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A Study on Status of Financial Inclusion in India

Paramjit Sujlana,

Research Scholar,
Punjabi University, Patiala, Punjab, India

Chhavi Kiran,

Junior Research Fellow,
Punjabi University Regional Centre for Information Technology and Management,
Mohali, Punjab, India.

ABSTRACT

"If the misery of the poor be caused not by the laws of nature, but by our institutions, great is our sin."
- Charles Darwin

Financial sector is the backbone for any developing nation. So the focus has to be on growth and stability of financial position of all citizens of the country in order to ensure continuous development. Consequently financial inclusion plays an indispensable role in inclusive growth of an economy. In simple terms financial inclusion strives to address the challenge of poor access of financial services to rural masses in India. The origin of financial inclusion can be traced back to the year when United Nation initiatives were undertaken which specified the provision of credit, insurance, savings and other banking services to all 'bankable hoseholds.' Government of India has been very active towards improving the level of financial inclusion and for this numerous efforts have been undertaken by government. Through this paper an attempt has been made to provide an overview on status of financial inclusion in India in past few years. On the basis of analysis conducted, it can be stated that the financial inclusion is in progressive stage in India in terms of branch penetration. But certain efforts towards inclusive growth are still is nascent stage and needs to be given a concrete shape with the collaborative effort of Government of India along with citizens of the nation.

Keywords: Financial inclusion, inclusive growth, banks, Indian economy.

INTRODUCTION:

Financial sector acts as a multiplier and mediator for economic stability. In India a large chunk of society is deprived of access to formal financial services due to which they have to depend on informal sources of finance which bears huge cost. So experts from banking sector and government identified need of some initiatives which can be devoted towards provision of banking services to economically weaker sections of the society In 2005, the then Governor of Reserve Bank of India (RBI) Sh. YV Reddy coined the term financial inclusion. As a matter of fact he used the word by chance mistaking it for a word used in RBIs description as financial exclusion.

OBJECTIVES:

Through this paper an attempt has been made to have an insight into various aspects of financial inclusion focusing mainly on status of financial inclusion in India in past few years.

RESEARCH METHODOLOGY:

The study is descriptive in nature. Available secondary data from reports issued by Reserve Bank of India, Ministry of Finance and World Bank were extensively used for the study. Different news articles, books and authorized internet sources were used which were enumerated and recorded. Simple percentage method has been used for analyzing the secondary data in order to show the trend and status of financial inclusion over past ten years.

What is financial inclusion?

The quest of providing accessibility to financial services at an affordable cost to all individuals in the nation is the concept of financial inclusion. Reserve Bank of India first released a formal definition of financial inclusion in 2008 and after that various researchers have tried to explain the concept. Table 1 contains a list of some definitions proposed in different reports and by different researchers.

Table 1 : Definitions of financial inclusion

Author	Definition
Reserve Bank of India (2008)	*RBI defines Financial Inclusion as "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular."*
Planning Commission (2009)	*"Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products*."
Chakraborty (2011)	*"Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players."*

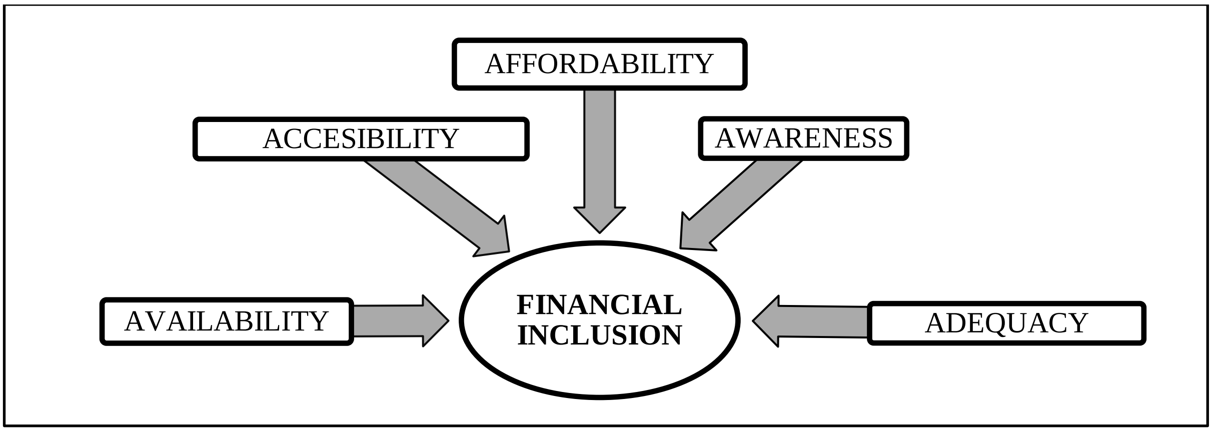
The origin of financial inclusion can be traced back to the year when United Nation intiatives were undertaken which specified the provision of credit, insurance, savings and other banking services to all *'bankable hoseholds.'* In India, the steps towards financial inclusion were slow but quite steady and they can be glanced through table 2.

Table 2: Crucial Milestones of Financial Inclusion in India

Year	Details of event
1956	Imperial Bank of India was nationalized.
1968	National Credit Council was set up.
1969	Lead bank scheme was introduced
1971	Priority sector lending norms were laid down.
1975	Regional Rural Banks (RRBs) were established.
1982	National Bank for Agriculture and Rural Development (NABARD) was established
1992	Self Help Groups Linkage Programme was launched to support females of rural areas.
2000	SIDBI foundation was established for making provisions of micro credit.
2004	Khan Committee was set up by Reserve Bank of India.
2005	Pilot project on financial inclusion was introduced in Mangalam village of Pondicherry by Chairman of Indian Bank Dr. K.C. Chakraborty
2007	Bill on Microfinance Regulation was proposed in parliament.
2012	Finance Department of Government of India passed Microfinance Institutions (Development and Regulations).
2012	Revised Guidelines on Financial Literacy Centres were introduced.

Microfinance institutions (MFIs) in India have played a key role in enhancing the status of financial inclusion (Islam, 2012). Various set ups of MFIs in India are Bandhan Microfinance, Cashpor Microcredit, Bharat Financial Inclusion Limited, Share Microfin Limited, Spandana Sphoorty Financial Ltd, Asmitha Microfin Ltd, Bhartiya Samruddhi Finance Limited (BSFL) etc (Karmakar, 2008). In a recent study carried out in 2017, five A's of financial inclusion have been showed in form of a diagram in figure 1. The first factor is 'availability' which implies that financial inclusion means making all types of financial services available to the all individuals irrespective of income and size of credit. The second factor implies availability of such services at an affordable cost. The third factor implies that services like credit, insurance, savings etc. should not just be made available with the banks but should also be accessible for people staying in even remotest corner of the country. Under this factor various number of bank branches were set up by Public sector banks in rural areas. The fourth factor implies that merely making products and services available and accessible at lower cost is not sufficient, but rather there is a need to create awareness about it. Under this numerous campaigns were organized in villages, different advertisements were rolled out highlighting the importance of savings and insurance, pamphlets were distributed at every nook and corner of cities. The last but not the least factor implies that all the kinds of financial services need to be adequate in the sense that as focus is on people from weaker sections of society so will need loans in smaller amounts and if the loans are being offered in huge amounts it will not be acceptable for such people (Kaur et al, 2017).

Figure 1: Five A's of Financial Inclusion



Source: Kaur et al (2017)

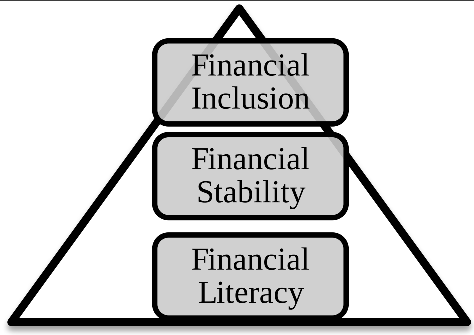
REVIEW OF LITERATURE:

Financial inclusion can be understood as an important cornerstone of economic development. A research conducted on financial inclusion reveals that for improving the financial condition of economically weaker sections of society initiatives towards financial inclusion are indispensable. It includes a wide variety of activities like savings and insurance and is not limited to extension of credit facilities (Dev, 2006). Further in 2005, a study was conducted in which it was found that if financial services of low margins are provided to a very large number of people, it may lead to great amounts of profit. In order to promote financial inclusion amongst low income groups, it is important for banks to readdress existing business strategies. In addition to it, for meeting the objective of financial inclusion, all kinds of available resources including technology needs to be exploited (Leeladhar, 2005).

In 2008, Sriram and Sundaram conducted a study in rural areas of Vellore district of Tamil Nadu to identify and analyze various determinants of financial inclusion. The researchers also identified the reasons for lower number of bank accounts by collecting data from 20 village blocks of Vellore. By using index of financial inclusion and percentage analysis, it was found out that financial inclusion was at mid-range of 0.55 for Vellore. The major reasons for lack of financial access were identified as unemployment, lower literacy levels and lower income levels (Sundaram and Sriram, 2008). In another study carried out in Karnataka, certain important facts were revealed. The study was based on a report which claimed that there was financial inclusion up to 100 % in Gulbarga district. But the study highlighted that bank accounts were not opened under the Financial Inclusion Program but rather were opened under the scheme of NREGP. Consequently there was lower level of awareness amongst rural poor about financial inclusion plans. The study implied the need of increasing financial literacy amongst rural masses (Ramji, 2009). RBI has also listed financial literacy as one of the aspects of financial inclusion tripod as shown in figure 2. RBI laid down three principles/pillars which will guide the path towards achievement of inclusive growth. While the main focus was on financial inclusion, other two principles/pillars were used as a foundation for attaining the first objective.

In a cross country study conducted by two researchers, it was found that there is a strong positive correlation between level of financial inclusion and level of human development. By using financial inclusion index proposed by Sarma in 2008, the researchers established a fact that income of an individual (being measured by per capita GDP) is an important factor in explaining the levels of financial inclusion. Apart from this some other factors also came into light like adult literacy levels, urbanization and income inequality (Sharma and Pias, 2011).

FIGURE 2: FINANCIAL INCLUSION TRIPOD



Source: Financial Stability: Issue And Challenges 2009: Valedictory Address By Dr. D Subarao, Then Governor Of RBI

Need of Financial Inclusion in India:

Through financial inclusion the resource base of Indian financial system can be enhanced as it promotes a culture of savings amongst large segment or rural population. Further, by provision of financial services to low income groups helps them to protect their financial wealth and use it in any insistent circumstances. Easy access to formal credit will protect the vulnerable sections of society from usurious money**.** The main objectives of Financial Inclusion in India are enumerated below:

- *Providing formal credit channels:* So far major chunk of the population which is deprived of any formal access to credit depends on family, friends and moneylenders for fulfilling their financial needs. Formal banking channels will enable people form lower income groups to stabilize their livelihood and will in improving their standards of living.
- *Creating a platform for inculcating the habit of saving money:* For growth of a nation financial system is a crucial component. By aiming for financial inclusion Government of India wants to increase the financial resource base through motivating all individuals to have a bank account and thus inculcate habit of saving (Singh and Singh, 2016).
- *Providing direct benefits of subsidies and welfare programme:* A major challenge faced by Government is that the sum of money designated for rural masses under several schemes does not reach them in reality. If every individual residing in rural areas will have a bank account, the disbursal of cash will be quick and transparent (Sehrawat and Giri, 2016). Consequently government has opted for direct cash transfers in accounts of beneficiaries.

Table 3: Measures Adopted by GOI, RBI and NABARD towards Financial Inclusion

Customer Service Centres	Adhaar Scheme
National Rural Financial Inclusion Plan	Project on “e-Grama”
Project Financial Literacy	SHG-Post Office Linkage
Credit Counselling Centres	Micro Pension Model
Know Your Customer	General Credit Card
Farmers’ Club Program	Financial Inclusion Fund
Role of SHGs, NGOs and MFIs	Financial Inclusion Technology Fund
Pradhan Mantri Jan Dhan Yojna	No-frill Account
Separate Plan for Urban Financial Inclusion and Electronic Benefit Transfer Scheme	Nationwide Electronic Financial Inclusion System
Financial Literacy through Audio Visual medium - Doordarshan	Micro Finance Development Fund
Support to Cooperative Banks and RRBs for setting up of Financial Literacy Centres	The National Agricultural Insurance Scheme
Source: Dangi (2012), Paramasivan and Ganeshkumar (2013), Kumar (2013), Mehar (2014), Ambarkhane et al (2016), Gupta (2018)	

Status of financial inclusion in India:

Empirical evidences have suggested that certain indicators must be defined for formulating appropriate financial inclusion policies. Consequently experts from World Bank, International Monetary Fund and many other global establishments have defined some strong indicators of financial inclusion for an economy. Some of these broad indicators are the number of bank branches, number of Automated teller machines installed, bank deposits, bank credit extended and so on. Data pertaining to such indicators of some economies have been presented in Table 4. It reveals that China despite of being most populated country, has a strong framework for financial inclusion with 1428.98 bank branches per 1000 km of area.

Table 4 : Select Indicators Of Financial Inclusion 2011

SN	Country	Number of bank branches	Number of ATMs	Number of bank branches	Number of ATMs	Bank deposits	Bank credit
		Per 1000 KM		Per 0.1 Million		as % to GDP	
1.	**India**	**30.43**	**25.43**	**10.64**	**8.9**	**68.43**	**51.75**
2.	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3.	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4.	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5.	France	40.22	106.22	41.58	109.8	34.77	42.85
6.	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
7.	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
8.	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
9.	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
10.	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
11.	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
Source: Financial Access Survey, IMF							

To strengthen the financial inclusion drive in India, Government of India has advised all public and private sector banks to compile a three year financial inclusion plan (FIP) which will broadly contain information about the number of brick and mortar bank branches in rural areas, branches opened through business correspondents, status of Kisan Credit Cards (KCC), number of General Credit Cards (GCC) and so on. Table 5 shows a glimpse of the progress of financial inclusion plans in India.

Table 5: Progress made under financial inclusion plans
(Scheduled commercial banks including RRBs)

SN	Particulars	March 2010	March 2011	March 2012	March 2013	March 2014	March 2016	March 2017
1.	Banking outlets in Rural locations - Branches	33378	34811	37471	40837	46126	51830	50860
2.	Banking outlets in Rural locations - Branchless mode	34316	81397	144282	227617	337678	534477	547233
3.	Banking outlets in Rural locations - Total	67694	116208	181753	268454	383804	586307	598093
4.	Urban locations covered through BC*	447	3771	5891	27143	60730	102552	102865
5.	Total Kisan Credit Cards (KCC, No. in million)	24.3	27	30	34	40	47.3	46
6.	KCCs -Total (Amount in Rs. billion)	1,240	1,600	2,068	2,623	3684	5,131	5805
7.	Total General Credit Cards (GCC, No. in million)	1.4	2	2	4	7	11.3	13
8.	GCC-Total (Amount in Rs. billion)	35	35	42	76	1097	1,493	2117
*BC: business correspondents								
Source: Compiled from Report on Trend and Progress of Banking in India of various years (issued by RBI)								

Progressive trends of banking sector :

Banks are the main source of any kind of financial access for the population of a country. The Indian banking system comprises of Scheduled banks and Non-scheduled banks broadly. The data provided in annual reports of different years of Reserve Bank of India (table 6) shows that the number of offices of scheduled commercial banks has grown over the period of past eight years. Table 7 shows that in northern region the percentage of number of offices has increased from 2008 to 2014 but in 2015 though more number of offices were added, but the rate of increase is less than that in 2014. Further amongst all regions, southern region has shown the highest rate of increase in percentage of number of offices of scheduled banks.

Table 6: State-Wise Distribution Of Offices Of Scheduled Commercial Banks
(Number of Offices as at end-March)

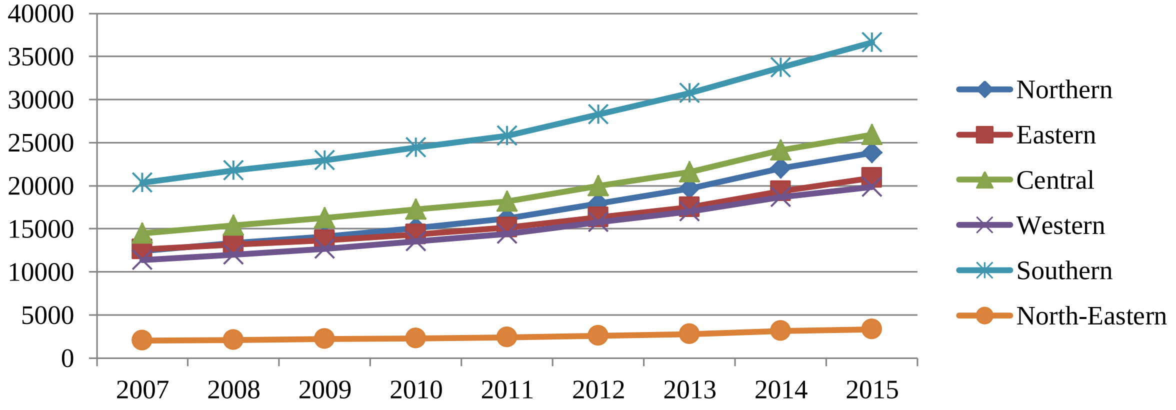
Regions	2007	2008	2009	2010	2011	2012	2013	2014	2015
Northern	12399	13325	14069	15087	16176	17905	19681	22000	23843
Eastern	12603	13152	13670	14359	15138	16345	17469	19376	20893
Central	14494	15383	16244	17280	18194	19948	21581	24096	25926
Western	11352	12003	12664	13543	14417	15751	17013	18673	19821
Southern	20348	21751	22974	24423	25814	28300	30766	33691	36654
North-Eastern	2003	2085	2181	2268	2378	2556	2769	3129	3345
ALL INDIA	73199	77699	81802	86960	92117	100805	109279	120965	130482

Table 7: Percentage Increase In Number Of Offices Of Scheduled Commercial Banks

Region/Year	2008	2009	2010	2011	2012	2013	2014	2015
Northern	7.5	5.6	7.2	7.2	10.7	9.9	11.8	8.4
Eastern	4.4	3.9	5.0	5.4	8.0	6.9	10.9	7.8
Central	6.1	5.6	6.4	5.3	9.6	8.2	11.7	7.6
Western	5.7	5.5	6.9	6.5	9.3	8.0	9.8	6.1
Southern	6.9	5.6	6.3	5.7	9.6	8.7	9.5	8.8
North-Eastern	4.1	4.6	4.0	4.9	7.5	8.3	13.0	6.9
ALL INDIA	6.1	5.3	6.3	5.9	9.4	8.4	10.7	7.9

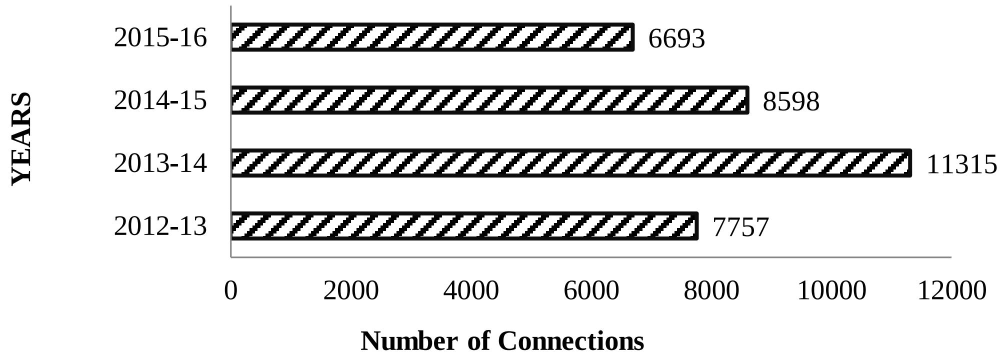
Source: Self created

Figure 3: Region-wise Distribution of Offices of Scheduled Commercial Banks



Due to increased efforts of Reserve Bank of India, the number of bank branches have increased manifold from 2013 to 2016 but a major aspect of this growth can be witnessed in figure 4. Amongst past few years, major number of connections have increased in 2013-14.

Figure 4 : Number of New Branches Opened in India



Source: Reserve Bank of India Annual Reports

The number of bank branches are one of the most important indicators of financial inclusion for any country (Ranjani and Bapat, 2015). Table 8 shows the number of Public sector bank branches which are in operative condition. Table 9 shows that the proportion of banks branches in rural area considerably remained same from 2011 to 2013 and has increased by one percent each in 2014 and 2015. However the number of public sector bank branches have reduced in metropolitan areas by two percent from 2011 to 2015.

TABLE 8: Number of functioning branches of Public Sector Banks (Population Group wise)

As on	Rural	Semi Urban	Urban	Metropolitan	Total
31.03.2011	20,658	16,217	13,450	12,612	62,937
31.03.2012	22,379	17,905	14,322	13,244	67,850
31.03.2013	24,243	19,642	15,055	13,797	72,737
31.03.2014	27,547	21,952	16,319	14,644	80,462
31.03.2015	29,634	23,549	17,387	15,325	85,895
Source: Department of Financial Services, Ministry of Finance, Government of India					

Table 9: Percentage of Number of Public Sector Bank Branches in India

	2011	2012	2013	2014	2015
Rural	33	33	33	34	35
Semi Urban	26	26	27	27	27
Urban	21	21	21	20	20
Metropolitan	20	20	19	19	18
Total	**100**	**100**	**100**	**100**	**100**
Source: Self Created					

SUGGESTIONS:

On the basis of the analysis conducted certain observations have been made and accordingly certain suggestions can be incorporated in Indian Banking system to improve the progress of achieving financial inclusion in India. First of all, the number of branches increased manifold in 2011 due to the initiative of RBI advising banks to formulate Financial Inclusion Policy (FIP). So in order to maintain this growth rate, RBI must keep introducing new policies for commercial banks. Secondly, data shows that private banks are not very active participants of financial inclusion. The main reason identified in literature is that private sector assumes that activities towards financial inclusion will not assist them in earing profits. But as a matter of fact, private banks should see the untapped potential in rural banking sector as it can help in increasing their customer base to a greater extent. Further last but not the least RBI must form a team with some industry experts of private banks to identify the main reason for lack of banking services in rural India.

CONCLUSION:

There is a dire need to provide quality financial services in rural areas for economic growth as it will help rural households to fund the growth of their livelihoods. Government of India has taken heartfelt efforts in bringing the citizens of India under the ambit of banking services. But still some segment of the nation is lagging behind even though financial inclusion initiatives are in progressive stage. Rapidly developing technology has also played a vital role in bridging the financial divide of the nation. More number of people have started using ATMs, Immediate Payment Service (IMPS) and mobile banking. In a nutshell it can be said that India is at a fast pace towards achieving financial inclusion and this can be speeded up by collaborative efforts of Government, Reserve Bank of India and Citizens of the country.

SCOPE OF FURTHER STUDY :

The current study has focused mainly on one aspect of financial inclusion: branch penetration. The overview of status of financial inclusion can be studied under numerous other financial indicators like credit deposit ratio, technology enabled services etc. Moreover some research can be conducted which is more specific to one state or one region instead of whole country.

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