit as a percentage of GDP stood at 50.10% and 66.10% respectively.

Measurement of Financial Inclusion/Exclusion

While the importance of financial inclusion has been widely accepted, much less is known about how inclusive the financial systems are and who has access to which financial services. The literature on financial inclusion lacks a comprehensive measure that can be used to indicate the extent of financial inclusion across countries. Though indicators of the depth of banking system, capital markets, and insurance sector are widely available, there is less information available about the degree of financial inclusiveness. Lack of information is more conspicuous in developing countries where there is little systematic information on who is served by the formal financial sector, which financial institutions or services are the most effective at supporting access by poor households and small enterprises, or what practical and policy barriers may be hindering the accessibility.

State wise information on the number of households and the number of saving bank accounts in 2011 is given in Table III.

Table III : State wise Percentage of Households availing Banking Services in 2011

Sr. No.	India/State/Union Territory #	Percentage of Households availing Banking services
(01)	A & N Islands	89.3
(02)	Andhra Pradesh	53.1
(03)	Arunachal Pradesh	53.0
(04)	Assam	44.1
(05)	Bihar	44.4
(06)	Chandigarh	80.1
(07)	Chhattisgarh	48.8
(08)	Dadra & Nagar Haveli	56.7
(09)	Daman & Diu	65.4
(10)	Delhi	77.7
(11)	Goa	86.8
(12)	Gujarat	57.9
(13)	Haryana	68.1
(14)	Himachal Pradesh	89.1
(15)	Jammu & Kashmir	70.0
(16)	Jharkhand	54.0
(17)	Karnataka	61.1
(18)	Kerala	74.2

(19)	Lakshadweep	85.3
(20)	Madhya Pradesh	46.6
(21)	Maharashtra	68.9
(22)	Manipur	29.6
(23)	Meghalaya	37.5
(24)	Mizoram	54.9
(25)	Nagaland	34.9
(26)	Odisha	45.0
(27)	Puducherry	64.0
(28)	Punjab	65.2
(29)	Rajasthan	68.0
(30)	Sikkim	67.5
(31)	Tamil Nadu	52.5
(32)	Tripura	79.2
(33)	Uttar Pradesh	72.0
(34)	Uttarkhand	80.7
(35)	West Bengal	48.8
	ALL INDIA	58.7

Source : Census of India 2011

State-wise Index of Financial Inclusion (IFI) is depicted in Table IV

Table IV: State-wise Index of Financial Inclusion (IFI)

State	Penetration	Availability	Usage	IFI	IFI Rank
High Financial Inclusion (0.5-1)					
Kerala	0.70	0.81	0.28	0.54	1
Maharashtra	0.62	0.29	1	0.53	2
Karnataka	0.72	0.47	0.46	0.53	3
Medium Financial Inclusion (0.3-0.5)					
Tamil Nadu	0.70	0.43	0.38	0.48	4
Punjab	0.45	0.69	0.29	0.45	5
Andhra Pradesh	0.56	0.30	0.41	0.41	6
All-India	**0.27**	**0.22**	**0.55**	**0.33**	**7**
Himachal Pradesh	0.42	0.40	0.18	0.33	8
Sikkim	0.28	0.33	0.34	0.32	9
Haryana	0.39	0.50	0.12	0.32	10
Low Financial Inclusion (<0.3)					
West Bengal	0.24	0.38	0.23	0.28	11
Gujarat	0.32	0.30	0.16	0.26	12
Uttar Pradesh	0.28	0.31	0.15	0.24	13
Meghalaya	0.21	0.28	0.14	0.21	14
Tripura	0.31	0.22	0.08	0.20	15
Orissa	0.26	0.23	0.11	0.20	16
Rajasthan	0.25	0.22	0.12	0.19	17
Arunachal Pradesh	0.20	0.16	0.14	0.17	18
Mizoram	0.13	0.26	0.09	0.16	19
Madhya Pradesh	0.18	0.21	0.08	0.16	20
Bihar	0.15	0.24	0.08	0.15	21
Assam	0.17	0.17	0.07	0.13	22
Nagaland	0.03	0.04	0.07	0.05	23
Manipur	0.00	0.01	0.01	0.01	24

Source : RBI Working Paper on Financial Inclusion in India- By Sadhan Kumar Chattopadhyay, July 2011 Retrieved from http://www.rbi.org.in/scripts/PublicationsView.aspx?id=13517

According to the empirical results, (vide Table IV, above) :-

(a) Kerala, Maharashtra and Karnataka are some of the States having wider (high) extent of financial inclusion as compared to other States of India.

(b) Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion.

(c) The extent of financial exclusion is found to be significantly low in North-Eastern and Eastern States, i.e., Assam, Nagaland, Manipur, Odisha, Bihar, West Bengal, etc.

The analysis implies that all the States, except three categorized as/under HFI have to go a long way in achieving financial inclusion.

Financial Inclusion and Inclusive Growth: What the Empirical Evidence Suggests?

Inclusive growth as a strategy of economic development has received renewed attention in recent years owing to rising concerns that the benefits of economic growth have not been equitably shared. Growth is inclusive when there is equality of economic opportunities. Financial inclusion makes growth broad based and sustainable by progressively encompassing the hitherto excluded population. Financial inclusion is no longer a policy choice but a policy compulsion (RBI, 2011b). Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. The inclusive growth country analytics has a distinct character focusing on the pace and pattern of growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and include a large part of the country's labour force. This analytics of inclusive growth implies a direct link between the macro and micro determinants of growth. Some of the important factors determining the level of financial inclusion in a country are per capita GDP, income inequality, adult literacy and urbanization. Further, physical and electronic connectivity and information availability such as telephone and internet usage also play positive role in enhancing financial inclusion. The empirical findings strengthen the argument that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanization and poor connectivity appear to be less financially inclusive. Financial inclusion, therefore, assumes importance as a policy objective (RBI, 2011b). All Banks in the Country were advised by RBI, since November 2005, to take all measures and adopt suitable strategies. One element of the strategy enumerated, to achieve the desired target of Financial Inclusion, is through - (a) No-frills accounts, (b) diluted Know-Your-Customer (KYC) norms, (c) Banking Correspondents (BCs) and (d) use of Information Technology. Accordingly, all Public Sector Banks (PSBs), Private Banks (PBs), Cooperative Banks (CBs), undertook the mandated task, willingly or unwillingly, either in a phased manner or otherwise. They either started opening their branches at the suitable villages or appointed their bank correspondents or adopted outsourcing method. The progress of financial inclusion plans in India as on March 31, 2012 is depicted in the Table V.

Table V : Progress of Financial Inclusion Plan in India

(as on March 31, 2012)

Banking outlets	
Rural branches	24701
BC outlets	120355
Other modes	2478
Total	**147534**
Total number of 'No frill accounts'	**103.21 million**
	(increase of 39.6%)
Operations in NFA (2011-12)	
Outstanding balance	**Rs. 932.89 billion**
Overdrafts	**Rs. 3.39 billion**
Transactions through ICT based BC outlets (2011-12)	**119.77 million**
KCC credit	**Rs. 2.15 million**
GCC credit	**Rs. 0.22 million**

Source : Khan (2012)

It is observed from the above empirical studies that although there has been an improvement in outreach activity in the banking sector, (Chattopadhyay, 2011), the achievement is not significant. An index of financial inclusion (IFI), developed in one of the studies, (Chattopadhyay, 2011), using data on three dimensions of financial inclusion (FI), namely High level FI, Medium level FI and Low level FI, shows that only three states in India lead with the highest IFI value of 0.5 or more.

This implies that all the remaining States have to go a long way in achieving financial inclusion. In order to get a comparable picture, state-wise IFI has also been computed and it is found that Kerala tops the list in financial inclusion followed by Maharashtra and Karnataka. Apart from this computation, empirical studies also reveal that in these three states, only developed areas and large scale urban cities lead with the highest IFI value of 0.5 or more; and the results further reveal that around 40 per cent of the rural population suffer from financial illiteracy; and out of the remaining 60 percent population, about 50 per cent feel that they do not have sufficient income to open an account in the bank. It is also revealed that moneylenders are still a dominant source of rural finance despite wide presence of banks in rural areas.

In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be considerable. However, only supply side factor is not responsible for the financial exclusion. Demand side factors are also equally responsible for this exclusion. Thus there is a need to solve both these problems with the help of appropriate policies. A whole-hearted effort is called for from all the corners of the society, viz., banks, beneficiaries and regulators in order to make financial inclusion more

meaningful and effective. In nutshell, this heart pinching scenario implies that all the rural and semi-urban areas have to go a long way in achieving financial inclusion.

Financial inclusion is meant to include all the sections of the society, (Chattopadhyay, 2011), who are mainly out of the net of the financial institutions. Since it is difficult to cover all the sections of the society in our study, we concentrate only on the rural sector because of its enormity on the one hand and significance on the other. Agriculture, being the vast sector of the economy, has a larger implication of financial inclusion.

Global Financial Inclusion database (Global Findex)

The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, (UNDP, 2006), which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking / payment services to all *'bankable'* households and enterprises at a reasonable cost. The Report of the Centre for Global Development : Task Force on Access to Financial Services, (CGD : October, 2009), (Patrick Honohan, 2009), has laid down the broad policy principles for expanding financial access, including institutional mechanisms, with particular emphasis on the need for ensuring data collection, monitoring and evaluation. The G20 Toronto Summit (June, 2010) had outlined the "Principles for Innovative Financial Inclusion", which serves as a guide for policy and regulatory approaches aimed at fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved in the delivery of a full range of affordable and quality financial services.

The global financial crisis has brought the need for financial inclusion into greater focus worldwide as it is believed that widespread incidence of financial exclusion was one of the factors that precipitated the financial crisis. While spread of financial inclusion is recognized through formal financial institutions such as banks, credit unions, post offices or microfinance institutions, the approach of keeping some/ all of these entities as a part of the core or as support players, varies from country to country. Besides, it is important to note that the defining principles of financial inclusion, coverage, role and responsibilities of institutions and measurement / monitoring requirements have been evolving over the years. Financial Inclusion is fast emerging as a candidate for being a core driver of sustainable long-term economic growth and is, therefore, attracting the attention of central bankers and various global developmental and financial institutions. It is, however, emerging that a lot of ground remains to be covered in understanding the reach of the financial sector, and particularly, the degree to which vulnerable groups such as the poor, women, and youths are excluded from formal financial systems. Availability of systematic indicators of the use of different financial services needs to be improved in most economies and consequently, at the global level. It is heartening to note that multilateral organizations such as the World Bank and the International Monetary Fund (IMF) are paying attention to the development of relevant database, besides focusing on the issue of financial inclusion through policy prescriptions and guidelines. The World Bank database, known as the Global Financial Inclusion database (Global Findex), provides survey based data as part of the annual Gallup World Poll. The survey conducted in 2011 covered at least 1,000 adults each in 148 economies using randomly selected, nationally representative samples.

The focus of the Global Findex Database encompasses a set of indicators that measure how adults save, borrow, make payments, and manage risk, stressing thereby on how a well-functioning financial system serves the vital purpose of offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allowing broad access to financial services, without price or non-price barriers to their use, are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or for entrepreneurial activities, while small enterprises would need to rely on their limited earnings to take advantage of promising growth opportunities. This can contribute to persistent income inequality and slower economic growth. Findex reports data in terms of the proportion of people (of age 15+) for a number of parameters such as (a) who have saved money with financial institutions or other sources, (b) taken loan from financial institutions or other sources, (c) paid for health / agriculture insurance and (d) used cheques / electronic payment / mobile payment systems for financial transactions. The World Bank has released a research study on the database in April 2012. A snapshot of the data on some indicators for select countries is given in Table VI.

Table VI: World Bank's FINDEX - Select Indicators on Financial Inclusion - 2011
(Proportion of Population of Age 15+)

Countries →	USA	U.K.	Germany	Russia	Brazil	China	India
Indicators ↓							
CREDIT:							
Loan from a financial institution in the past year	20.1	11.8	12.5	7.7	6.3	7.3	7.7
Loan from a financial institution in the past year, income, bottom 40%	17.6	11.1	12.3	6.3	3.5	7.7	7.9

Loan from a financial institution in the past year, income, top 60%	22.3	13.2	13.7	8.7	8.2	7.0	7.5
Loan in the past year	44.6	28.8	25.3	31.9	23.8	29.4	30.6
Loan in the past year, income, bottom 40%	45.1	28.1	25.4	32.1	19.7	32.4	35.7
Loan in the past year, income, top 60%	44.2	30.2	24.6	31.7	26.6	27.3	24.9
INSURANCE:							
Personally paid for health insurance	NA	NA	NA	6.7	7.6	47.2	6.8
Purchased agriculture insurance (% working in agriculture, age 15+)	NA	NA	NA	3.7	11.2	7.2	6.6
PAYMENTS:							
Checks used to make payments	65.5	50.1	7.2	5.2	6.7	1.8	6.7
Electronic payments used to make payments	64.3	65.3	64.2	7.7	16.6	6.9	2.0
Mobile phone used to pay bills	NA	NA	NA	1.7	1.3	1.3	2.2
SAVINGS:							
Saved at a financial institution in the past year	50.4	43.8	55.9	10.9	10.3	32.1	11.6
Saved at a financial institution in the past year, income, bottom 40%	32.1	43.5	55.1	8.8	5.8	18.3	10.4
Saved at a financial institution in the past year, income, top 60%	66.5	44.3	60.0	12.4	13.3	41.7	12.9
Saved any money in the past year	66.8	56.7	67.3	22.7	21.1	38.4	22.4
Saved any money in the past year, income, bottom 40%	51.5	56.2	67.1	18.9	12.1	23.3	19.4
Saved any money in the past year, income, top 60%	80.2	57.7	68.1	25.4	27.1	48.9	25.8

NA: Not Available
Source : Chakrabarty, (2012),
Retrieved from RBI, Website: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx ?Id =749]

The aforesaid research study on the database (Chakrabarty, 2012), reveals that:

(i) 50 per cent of adult population worldwide report owning an account with a formal financial institution, but actual operation and use of these accounts for transactions varies widely across regions and economies, (World Bank, 2011). And when one starts probing the numbers granularly, the actual spread of financial inclusion indicators across countries would turn out to be wider.

(ii) Financially excluded populace is predominant in developing countries, where only 41 per cent adults have a formal account, with only 37 per cent of women having formal account against 46 per cent of men; the gender gap widens further because of varying degrees of income inequalities observed among the developing countries.

(iii) The cross country comparison would reveal that bank account penetration, measured as a per cent of adult population, varies widely across the countries. In high-income economies, account based financial inclusiveness is much higher with 89 per cent adults having accounts with formal financial entities. For India, account penetration is reported to be 35 per cent, (RBI, 2011-12), (43.7 per cent for men and 26.5 per cent for women) while China scored better at 63.8 per cent (67.6 per cent for men and 60 per cent for women). South Korea reported high account penetration at 93 per cent, universality of education, and particularly, the spread of financial literacy.

(iv) However, such aggregative nature of data masks many critical performance related information for understanding the depth and granularity at sub-national level. Another speciality of the database (FINDEX) used in the World Bank study is that it is a survey based reporting system which may have small sample biases and such constraints are natural for household surveys, particularly, when they involve people in the lower rung of the financial inclusion pyramid.

Likewise, the IMF has initiated the "Financial Access Survey" (FAS) in 2009, in an endeavour to put together cross country data and information relating to the issue of financial inclusion and has published the data in July 2012, (IMF, 2012). According to IMF, the FAS is the sole source of global supply-side data on financial inclusion, encompassing internationally comparable basic indicators of financial access and usage. It is the data source for the G-20 Basic Set of Financial Inclusion Indicators endorsed by the G-20 Leaders at the Los Cabos Summit in June 2012. The FAS database currently contains annual data, for the period 2004-2011, for 187 jurisdictions, including all G20 economies. The FAS data covers data on country-wise availability of bank branches and ATMs per 1000 sq.km. and per 100,000 adults, number of deposit and loan accounts with banks per 1000 adults and deposit-GDP and credit-GDP ratios. A glimpse of the data is given in Table V.

Table IV: IMF's FAS Database - Select Indicators on Financial Inclusion

Countries →	USA		U.K.		Germany		Russia		Brazil		China		India	
Year →	2005	2011	2005	2011	2005	2011	2005	2011	2005	2011	2005	2011	2005	2011
Indicators ↓														
ATMs per 1,000 km	43.2	NA	240.9	NA	NA	NA	1.7	11.2	17.4	20.6	NA	NA	NA	25.4
ATMs per 100,000 adults	168.6	NA	117.9	NA	NA	NA	22.8	152.9	108.9	119.6	NA	NA	NA	8.9
Commercial bank branches per 1,000 km	8.5	9.6	58.0	NA	40.9	NA	2.1	2.7	NA	7.9	NA	NA	23.2	30.4
Commercial bank branches per 100,000 adults	33.1	35.4	28.4	NA	20.2	NA	28.4	37.1	NA	46.2	NA	NA	9.0	10.6
Deposit accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA	NA	NA	705.7	1032.7	NA	NA	607.3	953.1
Household deposit accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	576.6	853.0
Household loan accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA	NA	NA	NA	747.4	NA	NA	7.4	20.6
Loan accounts with commercial banks per 1,000 adults	NA	NA	NA	NA	NA	NA	NA	NA	NA	853.7	NA	NA	100.4	142.0
Outstanding deposits with commercial banks(Percent of GDP)	48.0	57.8	356.5	422.8	20.1	27.6	18.7	45.0	34.0	53.3	123.2	159.3	47.3	68.4
Outstanding loans from commercial banks (Percent of GDP)	48.9	46.8	377.6	460.0	24.7	24.2	29.5	63.9	21.2	40.3	85.3	108.7	31.2	51.8

NA: Not Available
Source : 1. Chakrabarty, (2012), 2. IMF's Financial Inclusion Survey July 2012
Retrieved from RBI, Website: http://www.rbi.org.in/scripts/BS_SpeechesView.aspx ?Id =749].

Major Issues and Challenges in Financial Inclusion in India

There are several issues and challenges to achieve the target of complete financial inclusion; however, for restricting to the theme of the paper and space constraints, only major issues, challenges *vis-à-vis* strategies have been dealt with.

1. Change in the approach of Banks: Only access to credit or banking is NOT the financial inclusion: Achieving complete Financial Inclusion: It is often noticed that mere opening a Bank Account is taken or claimed as achieving the target of financial-inclusion. Many empirical studies and Usage Analysis reveal that after opening such bank accounts, hardly there are any transactions take place in such bank accounts. Banks must genuinely strive to provide the directed services under the category or scheme of financial inclusion to the rural population, since they are the main pillars for the desired success. On this backdrop, the claims of policy-makers, banks, etc., the illusions created and mythical success stories spread must be tested on the basis of parameters enumerated on the background of the RBI's norms and expectations, (NABARD, 2012). Basically, though, the financial inclusion is meant to include all the sections of the society, who are mainly out of the net of the financial institutions, (Chattopadhyay, 2011), yet, financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. Every society should ensure easy access to public goods, (Seth, 2011). Therefore, banking service being a public good should also be aimed at providing service to the entire population. However, empirical studies show that :-

(a) Some banks have no desire to achieve the complete financial inclusion;
(b) Some banks have formed opinion that the complete financial inclusion is not possible and/or it is an empty and useless exercise;
(c) The Banks are ready or eager, but their branch employees are reluctant or give lame excuses to implement the scheme of financial inclusion;

(d) Those who, unwillingly and reluctantly implement the scheme of achieving financial inclusion, assume that merely opening a bank account is the implementation of scheme of financial inclusion;
(e) Affordable credits are made available only as compulsions;
(f) Only in rare cases some of the banks make attempts to provide financial advice to the poor or disadvantaged people;
(g) The costs of serving the poor can be significant in the short-term, thereby, impacting profitability.

This attitude or mindset reflects a very narrow approach to tackling the problem of financial inclusion. Bankers should, therefore, change their mindsets, view financial inclusion as a viable business proposition and adopt innovative methods and low-cost delivery models to reach out to the poor. They should study the different markets across India thoroughly and offer region-wise customized products and services riding on the higher levels of trust enjoyed by them over the other financial service providers in rural India. It was in the context of financial inclusion of the excluded and to facilitate the electronic benefit transfer that banks were directed (GoI-FM, 2012), **to ensure opening of one bank account per family**. In order to accomplish the objective and to have proper monitoring of the progress various modalities have been suggested. One of the vital obligatory modalities is regarding opening of one bank account per family**.** The Finance Ministry's recent (May 15, 2012) directives regarding **opening of one bank account per family** to facilitate electronic benefit transfer and financial inclusion, (GoI-FM, 2012), mandate the banks that families must have one account in a bank on Core banking Solution and having NEFT facility. The statistics given in these directives depict that:-

(a) Nearly 10 crore households were not availing banking services.
(b) As per 2011 census, about 58.7% households, comprising of 54.4% rural households and 67.8% urban households, had reported availing banking facilities.
(c) Out of the 24.69 crore households, 14.48 crore households reported availing banking services.
(d) Under *Swabhimaan*, over 3.25 crore bank accounts in rural areas have been opened.

2. Relaxation in Regulatory Framework: The RBI, initially, in November 2005, set the population benchmark, which will help it, for taking its financial inclusion drive to the next level, mandating all Banks to reach out the villages, all habitations with population in excess of 2000, as per the 2001 census, either through the Bank Branches or through Business Correspondent (BCs). However, since 2011-12, the population benchmark is reduced to 1600 and above. Very recently, on 11 August 2012, the RBI asked Banks to drop the 'no-frills' tag from the basic savings accounts as the nomenclature has become a stigma. The RBI asked Banks to provide the 'zero-balance' facility in the basic banking accounts along with ATM-cum-Debit Cards without extra charge. The Finance Ministry directed the Banks were directed to reach out to villages with population of 2000, as the population benchmark that all habitations with population in excess of 1600 must have a bank branch, which will help it take its financial inclusion drive to the next level. The Finance Ministry, very recently, directed all state-run Banks to ensure that every household has at least one savings bank account by end of June 2012, a move seen as a precursor to direct transfer of benefits under the government's financial inclusion plan. For this purpose, the Banks have been asked to launch a campaign to ensure that opening of new accounts and changes required in existing accounts are completed by June 2012, (Khan, 2011).

3. Self Help Group-Bank Linkage Programme (SLBP): In the last two decades, the major institutional innovation in India for expanding financial system access and usage for the poor and marginalized sections of the population has been the SBLP. The project provided a cost-effective SBLP model for providing financial services to the underserved poor. Being a 'savings-first, credit later' model, credit discipline became a norm for Self Help Groups (SHGs) and 'social collateral' made them bankable. The model was initially successful in providing solution to the twin problems faced by banks, i.e., low recovery of loans in rural areas and high transaction costs in dealing with small borrowers at frequent intervals, with a major positive impact of generating social and economic empowerment of the membership. However, despite the noteworthy accomplishments of SHGs certain issues, such as, inadequate outreach in many regions, delays in opening of SHG accounts and disbursement of loans, impounding of savings by banks as collateral, non-approval of repeat loans by banks even when the first loan was repaid promptly, multiple membership, borrowings by SHG members within and outside SHGs, adverse consequences of unhealthy competition between NGO promoted SHGs and Government promoted/subsidy oriented SHGs and limited banker interface and monitoring continued to affect the programme in many areas. While the basic tenets of the SHGs being savings led credit product remain true even today, recent developments have given rise to the need for crucial changes in the approach and design of SBLP to make it more flexible and client friendly. The revised NABARD guidelines, popularly known as SHG2 (version 2), have sought to address some of the shortcomings of the earlier version, (Khan, 2011).

4. **Microfinance Institutions (MFIs):** The MFIs have served the underserved/unserved populace in the last few years and improved access to credit though there have been quite a few debatable issues on the style of corporate governance and ethics of conducting business on part of some of the MFIs. However, it has been often realized that the MFIs do help in financial deepening and can remain an important segment of the Indian financial market keeping in view the present level of penetration of the banking system. The conceptual framework underlying MFIs requires a change. MFIs will have to revisit the mission and business strategy and reinvent the sector to remain relevant in the system. A new category of 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) prescribed by the Malegam Committee (2011), created in December 2011 by RBI, is also facing difficulties primarily into micro financing. The NBFC-MFIs has got some relief from the RBI, which issued revised 'Directions cum Modifications' in August 2012, (RBI, 2012). On this background, these institutions have to revisit their business models to support the income earning ability of the borrowers and, at the same time, they remain economically viable. NBFC-MFIs will have to work hard in pursuit of transparency and responsible finance, shaking off the perception that their motto is profiteering at the cost of the poor but not profitability for sustainable and viable growth on one hand and take initiatives to retool the product redesign for garnering new customers and acquiring more share of the market on the other (Khan, 2011).

5. **Business Facilitators (BFs)/Business Correspondents (BCs):** The ICT based agent bank model through BFs/BCs for ensuring door step delivery of financial products and services, prescribed by the RBI to act as intermediaries for providing financial and banking services and ultimately addressing the proverbial last mile problem, initially created by the banks themselves, and later improvised by number of innovations, bridging the connectivity gap between the service seekers, i.e., under-served populace, and the service providers, i.e., the banks, have, however, raised a number of issues both for the partner banks and also for the regulators. Viability of the BFs/BCs model in general has remained a critical issue for which the model has not taken off as expected. Further, banks and their BFs/BCs also exposed to huge risk of cash management, particularly as cash dependence of the economy continues to be very high. There is also huge requirement of hand-holding and training of the BFs/BCs to enhance the trust level of the end customers. In this context, the current thinking of having lean, brick and mortar outfits of the banks (e.g. ultra small branches) to provide support to and supervise work of certain number of BFs/BCs appears to be a step in right direction. **The success of BFs/BCs model also hinges on adoption of technology, which in turn, is dependent on the degree of compatibility and integration of technology being used by the banks and their BFs/BCs**. There is a view that banks could also have their in-house BF/BC outfits in the form of separate trusts/subsidiaries with separate recruitment and remuneration structure but under closer supervisory control.

6. **Product Initiatives:** To ensure that more and more people come within the banking fold the banks should offer all the customers a 'basic savings deposit account' with certain minimum common facilities and without the requirement of minimum balance. The services provided in this account should include deposit and withdrawal of cash at the bank branches as well as ATMs, receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by Central/State Government agencies and departments. Innovation of products for the specific needs of the poor is necessary for achieving the ultimate objective of inclusive growth (Khan, 2012).

7. **Mobile Banking:** With the rapid growth in the number of mobile phone subscribers in India, banks in collaboration with telecom companies are seeking to develop an alternate channel of delivery of banking services. Keeping in view the issues relating to diversity of network providers in India, remittance centric approach of such model and Know Your Customer (KYC) related concerns, the RBI has advocated bank-led mobile banking model and issued operative guidelines to banks for effecting mobile-based banking transactions. The empirical studies indicate that banks are yet to fully exploit this technology even for their existing customers. The banks and the mobile operators reach a workable understanding while protecting their mutual interests. Such an approach would result in a 'win-win' situation for both and, more importantly, serve the larger cause of public good of financial inclusion (Khan, 2012).

8. **Aadhaar-enabled Payment Systems (AEPS):** The AEPS having the ability to service customers of many banks based on the unique biometric identification data stored in the Aadhaar database is expected to empower a bank customer to use Aadhaar as his/her identity to access the respective Aadhaar enabled bank account and perform basic banking transactions like balance enquiry, cash withdrawal and deposit through the BC. A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are credited to their Aadhaar enabled bank accounts.

9. Innovative product lines & processes: 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.

10. Financial literacy and awareness: There is a strong concern about the pathetic attitude of the banks to arrange regular campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified. Banks need to do efforts in this area through innovative dissemination channels including films, documentaries, pamphlets and road shows.

11. Customer service and consumer protection: Customer service is another issue that needs closer attention. Mind-set, cultural and attitudinal changes at the grass-root levels and user friendly technology at the level of branches of banks and BC outlets are needed to extend holistic customer service to the new entrants to the banking system. Government, regulators like Reserve Bank of India, banks, service providers and consumers themselves have to play important role in developing a comprehensive approach to consumer protection (Khan, 2012).

12. Issues and Challenges in ICT based Financial Services: Tapping Technology Platforms: Banks need to make significant investments in Technology based applications, related research and development efforts, comprehensive Management Information Service (MIS) and monitoring and evaluation systems on one hand and **collaborate** with technology service providers (TSPs), mobile network operators (MNOs), corporate houses and various categories of BCs to develop efficient delivery models with a strategy aiming to create a facilitating eco-system, leveraging on technology and promote partnerships of brick and mortar branches including ultra-small branches with the ICT-based BC outlets for evolving an effective financial inclusion delivery mechanism. Today, banks can provide a bouquet of financial services through the various networks of agents and branches by leveraging and fine tuning technology platforms. Technology holds the key to providing models for efficient delivery of small value transactions in large volumes while reaping economies of scale. The implementation of such effective, scalable and platform-independent technology will help drive down the cost of providing banking services to the poor. Further, technology helps in spreading financial literacy both as a delivery channel and as an intrinsic part of the learning process (e.g., instructional computer). Today, both the service providers and service seekers have a number of technology options, such as, smart cards, micro-ATMs, ATMs, mobile technology, Aadhaar Enabled Payment Systems (AEPS), etc. to choose from to provide/seek financial services irrespective of their geographic locations. For the success of the ICT-based models, resolving technology related issues is the key.

13. Financial inclusion as a business opportunity *vis-à-vis* **Profitable Models for Financial Inclusion:** Financial inclusion initiatives would provide banks with a low-cost and stable source of funds, helping them improve their asset-liability management (ALM). Rural India presents a remarkable opportunity for banks and financial institutions to seek their fortunes and bring prosperity to the aspiring poor through financial inclusion. In a fast growing economy like India the poor are the middle class of tomorrow and banks could, therefore, ill-afford to ignore this segment. Banks, however, argue that while the benefits of financial inclusion can be easily understood, the costs of serving the poor can be significant in the short-term, thereby impacting profitability. Banks, therefore, need to take bold decisions and reach out to rural India with strategies and business models which are beyond the realm of conventional thinking. Banks should refrain from deliberately adopting a uniform business model. Banks need to build its own strategy in line with its business model and comparative advantage. A successful model should also represent a better way than existing alternatives and also answer management guru Peter Drucker's age-old questions: (a) **Who is your customer?** (b) **What does the customer value?** & (c) **How do you deliver value at an appropriate cost?** A (Ramon, 2011) profitable business model should consist of four elements: • **a customer value proposition • a profit formula • key resources • key processes.**

III. Conclusion

The problem of financial exclusion needs to be tackled with urgency if we want our country to grow in an equitable and sustainable manner. Traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion in India. Banks, therefore, need to innovate and think 'out-of-the-box' for solutions to overcome the problem of financial exclusion in India. They need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner. This way banks in India would be doing a great service to the cause of financial inclusion and make their name in history. Financial inclusion may be a social responsibility for the banks in the short-run but will turn out to be a business opportunity in the long-term. Financial Inclusion is no longer an option, but it is a compulsion. The entire world is looking at this experiment in India and it is important that banks rise up to this challenge and

meet it successfully. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Pursuit of financial inclusion by adoption of innovative products and processes does, however, pose challenge of managing trade-offs between the objective of financial inclusion and financial stability. In the Indian context, the Reserve Bank has always sought to balance the risk of partnerships and product innovations with the ability to achieve greater penetration in a safe, secured and prudentially sound manner. The underlying belief is that only sound and strong institutions can promote financial inclusion in a sustainable manner and, towards this end, prudent regulations have to be in place to achieve inclusion while protecting financial stability and consumer interest. By adopting appropriate regulatory framework for innovations in policies, partnerships, processes and products meant for financial inclusion, the Reserve Bank has sought to further the cause of inclusion without falling short of the policy goal of financial stability. The stakeholders have come to realize the need for viable and sustainable business models which focus on accessible and affordable financial services, products and processes, synergistic partnerships with non-bank entities including the technology service providers for efficient handling of low value, large volume transactions, particularly in remote, banking shadow areas and appropriate regulatory and risk management policies that ensure financial inclusion and financial stability move in tandem.

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