# Overview of Financial Inclusion in India

**C. Paramasivan**
**Assistant Professor, PG & Research Department of Commerce**
**Periyar EVR College, Trichy, Tamil Nadu**

**V. Ganeshkumar**
**Research Scholar, PG & Research Department of Commerce**
**Periyar EVR College, Trichy, Tamil Nadu**

**Abstract**

*Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest rural people consist in the world. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of financial inclusion in India.*

**Key Words:** Financial Inclusion, Reserve Bank, Inclusive Growth, Financial services.

## Introduction

Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008). The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, and builds self-confidence and empowerment. In an address Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth.

There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy (see Throat, 2007). From supply side, lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. However deputy governor of RBI has recently clarified that the latter two reasons are myths, i.e. the cost in involved in financial inclusion is not unbearable by the banks and that it is not true that the banks are unwilling to do financial inclusion (see Chakrabarty (2010)).

**Financial Inclusion in India**

The Reserve Bank of India setup a commission (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 of achieving greater Financial Inclusion to make available a basic "no-frills" banking account.

In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50, 000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services.

These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. 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 IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture. Along with Microfinance we need to focus on Micro insurance too.

**Review of Literature**

Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

Mandira Sarma and Jesim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.

Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Oya Pinar Ardic et al (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

Table 1 reveals that the out of per 0.1 million adults coverage in nine countries (including in India). Maximum no of 43.11 branches in France, 250.29 no of ATMs in Korea, 467.97 bank credit in UK, 427.29 bank deposit in UK. India has 10.91 no of branches in seventh place, 5.44 no of ATMs in ninth place, 43.62 bank credit in fifth place, 60.11 bank deposit in third place compare with other nine countries. As a whole India position compare with other countries in moderate level.

**Table 1: India's Position Compared with Other Countries**

(Per 0.1 Million Adults) (As per cent of GDP)

| Sl. No. | Country | Number of Branches | Number of ATMs | Bank Credit | Bank Deposits |
|---|---|---|---|---|---|
| **1** | **India** | **10.91** | **5.44** | **43.62** | **60.11** |
| 2 | Austria | 11.81 | 48.16 | 35.26 | 32.57 |
| 3 | Brazil | 13.76 | 120.62 | 29.04 | 47.51 |
| 4 | France | 43.11 | 110.07 | 56.03 | 39.15 |
| 5 | Mexico | 15.22 | 47.28 | 16.19 | 20.91 |
| 6 | UK | 25.51 | 64.58 | 467.97 | 427.49 |
| 7 | US | 35.74 | 173.75 | 46.04 | 53.14 |
| 8 | Korea | 18.63 | 250.29 | 84.17 | 74.51 |
| 9 | Philippines | 7.69 | 14.88 | 27.57 | 53.02 |

**Source:** World Bank, Financial Access Survey (2010).

**Table 2: Progress of Financial Inclusion Plan as on March 31, 2012**

| Sl. No. | Banking Outlets | Amount |
|---|---|---|
| 1 | Rural Branches | 24,701 |
| 2 | BC outlets | 1,20,355 |
| 3 | Other modes | 2,478 |
| 4 | Total | 1,47,534 |
| 5 | Total number of 'No frill accounts' | 103.21 million |
| 6 | Operations in NFA (2011-12) | (Increase of 39.6%) |
| 7 | Outstanding balance | Rs. 932.89 billion |
| 8 | Overdrafts | Rs.3.39 billion |
| 9 | Transactions through ICT based BC outlets (2011-12) | 119.77 million |
| 10 | KCC credit | Rs. 2.15 million |
| 11 | GCC credit | Rs. 0.22 million |

**Source:** World Bank, Financial Access Survey 2012.

There are 24,701 rural branches, 1, 20,355 BC outlets, 2,478 other modes, 1, 47,534 total, 103.21 million total of 'No frill accounts', Increase of 39.6 per cent operation in NFA (2011-2012) Rs 932.89 billion outstanding balance, Rs 3.39 billion overdrafts, 119.77 million transactions through ICT based BC outlets, Rs 2.15 million KCC credit, Rs 0.22 million GCC credit were recorded as on March 31 2012.

**Table 3: Coverage of Banking Services in India**

| Sl. No. | Region | Current Account | Savings Account | Total Population | Total no. of Accounts | Total no. of Accounts (%) |
|---|---|---|---|---|---|---|
| 1 | North | 4215701 | 52416125 | 32676462 | 56631826 | 17.65 |
| 2 | North East | 476603 | 6891081 | 38495089 | 7367684 | 2.3 |
| 3 | East | 1814219 | 47876140 | 227613073 | 49690359 | 15.48 |
| 4 | Central | 2202217 | 64254189 | 255713495 | 66456406 | 20.71 |
| 5 | West | 3178102 | 49525101 | 149071747 | 52703203 | 16.42 |
| 6 | South | 4666014 | 83386898 | 223445381 | 88052912 | 27.44 |
| **All India** | | **16552856** | **304349534** | **1027015247** | **320902390** | **100** |

**Sources:** National Sample Survey Organisation (2012).

Table 3 indicates that, out of 32902390 total current account and savings account of banking services in All India. 27.44 per cent of total account in South India, 20.71 per cent of total account in Central India, 17.65 per cent of total account in North India, 16.42 per cent of total account in West India, 15.48 per cent of total account East India, 2.3 per cent of total account in North East India. So, it is concluded that, the maximum no of 27.44 per cent of total account in South India.

## Recommendations

1. Banking technology has progressed fast enough and more importantly the realization that the poor is bankable has arrived. Various immediate measures which government

of India should implement or which are under implementations but should be executed in a more effective manner are

2. Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Our very old post offices will be an ideal channel to pursue the future long term goals of agency banking especially in rural India.
3. Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications.
4. Have interest rate ceilings specified for NGO/MFI for they tend to charge higher rates of interest in a sugar coated form. These legalities can be introduced once an NGO/MFI enters into partnership with a bank.

## Conclusion

Branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

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