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Financial Inclusion in India

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Abstract
Inclusive development had been one of the prime agendas of government ever since it was first mentioned in the eleventh five-year plan. Amongst its many segments, one of the core is financial inclusion. Hence discussion and research on this issue become inevitable in contemporary domain where major concern of all the diverse sections of Indian society remains expediting inclusive development as prime targets. Emanating from here our attention gets directed towards the current scenario of financial inclusion in India, wherein huge section of population is being deprived of accessibility to financial services or financial inclusion which makes it an important developmental concern. Financial Inclusion in India dates back to pre- independence times but were quite rare due to less interest of British Government in this and was majorly carried by big banks run by Indians. Post-Independence the process of provisioning financial services to the larger sects of masses was enthusiastically taken forward by RBI and later on supported by government policies aimed at financial inclusion. Ever since then India remained one of the front runners in expanding and disbursing financial services to the poor. Not only formal banking sector expanded but other institutions like Micro finance Institutions, Cooperatives, non-banking financial institutions etc. were set up to provision financial services and products to the masses.
Even successive governments in India have kept this issue of financial inclusion as one of the primary targets in their manifestos and later on as part of government policies or agendas to reach larger goal of inclusive development. To achieve this large-scale target of financial inclusion, various schemes and programmes were initiated in past as well as at present so as to bring financial services closer to the masses as well as enthuse the citizens to further access and integrate themselves with formal financial system. Thus, the following research study is based upon secondary data analysis from RBI and prior research on the topic. The study captures the issue from multiple dimensions including its current scenario initiatives taken in this direction and from there reflecting upon the need of future endeavours. In a nutshell the research will try to analyse financial inclusion as one of the crucial mechanism of realising larger aim of inclusive development from all dimensions and hence reach out at more informed analysis.

Keywords: Financial inclusion, development, growth, inclusive growth

INTRODUCTION

India characterised by its dynamic and varied population is treading on the path of one of the fastest growing economies and desiring to reap the demographic dividend with inclusive development across different sections of society. All this also remains the major objectives of the governments that must come to power. However, reaching these targets require working on several fronts and one of them being financial inclusion with promising multiplier and accelerator impact on multiple areas of societal development. As per World Bank report India stand at second position in total number of financially excluded people, with China being at First place. The report also mentions around 36% of total population having an operational bank account. This now channelizes our attention towards the paramount invisibility of this huge section of population being deprived of financial services and sustaining as unbanked population. The aim of research proposal is to analyse the issue from all dimensions and hence reach out at more informed analysis. I tend to present findings on this issue through understanding and analysis of works of different researchers and academicians in this field. The following research note has been organised in the format that starts with brief explanation of the issue of financial inclusion based on study of multiple research papers on this contemporary topic. It includes the utility of financial inclusion in India's on-going development path and a brief overview on ground level penetration achieved until now.

Significance of financial Inclusion for an economy

According to World Bank definition, financial inclusion refers to availability, accessibility and affordability of financial items and services to all sections of society ranging to households, businessman, farmer, trader, rural and urban persons etc means that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible, and sustainable way.

Financial Inclusion ideal aim remains access of financial services by all sections of society wherein even the last person in the row also gets to use what he/she desires for, in field of finance. Increased importance of this issue and its gaining centrality in policy measures is due to the wide-ranging utility it provides and multiple benefits to large scale sections of society. Following paragraph will present these benefits.

The foremost benefit to whole economy at macro level is expansion of its resources by way of increased credit availability in the banking sector. Increased resources in itself have many positive impacts like it infuses liquidity in the market, a spurt in fund availability which can be channelised to businessmen, entrepreneurs, industrialists and other investors. Increased investment raises production processes and total output of the economy. Increased production also generates employment and thus decreases overall unemployment level amongst workforce. Banking sector with more resources makes financial system healthier and instils confidence in the business class and also the foreign investors. Moreover, as per development models like Harrod Domar and Solow, savings hold central place in determining investment in the economy and overall growth and output. At micro level for households, it imparts habit of saving and thus overall savings in the economy. Households generally use financial services for three main purposes and these are first, contingency planning which includes retirement savings, buffer savings and insurance benefits, second, for credit which means use of financial services for consumption loans, housing loan, self-employed business and other emergencies and lastly for wealth and asset creation in form of savings and investments based on individual's understanding of financial products and risk analysis.

Moreover its significance in reducing inequality is again paramount. It connects people from vulnerable section to formal banking system , from where they could access various services and benefits under socialm security schemes. Direct benefit transfer to bank accounts anfd reduction in exclusion and inclusion errors is further assured through financial inclusion. Provisioning credit to farmers is one of the crucial element of financial inclusion. As per NSSO 59th round survey , there are around 50% farmers under indebtedness. In such a backdrop provisioning financial services to farmers promises upholding farmers from distress and productivity enhancement of overall banking agriculture sector. The Self Help Groups have increased manifold post financial inclusion initiatives like SHG bank Linkage program of NABARD . SHGs holds at stake not only enhanced livelihood opportunities for rural households but also

financial security and overall empowerment of rural female workforce that has been able to channelise their potentialities through the secured mechanism of SHGs system.
Apart from this banks also feel confident and tends to actively provision funds under schemes like Priority sector Lending to the unreached section of society that has low accessibilty to credit due to their lack of colateral and low credit worthiness. Chanelising funds to these stratas of society helps them in venturing into alternative employment opportunities and thus raise their per capita income which then gets into banking system through savings and thus further helps in creating more credit through multiplier effect , leading to all round win-win model.
Thus financial inclusion impacts not only overall health of the economy , but also impacts banking sector and industrial output positively. It trickles down its benefits to small and marginal farmers, rural masses , females yearning for employment and income generation activities and widely spread out unorganised sector . Financial inclusion holds centrality in the concept of inclusive development, which remains the ideal target of most of the developing and underdeveloped economies.
Thus, the major contribution of financial inclusion remains is that of developing a culture of savings amongst households specifically the poor sections which remained out of the network of formal credit system. The study on financial inclusion highlights not only level of development in certain society and how much inclusive is such development, it also puts focus on financial indicators of its citizens.

History

Financial Inclusion in India dates back to pre- independence times but was quite rare due to less interest of British Government in this and was majorly carried by big banks run by Indians. Post-Independence the process of provisioning financial services to the larger sects of masses was enthusiastically taken forward by RBI and later on supported by government policies aimed at financial inclusion. Ever since then India remained one of the front runners in expanding and disbursing financial services to the poor. Not only formal banking sector expanded but other institutions like Micro finance Institutions, Cooperatives, non-banking financial institutions etc. were set up to provision financial services and products to the masses. The major spurt in this direction came with bank nationalisation in 1969, followed by second round of nationalisation in 1980. The initiatives taken towards bringing masses in the network of financial sector are expansion of regional branches, followed by service area approach, lead bank scheme, setting up of regional rural banks, urban cooperative banks, small finance banks and so on and so forth were. According to Reserve Bank of India statistics, the development of banking sector during the decade of 1970s and 1980s led to four times expansion of bank branches from around 9000 in 1970 to around 35000 in 1980s. The formal use of nomenclature ‘Financial Inclusion’ and its increased centrality in policy measures came after Khan Committee being set up by Reserve Bank of India in the year 2004, to look into question of financial measures and to suggest measures for the same. Since then, RBI and central government are treading on path to achieved enhanced financial inclusion.

Steps taken by Government and Central Bank in direction of financial inclusion

Lead Bank scheme was set following findings and recommendations of Gadgil Committee in the year 1969. The prime objectives of this scheme were reduction in unemployment through provisioning credit to agricultural sector, small scale industries and rural men. This would eventually lead to alternative employment opportunities and raise standard of living. Lead bank scheme was implemented on the basis of ‘area approach’, wherein targeted and focused banking was executed.

Regional rural banks set up under Regional Rural Bank Act 1976, initially began operation with just five branches have now reached pockets of rural areas and semi urban areas. The major objective of regional rural banks through their niche banking operations was provisioning banking services and facilities to rural areas and other unbanked section, disbursement of wages under MGNREGA scheme, facilitating pension schemes and providing other banking facilities like small loans to farmers and cooperatives, locker facilities, credit and debit card.

Priority sector lending a mandatory norm being carried by scheduled banks under overall supervision of Reserve Bank of India. PSL works on the principle of channelizing funding in a prioritised manner to certain sections of society where access to formal credit has not been penetrated according to demand generated from these sections. Under this all-scheduled commercial banks and foreign bank are supposed to provision 40% of total adjusted net banking credit to sectors such as agriculture, micro, small and medium enterprises, housing, education, renewable energy, social infrastructure and others. In case of non- fulfilment of target by banks they are supposed to purchase priority sector lending certificates. This mechanism ensures that certain a specific percentage of credit is being provided to weaker sections ensuring credit flow to them giving a sense of security, bringing them out of clutches of informal credit with exorbitantly high rates and motivation for taking on income generating ventures.

The Self-Help Group Linkage program under overall supervision and monitoring of National Bank for Agriculture and Rural Development have played a big role in linking self-help groups to formal banking system, supporting their entrepreneurial activities and income generation ventures.

Financial Stability and Development Council being set up following recommendations of Raghuram Rajan Committee in 2008 to coordinate financial market regulators and focus on financial inclusion and financial literacy.

The easing of KYC i.e., Know Your Customer norms through measures like shortened documentation for accounts not exceeding Rs50,000, use of two identity proofs in spite of four initially, local language use in form for account opening. Moreover, employing business correspondents, customer service points, technology vendors and rural intermediaries have further expedited the process for people. Further use of electronic benefit transfer and direct benefit provisioning has further facilitated social scheme benefits to poor and motivated beneficiaries to remain more linked to financial services and banking sector. Introduction of Kisan Credit card enables the farmers to get formal credit from banks without remaining dependent on money lenders or landlords which usually put them in vicious cycle of debt. It helps in meeting financial requirements in other agriculturally related allied activities and further investment opportunities in areas like technology enhancement, livestock etc. Marketing loans further help farmers by saving him/her from middlemen and distress sales in the market. Post-harvest expenses and insurance scheme are also covered under Kisan Credit card scheme.

Pradhan Mantri Jan Dhan Yojana introduced in 2014 was a major initiative in direction of financial inclusion. Opening of bank account with zero balance and then linking them to various schemes so as to operationalize them remained the main features of the scheme. Such large scale and deep penetration of banking services at an affordable cost gave required impetus to financial inclusion amongst Indian masses. Clubbed with this the active role of bank correspondents or bank mitras has helped huge population in in getting linked to formal banking sector. National Payment Commission of India further supported the initiative through wide scale and efficient issuance of debit cards.

It assures account holder to access various banking services like saving account, debit card, and need based credit card, remittances, and insurance and pension benefits, thereby furthering the objective of

social security via financial inclusion. Other important features of Jan Dhan Yojana rupay connected debit card, Rs 5000 overdraft facility, an insurance cover and an inbuilt accident cover provision.
Apart from this some of the new initiatives in this direction remain schemes like e Gram, Farmer's Club Program, General Credit Card, Customer Service Centres, Credit counselling centres, financial literacy programs undertaken by Doordarshan and so and so forth and greater drive towards digitalisation.
The initiatives undertaken by both central bank and Government which are mentioned above brings to us the awareness about mechanism the government is following for financial inclusion penetration into the masses. However, we need to see how far it has been absorbed by masses by looking at ground situation so as to complete our understanding of whole issue. Thus, the following portion will look into progress made by these initiatives and level of financial inclusion achieved in India.

Progress of Financial inclusion and Persistent anomalies

According to International Monetary Fund 's Financial Access Survey, India has approximately 30.5 bank branches per 100km and 25.6 ATMs per 100km, which is one of the lowest among the world countries.
According to Reserve Bank of India Report on Trends and progress of Banking in India, 2017, the number of locations covered by business correspondents have increased from 486 in 2010 to 102867 in 2017, the banking locations in rural areas have increased from 33387 to 50608 over the same time period and total number of Kisan Credit card have increased from 24 million to 45 million from 2010 to 2017. According to World Bank Report the total financial inclusion percentage remains 36% of total adult population.
All this data brings us to mixed results that even though financial inclusion initiative has progressed over a time period, but still the penetration is not at optimum level or as desired by policy makers. Some of the reasons why the frictions persist are firstly the low financial literacy amongst the masses because of which they feel unconfident and insecure in using financial services. Many people fear losing out money just because of their lack of knowledge of financial products and services. The apprehension of banks about asymmetric information and possibility of moral hazard due to lack of collateral and credit worthiness of rural masses inhibit them in many cases in forwarding credit. Stemming from this, the government over the years have kept rural banking at the helm of public banks and restricted competition and consequently larger penetration through initiatives like service area approach. The problem at times with rural banks working under public sector initiative are low incentive structure and paucity of credit which could be extended to the masses. Another issue is of weak regulatory mechanism of banks wherein they lag behind in checking compliance of the beneficiaries. The cost of engaging and dealing with poor population for banks is quite high which reduces overall profitability of banks and thus dissuades them from increased lending. Since banks are the mechanism of achieving financial inclusion of the masses, their backstop from lending impacts the initiative hugely. Apart from this the unintended consequence of credit rationing which results due to differential interest rate structure to lower strata further affects efficiency of banking system. The recent debates on MUDRA scheme based on findings of Raghuram Rajan, in how MUDRA loans can become future Nonperforming assets for banks have further raised apprehensions on micro lending and its consequences.
The network services in many places are quite weak which delays the overall process of banking for people, thus raising its costs for them as compared to benefits accruing from it. The lack of formal identification documents which are required by banks from beneficiaries further impedes the process of financial inclusion and accessibility of financial services to the beneficiaries. Lack of guidelines for consumer protection which adds insecurity in masses is another reason behind low penetration. Another

factor in this is low operability of bank accounts especially those opened under Jan Dhan Yojana which adds to huge amount of frill accounts that on paper show quantity of bank accounts with low qualitative impact.

Recommendations for further progress

The foremost effort should be in direction of more citizen participation by raising their confidence and reducing insecurity regarding financial services as multiple efforts taken into this direction will reduce to nullity if masses do not get involved into this. For this to happen an expedite financial literacy programmes should be initiated and a greater number of banks mitras and business correspondents should be recruited, while easing KYC norms. Other areas where steps could be taken regarding easing financial services is introduction of doorstep banking (recent e.g., being Post office bank), flexible financial items and services that satisfy needs of poor people like short term instalments option available to loan takers. Even though niche banking ensures greater efficiency, but composite banking for regional areas should be encouraged as masses not only seek to have loan facilities but other services like social scheme benefits, insurance etc. Apart from this internet connectivity should be ensured for greater penetration of mobile banking specifically at community service centres and otherwise too. At macro level a revisit to Priority Sector lending scheme so as to ensure more compliance and with that increased competition in banking holds promise to greater number of services for people. Another important area to ponder upon is reduction in number of frill accounts and more operationalisation of accounts opened under various schemes specifically zero balance account.

Thus, financial inclusion study offers further scope to understand areas where anomalies in its complete penetration exists like negligence and disinterest of people in using financial services, merits it offers to economy at macro level and reluctance of banks in further extension of social services to vulnerable and deprived sections. Thus, the study on the topic will bring further insights on these multiple domains and present a wholesome picture on this issue.

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