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Financial Inclusion in India

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ABSTRACT
India has introduced wide-ranging and impressive reforms in the financial sector especially in formal banking system since the early 1990s. These reforms in the banking sector led to an impressive growth in financial resources as well as overall economic growth. However much more needs to be done to improve the efficiency with which financial resources are allocated to finance the higher levels of investment necessary for sustained growth and poverty reduction. Also with increased liberalization, and as risks become more difficult to monitor and manage, maintaining financial stability will become ever more challenging. This paper assesses progress in banking sector reforms especially focusing on financial inclusions over the past decade or so, and analyzes the new challenges that confront India's policymakers and financial regulators.

Finance is very effective tool in spreading economic opportunity and fighting poverty. India has arelatively comprehensive financial system and a widenetwork of banks. Access to savings products, credit andtransaction services enables people and businesses toaccumulate financial assets, invest, spread risks and makepayments cheaply and efficiently. There are well-established links between the size and scope of thefinancial system and the rate of economic growth.Recognizing the need for better financial inclusion in Indiathis paper examines the international efforts for financialinclusion, present scenario of financial spread in India, anddiscusses the differentschema of formal banking sector to understand the reasonsbehind the gap. The specific objectives of the present studyare to achieve the following objectives:

- To understand the concept of Financial Inclusion in India
- To examine the comparative status of India on financial inclusion parameters across different countries

- To find out the measures adopted by the banks in the area of financial inclusion through PMJDY.

The rest of the paper is organized as follows. In Section I, The paper defines financial inclusion in India. Section II is devoted to review approaches adopted by different countries for widening of financial services. We will also discuss the India's situation compare to other countries on different financial inclusion parameters. In Section III, wediscuss measures adopted by the banks in the area of financial inclusion through PMJDY.

SIGNIFICANCE OF THE STUDY

To get successful financial inclusion, banking and financial services should reach vulnerable groups. To study the Yojana as a financial inclusion has become more important, when 42% of the population do not have access to formal financial institutions. These people only depend upon the local money lenders, for loans and pay high interest rate and unfair terms. With the help of study we will know how much it contribute to mobilization of saving for effectively utilization, and for social sustainable livelihood. Study is also helpful to know at what rate Pradhan Mantri Jan Dhan Yojana contribute to long run goals of cashless economy, and Digital India Vision. The study also aims to understand and analyse the challenges and opportunities faced by unbanked to get a basic financial service.

Primary Data

The researcher has collected the primary data with the help of interaction with the Bank managers of the nationalized banks. The researcher has interviewed through unstructured questionnaires.

Secondary Data

The secondary data has been collected from the RBI, NABARD, CPMI, SCHEDULED BANKS and Websites. Even the journals and the articles from the many sources have been used for the purpose of collection of secondary data.

SECTION I

MEANING OF FINANCIAL INCLUSION

It has been defined, by the Committee on Financial Inclusion, 2008, 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. It primarily represents access to a bank account backed by deposit insurance, access to affordable credit and the payments system.

FINANCIAL INCLUSION IN INDIA- BACKGROUND

The efforts to include the financially excluded segments of the society into formal financial system in India are not new. The concept was first mooted by the Reserve Bank of India in 2005 and Branchless Banking through Banking Agents called *"Bank Mitr"* (Business Correspondent) was started in the year 2006. In the year 2011, the Government of India gave a serious push to the programme by undertaking the *"Swabhimaan"* campaign to cover over 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities. Because of the RBI"s drive for financial inclusion, the number of bank accounts increased by about 100 million during 2011-13. The Swabhimaan campaign, however, was limited in its approach in terms of reach and coverage. Convergence of various aspects of comprehensive Financial Inclusion like opening of bank accounts, digital access to money (receipt/credit of money through electronic payment channels), availing of micro credit, insurance and pension was lacking. The campaign focused only on the supply side by providing banking facility in villages of population greater than 2000 but the entire geography was not targeted. There was no focus on the households. Also some technology issues hampered further scalability of the campaign. Consequently the desired benefits could not be achieved and a large number of bank accounts remained dormant.

Access to formal financial institutions has improved gradually but thousands of villages still lack a bank branch, less than 10 per cent of all commercial bank credit goes to rural areas, where around 70 per cent of the total population lives. Data from the RBI show that only 46,126 out of 640,867 villages in India were covered by banks in March 2016. Thus the need for financial inclusion is beyond question.

Table No 1: Financial Inclusion –Journey of Banks

SR	Particulars	Mar 13	Mar 14	Mar 15	Mar 16	Progress
1	Banking Outlets in Villages -Branches	33378	34811	37471	40837	18.26%
2	Banking Outlets in Villages -BCs	34174	80802	141136	221341	84.56%
3	Banking Outlets in Villages -Other Modes	142	595	3146	6276	97.73%
4	Banking Outlets in Villages -TOTAL	67694	116208	181753	268454	74.78%

5	Urban Locations covered -through BCs	447	3771	5891	27143	98.35%
6	Basic Savings Bank Deposit A/c through branches (No. In millions)	60.19	73.13	81.20	100.80	40.28%
7	Basic Savings Bank Deposit A/c through branches (Amt. In billions)	44.33	57.89	109.87	164.69	73.08%
8	Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.30	81.27	83.67%
9	Basic Savings Bank Deposit A/c through BCs (Amt. in billions)	10.69	18.23	10.54	18.22	41.32%
10	BSBDA Total (in millions)	73.45	104.76	138.50	182.06	59.65%
11	BSBDA Total Amt. (in billions)	55.02	76.12	120.41	182.92	69.92%
12	OD facility availed in Basic Savings Bank Deposit A/c (No. In millions)	0.18	0.61	2.71	3.95	95.44%
13	OD facility availed in Basic Savings Bank Deposit A/c (Amt. in billions)	0.10	0.26	1.08	1.55	93.54%

Source: RBI Annual Report 2015-16

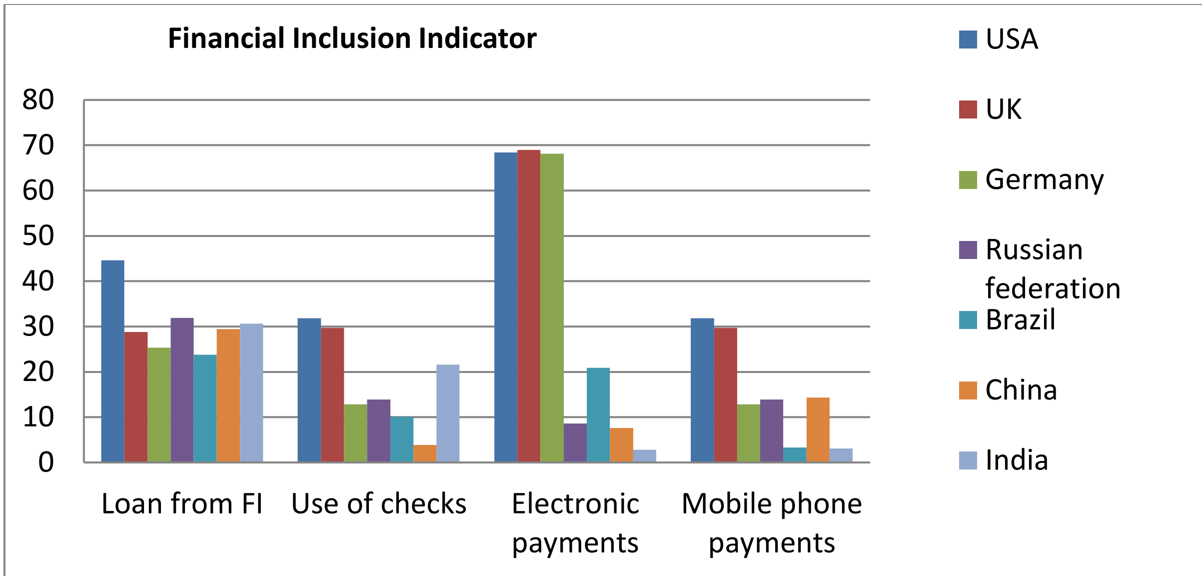
SECTION II

Access to financial services, such as current accounts, credit, or insurance, varies greatly across countries. The international experience indicates that many of the advanced countries have given a thrust to promoting financial inclusion. The UK, which has a large and sophisticated financial services market and is the most competitive and diverse consumer credit market in Europe; has recently designed the "new start checking", "advance pay" and also launched a multi-media campaign to help the unbanked population. Moreover in addition to Financial Inclusion Task Force in the UK and a Financial Inclusion Fund, they have created Post Office Current Account for those unable or unwilling to access a basic bank account.

International Experience- A Comparative Approach

In the USA, between 9.5% and 20% of households lack a bank account. To correct this situation, a civil rights legislation known as the Community Reinvestment Act, has been enacted which ensures affirmative action by banks for financial inclusion. In Canada legislation entitled "Access to Basic banking Services Regulations" was introduced to ensure that all Canadians obtain personal bank accounts without difficulty. In 1984 the Banking Act made access to a bank account a legal right in France. Any person who refuses to open a bank account can directly apply to the Bank of France, which will then nominate an institution to provide the bank account. Germany – in June 1995, the banking industry endorsed a joint recommendation entitled "Current Accounts for Everyone", undertaking to provide current accounts on demand. The results have so far been positive and so the Federal Government has chosen not to legislate in this area at this time. In South Africa, a low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, a 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion. In Bangladesh, Gramin Bank offers small-sized loans to groups of customers. In Pakistan, six microfinance banks are operating currently. Also, the topical proliferation is in activity in Pakistani microfinance sector, supported by both government and foreign donors.

Figure 1 depicts the cross country comparison of access to financial services to the proportion of total population in different countries i.e. United States, United Kingdom, Germany, Russian Federation, Brazil, China and India. In the various credit parameters, US tops, followed by UK and Russia. India is on par with China and in Credit to bottom 45% Brazil ranks very low. In modes of making payments again US tops (68%) with UK (52%). Electronic payments are quite popular in US, UK, Germany and Brazil. In India only 4% of population makes use of Electronic medium for making payments. Coming to mobile banking India has relatively done well i.e.3.3%, while for other countries it is much less and for three developed countries data is not available. Coming to savings in financial institutions India's population is 11.6% while for China it is 32%. The diagram clearly shows that US ranks top in loan to bottom 40% of the population, followed by Germany, UK, Russian Federation, China and India. Brazil is at the bottom. China and India are almost at par.



SECTION III

Table 2:It clearly states that Public Sector Banks have opened the highest number of accounts

Bank Category	Total Beneficiaries	Beneficiaries at rural/semi-urban centre bank branches	Beneficiaries at urban/metro centre bank branches	No. of RuPay cards issued to beneficiaries	Balance in beneficiary accounts
Public Sector Bank	24.38	13.31	11.07	18.30	52748.02
Regional Rural Bank	4.89	4.12	0.77	3.60	11688.11
Private Banks	0.97	0.59	0.38	0.90	2029.99
Total	30.24	18.02	12.22	22.80	66466.12

Source: www.pmjdy.gov.inPradhanMantri Jan - DhanYojana (Beneficiaries as on 13.09.2017)

According to the PMJDY website, a little more than 127 million new bank accounts have been opened since launch of the scheme on August 28, 2014. Overall, that takes the number of households in the country with at least one individual bank account to 210.5 million.In what could be a gauge of the scale of coverage, the number of people added to the country's banking system in the past five months is higher than that in the period from 2001 to 2011. According to census data, only 36 per cent of Indian households had access to banking services in 2001; this increased to 59 per cent in 2011.

CONCLUSION

Financial inclusion has picked up in India in the last few years with many new innovations like mobile banking, ultra small branches etc., but still it is far from adequate. Mobile banking has covered only 3.3% of total population. India has six lakh villages and number of bank branches is far from adequate. In India we find mobile phone connections even with the poor people but they are not aware of mobile banking. Banks need to create awareness amongst people through various means of mass communication like television channels, which have reached rural India. The knowledge, capital and technology to address these challenges however now exist in India, although they are not yet fully aligned. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to poor people in India. In the new millennium, banks should attempt to achieve significant increase in their productivity, efficiency and profitability. The area of challenges that lie ahead would be:

- Closing down/ merging of unviable branches particularly in urban and metropolitan areas;
- Develop new products and services that would meet the emerging consumer needs;
- Efforts should be made to remove high cost, poor services, low profitability, poor loan recovery and weak capital position which virtually all public owned banks are facing.

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