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Current scenario of financial inclusion in India

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Abstract

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Also efforts are being made internationally to study the causes of financial exclusion and designing strategies to ensure financial inclusion of the poor and disadvantaged. The reasons may vary from country to country and hence the strategy could also vary but efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

Keywords: credit, savings, financial services, inclusive growth

Introduction

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial products& services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities & also life & non-life insurance services. An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. An all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services like easy day-to-day management of finances, safe money transfer etc. The govt. of India as well as the banking industry has recognized this imperative and has undergone certain fundamental changes over the last two decades. In fact, in order to address the issues of financial inclusion, the Government of India constituted a "Committee on Financial Inclusion". Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. The first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. Only 34% of Indian individuals have access to or receive banking services. In order to increase this number the Reserve Bank of India had the Government of India take innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, our banks are now offering No- Frill. Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance. With the combined effort of financial institutions, six million new No-Frill accounts were opened. Banks are now considering Financial Inclusion as a business opportunity in an overall environment that facilitates growth.

Review of Literature

Pavan Kapoor, Alka Singh [1] analysed the contributions of well-functioning of financial system in the economic and social development of the nation. The study revealed that well-functioning financial system enables economically & socially excluded people to actively contribute to development and protect themselves against economic shocks. Access to finance is an essential poverty alleviation tool. Financial inclusion is playing a catalytic role for the economic and social development of society.

Bhoomika Garg [2] evaluated need and find the level of financial inclusion compliance with the RBI guidelines and to examine the role of different financial institutions towards it. The study revealed that financial inclusion enables rural people to channelise their savings in such ways that leads to increase in GDP of the country. Various RBI efforts such as, opening of no frill account, issuance of general credit card are properly implemented. Different financial institutions are doing tremendous job by increasing rural bank branches and bringing prosperity to the aspiring poor through financial inclusion.

Choithrani S [3]. Analysed financial inclusion status in India and to find problems & challenges to financial inclusion. The result revealed that commercial banks are forcibly opening 25 percentages of their branches in rural areas and taking no interest in this scheme resulted into non-operational accounts, poor connectivity, no issuance of smart card and lack of trust on Business Correspondents.

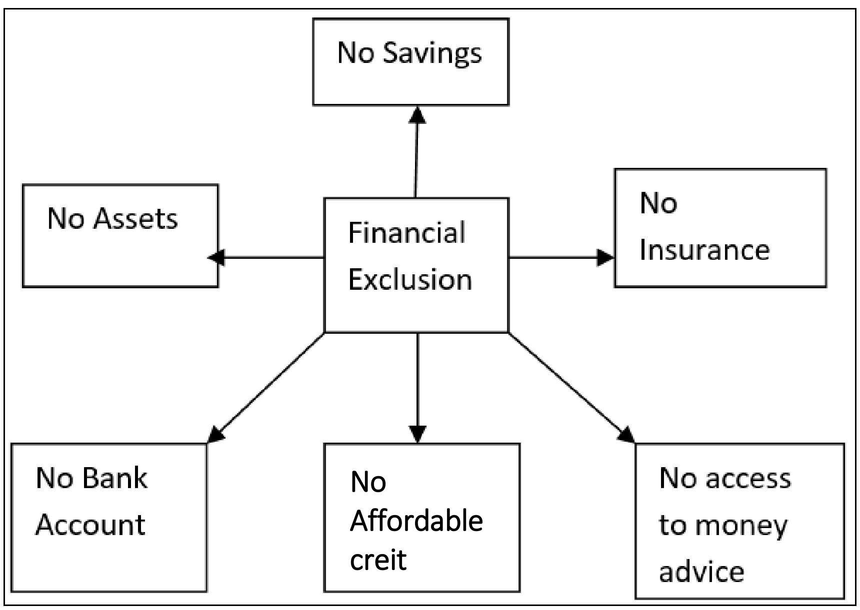
Hemavathy Ramasubbian and Ganesan Duraiswamy [4] suggested, in their article The Aid of Banking Sectors in Supporting Financial Inclusion – An Implementation Perspective from Tamil Nadu State, India, that though over the past six years the FI strategy had improved the life style of BPL, but missing focus on savings and credit improvement strategies degrades the benefits of FI. This paper surveys analyzes the issues pertaining to implementation of financial inclusion in economically down trodden districts of Tamil Nadu, India.

Raman A [5]. Assessed the relationship between financial inclusion and growing of Indian banking system. The study revealed that there is positive relationship between financial inclusion and growth of banking system, more growth of banking system leads to more of financial inclusion. The study further highlighted that financial inclusion plays a crucial role in reducing poverty in the country. Additionally, it exposed that financial inclusion leads to economic growth, raising standard of living, equality, etc.

Vijay Kelkar [6] analysed in his article Financial Inclusion for Inclusive Growth that enhanced financial inclusion will drastically reduce the farmers' indebtedness, which is one of the main causes of farmers' suicides. The second important benefit is that it will lead to more rapid modernization of Indian agriculture.

Financial exclusion

Financial exclusion referring to those processes that serve to prevent certain social groups and individuals from gaining access to the financial system. It may come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiances or perceptions. The financially excluded sections largely comprise of Marginal farmers, Landless labourers, Self-employed and unorganized sector enterprises, Urban slum dwellers, Migrants, Ethnic minorities and socially excluded groups, Senior citizens and women, etc., Large pockets of population in North East, Eastern, and central regions of India.



Consequences of Financial Exclusion

- It may lead to general decline in investment.
- Difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates, and increased unemployment.
- The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money.
- According to certain researches, financial exclusion can lead to social exclusion.

Tools Used For Financial Inclusion

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. The services are:

1. A no-frills banking account for making and receiving payments,
2. A savings product suited to the pattern of cash flows of a poor household,
3. Money transfer facilities,
4. Small loans and overdrafts for productive, personal and other purposes, &
5. Micro-insurance (life and non-life)

Extent of Financial Inclusion in India

The low penetration of formal banking led the Reserve Bank to look at financial inclusion as a major policy drive. The slew of measures that followed were the introduction of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while ensuring sufficient coverage to hitherto unbanked areas. Concurrently, relaxations in the BC model were made to bridge the 'last mile' problem. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Notwithstanding this development, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas.

From the above table it is inferred that number of scheduled commercial bank branches has been increased from 76,753 in 2014 to 82,358 in 2015 in rural and semi-urban areas and in urban and metropolitan areas bank branches has been increased from 40,958 in 2014 to 43,716 in 2015.

Table 1: Branch Expansion of Scheduled Commercial Banks

As on March	Number of Branches			Estimated population* (In Million			Branches/ 100000 Population		
	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total
2001	44,905	20,713	65,618	851	177	1,028	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1,115	5	12.3	6.2
2010	53,086	31,072	85,158	980	211	1,191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1,044	228	1,272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1,061	233	1,294	7.8	18.7	9.7

Source: www.rbi.org.in

*Population estimates are based on CAGR between Census 2001 and Census 2011 data

Growth of Savings Bank Deposits with SCBs

Concurrent with higher branch expansion in semi-urban andrural areas, the compound annual growth rate (CAGR) for both the number of individual saving bank deposit accounts as well as deposit amounts outstanding therein was the highest for semi-urban regions followed by rural, urban and metropolitan regions.

Table 2: Growth in Individuals' Savings Bank Deposits Accounts with SCBs

Population Group	Number of Individual Saving Bank Deposits Accounts (million)				Individual Saving Bank Deposits' Amount Outstanding (billion)			
	2006	2010	2015	CAGR (%)	2006	2010	2015	CAGR (%)
Rural	104	167	384	15.6	962	1,703	3,601	15.8
Semi-urban	85	136	320	15.9	1,124	2,155	4,470	16.6
Urban	68	97	186	11.8	1,246	2,381	4,541	15.5
Metropolitan	71	100	180	10.9	1,838	3,731	6,476	15
All India	329	500	1,070	14	5,170	9,970	19,088	15.6

Source: www.rbi.org.in

CAGR is for all SCBs, including Regional Rural Banks during 2006-15

From the above table it is clear that number of individual saving accounts is increasing due to relaxation of policies and procedures. In rural areas the number of savings accounts has been increased to 384 million in the year 2015 which was only 167 million in the year 2010. In semi- urban areas it has been increased to 320 million from 136 million accounts. In urban and metropolitan areas it has been increased to 186 and 180 million accounts respectively.

Growth of Credit with SCBs

Not only deposit account penetration, but also commercial bank credit accounts and amount outstanding has improved, especially in rural and semi-urban areas. During 2006-2015, while the number of credit accounts of SCBs increased at a CAGR of 6.0 per cent, the rate of growth was higher for rural and semi-urban areas. Even credit growth was more evenly distributed around the mean, with a particular tilt towards rural and semi-urban areas.

Table 3: Credit Growth of Scheduled Commercial Banks

Population Group	Credit accounts (million)				Credit outstanding (billion)			
	2006	2010	2015	CAGR (%)	2006	2010	2015	CAGR (%)
Rural	29	36	50	6.4	1,261	2,493	5,982	18.9
Semi-urban	21	27	41	7.4	1,514	3,200	7,600	19.6
Urban	13	16	21	5.8	2,458	5,585	11,039	18.2
Metropolitan	23	40	33	4.1	9,905	22,174	44,170	18.1
All India	86	119	145	6	15,138	33,452	68,791	18.3

Source: www.rbi.org.in

CAGR is for all SCBs, including RRBs, during 2006-15

Number of credit accounts also increased with scheduled commercial banks. People are started utilizing the formal sources for getting credit as it helps them to avoid the disadvantages faced through informal sources of credit. Credit outstanding at India level, amounted to 68, 71 billion in 2015 which was only 33,452 billion in 2010.

Progress in No Frill accounts

Source: www.rbi.org.in

Fig 1: Progress in No frill accounts

As the process has been relaxed for opening bank accounts, number of no-frill accounts has shown tremendous growth during last five years. Apart from the branch expansion, in order to provide basic banking services to the marginalised sections of society, banks were advised to open 'no-frills' accounts, which were subsequently labelled as Basic Saving Bank Deposit Accounts (BSBDA). In the past five and a half years, these BSBD accounts have risen more than six-fold and nearly half of these accounts were opened through Business Correspondents (BCs).

Conclusion

Financial inclusion becomes a major prerequisite to poverty alleviation. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on information technology. However, the improper repayment need for additional workforce, time consumption, high cost and illiteracy are continuing to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting fully fledged financial inclusion plan. The banks should step up to overwhelm all these problems and to disseminate its service to remote areas. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programmes to achieve the aim of 11th plan of Inclusive Growth.

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