AN ANALYSIS OF GOVERNMENT INITIATIVES TOWARDS INCLUSIVE FINANCIAL SYSTEM

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Abstract: *Developed financial system is a necessity for the economic growth of a nation and wide participation by the people provides stability to and strengthens the system. Financial inclusion is that process through which financial services are made easily accessible for the people, especially vulnerable sections so that their financial conditions can be improved. Financial inclusion has been a matter of debate for a long time. A number of measures have been taken from time to time for inclusive financial system. The present paper highlights various initiatives taken by the government of India and other institutions. It also presents progress and current status of those initiatives. The paper has concluded that the initiatives taken have played significant role towards achieving goal of inclusive financial system.*

Key words: *Financial Inclusion, Banks, RBI Initiatives, SHGs, BCs.*

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INTRODUCTION

Financial inclusion is not a new concept in India. A big step towards this objective had taken way back in 1969 when 14 banks were nationalized. The reason behind that was the banks were concentrating more in urban areas and because of those rural areas deprived from the financial services. After almost four decade, we are still talking about the financial inclusion of poor. The term 'financial inclusion' has attracted more attention in the recent past. This is considered as important tool for the poverty alleviation. Poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems (Sen 2000). Bringing the poor people under the ambit financial system will increase their financial strength and standard of living. They will also be able avail the benefits of various government schemes easily. For the sustainable development of any economy, the participation of all section of the society is required.

Financial inclusion, broadly defined, 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 (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Hence, financial inclusion is a process of ensuring easy access of financial services at affordable cost for all especially vulnerable section of the society such as poor and low income group. The approaches toward the financial inclusion have been widened over the year. Earlier it was limited to the opening of bank account only but now the emphasis is on use of other financial services by the account holder offered by the bank. Merely having a bank account is not an inclusion in real sense until and unless the account holder is utilizing various financial services offered by the banks.

India is a big country and more than 70 percent of the population lives in rural areas and major proportion of these areas are not having banking services. This is also one of the reasons of the financial exclusion of vast section of the society. As per census 2011, only 58.7% of households are availing banking services in the country.

FINANCIAL INCLUSION MEASUREMENT

There are indicators which can be used to judge the level of financial inclusion of a particular geographical region like number of bank branches per one million person or per one thousand square kilometer, number of bank account per one thousand person, number of

ATMs per one million person, bank deposits as percent to GDP etc. A comprehensive measure of financial inclusion should be able to incorporate information on several aspects (dimensions) of financial inclusion, preferably in one single number. Such a measure can be used to compare the levels of financial inclusion across economies and across states/provinces within countries at a particular time point (Sarma, 2008). In his study, he has calculated financial inclusion index based on three dimensions – banking penetration, availability of banking services and the usage of the banking system.

The extent of financial exclusion in India can be understand with having look on table -1 which shows the performance of India regarding financial inclusion compared with other developing and developed nations. It is clear from the table that the level of financial exclusion in India is higher than some of the developing and developed nations. It indicates that the major proportion of the population is lacking the access to the financial services. The table shows that the number of bank branches per one thousand kilometer is highest in Mauritius followed by Korea and Sri Lanka, France and India. On the other hand, if we see number of bank branches per one lakh person, Brazil is on top followed by France and USA. However, if we see usage dimension of financial inclusion, bank deposit to GDP ratio is highest in Mauritius followed by China and Malaysia while both the countries except Mauritius have lower density of bank branches. So far as bank credit to GDP ratio is concerned, here Malaysia is having the highest ratio followed by China and Korea.

Table: 1 - Select Indicators of Financial Inclusion 2013

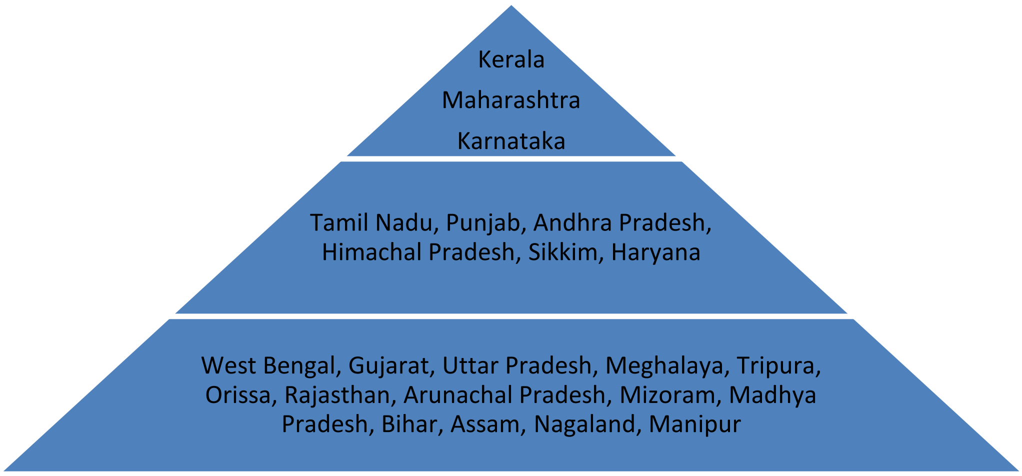
Sl no.	Country	Number of bank branches (per 1000 KM)	No of ATMs (per 1000 KM)	Number of bank branches (per 100000 population)	No of ATMs (per 100000 population)	Bank deposits (as % to GDP)	Bank credits (as % to GDP)
1	India	35.68	38.96	12.16	13.27	69.98	55.14
2	China	9.32	55.75	7.85	46.94	156.62	101.38
3	Brazil	8.45	23.16	47.70	130.74	45.92	47.15
4	Korea	79.90		18.31		89.35	90.75
5	Mauritius	109.85	221.67	21.63	43.65	161.81	83.97
6	South Africa	3.07	18.40	10.34	61.88	44.72	73.12
7	Sri lanka	45.06	40.47	18.57	16.68	46.85	42.24
8	Malaysia	7.36	36.23	11.28	55.50	119.47	121.64
9	USA	9.34		33.88		58.01	43.77
10	France	37.96	107.04	38.71	109.17	36.26	39.97

Source: Financial Access Survey, IMF

STATE-WISE INDEX OF FINANCIAL INCLUSION IN INDIA

The following chart shows the state-wise index of financial inclusion in india, which has been calculated by Sadhan Kumar Chattopadhyay in his study 'Financial Inclusion in India: A case-study of West Bengal' done in 2011. He has calculated this index based on three dimensions of an inclusive financial system- banking penetration, availability of the banking services and usage of the banking system. Based on his finding, Indian states can be categorized into three categories- high, medium and low level of financial inclusion. Kerala is having a highest level of financial inclusion followed by Maharashtra and Karnataka. Whereas, Tamil Nadu comes under medium level of financial inclusion followed by Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana. Other states are having low level of financial inclusion in which West Bengal is having highest level in the category followed by Gujarat and Uttar Pradesh.

Chart: 1 Level of Financial Inclusion in States of India



Source: Financial Inclusion in India: A case study of West Bengal by S.K. Chattopadhyay

APPROACHES OF FINANCIAL INCLUSION

The Indian approach in recent years has been to establish the basic right of every person to have access to a bank account. This approach is based on the fundamental principle of 5A's of ensuring Adequacy and Availability of financial services to all sections of the society through the formal financial system covering savings, credit, remittance, insurance, etc. and, at the same time, increasing Awareness of such services and ensuring Affordability and Accessibility of the appropriate financial products through a combination of conventional and alternative delivery channels and technology enabled services and processes (Khan, H.R.). The following are the some measures which have been taken regarding financial inclusion-

SHG-Bank Linkage Programme : before launch of this scheme banks were experiencing high transaction cost in dealing with the poor individually and there was low recovery of loans in rural. In 1992, NABARD launched a pilot project on SHG-Bank linkage across the country. This was a revolutionary step towards poverty alleviation. This scheme provided a cost-effective model to financial services to financially excluded people. It is proved to be great solution of the problem faced by bank. Under this programme banks started dealing with the group of people rather than individual. This scheme provided an opportunity for the people to come together and to participate in the development process of the country. This scheme helped in empowering the rural people, especially women to a great extent. Table-2 shows the status of SHG-Bank linkage programme in India. More than 74 lakh SHG, covering 97 million families across the country, were linked with banks amounting to ₹ 9897.42 crore by the end of March 2014. Out of which more than 13 lakh SHG were linked only in the year 2013-14.

Table: 2- Progress of SHGs-Bank Linkage Programme

Sl. No.	Particulars	Physical (No. in lakh)	Financial (₹ Crore)
1.	Total number of SHGs saving linked with banks	74.30	9897.42
2.	Total number of SHGs credit linked during 2013-14	13.66	24017.36
3.	Total number of SHGs having loans outstanding as on 31 March 2014	41.97	42927.52
4.	Average loan amount outstanding/SHG as on March 2014 (in ₹)		102273.21
5.	Average loan amount disbursed/SHG during 2013-14 (in ₹)		175768.36
6.	Estimated number of families covered up to 31 March 2014	97 million	

Source: Status of Microfinance in India, NABARD

No-frills Account: To encourage the people to open bank account, RBI advised to banks to offer no frill account with nil or very low minimum balance. Afterward, Basic saving bank deposit account (BSBDA) was offered in place of no frill account. There was no minimum balance was required to open this account and the banks were advised to provide some minimum common facilities including small overdraft facility to all the customers. The importance of this initiative can be understand with the fact that 243 million accounts (comprising 126 million account through bank branches and 117 million account through business correspondents) have been opened by the end of March 2014 compared to 182 million account at the end of preceding year. The initiatives taken by RBI has been very effective. The total amount mobilized through this account reached to ₹ 312 billion in March 2014 from ₹ 183 billion in the same month of previous year. Overdraft facility was availed by 6 million people by March 2014 amounting to ₹ 16 billion.

Business Correspondent: It is not viable to open bank branches in every unbanked area. To bridge the gap between the people of unbanked area and the banking service provider, RBI focused on the information and communication technology (ICT) to provide banking services through business correspondents/business facilitators. Under the scheme the banks were allowed to use the services of NGOs, SHGs, PCO operators, agent of insurance companies, clubs, microfinance institutions, retired government employees, it enabled rural outlets of corporate entity, KVIC, owner of kirana fair price shops, medical shops, post offices etc. to act as business facilitators/business correspondents. BCs have played a significant role in the Indian economy which can be understood from the facts given in table -3. There were more than 60730 business correspondent across the country which is more than double than that of the previous year and BSBDA account opened by were 117 million by March 2014. The total amount deposited through these accounts was ₹ 39 billion.

Table: 3- Progress of all Banks including RRBs

Sl. No.	Variables	Mar-13	Mar-14	Absolute Change (2013-14
1	Banking Outlets in Villages - Branches	40,837	46,126	5,289
2	Banking Outlets in Villages – Branchless Mode	227,617	337,678	110,061
3	Banking Outlets in Villages – Total	268,454	383,804	115,350
4	Urban Locations covered through BCs	27,143	60,730	33,587
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	101	126	25.2
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in ₹ billion)	165	273	108
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	81	117	35.7

Sl. No.	Variables	Mar-13	Mar-14	Absolute Change (2013-14
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in ₹ billion)	18	39	20.7
9	BSBDA Total (in million)	182	243	60.9
10	BSBDA Total (Amt. in ₹ billion)	183	312	129
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	4	6	2
12	OD facility availed in Basic Savings Bank Deposit Account (Amt. in ₹ billion)	2	16	14.5
13	KCCs-Total (No. in million)	34	40	6.2
14	KCCs-Total (Amt. in ₹ billion)	2,623	3,684	1,061.0
15	GCC-Total (No. in million)	4	7	3.8
16	GCC-Total (Amt. in ₹ billion)	76	1,097	1,021.0
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	250	329	-
18	ICT A/Cs-BC Total Transactions (Amt. in ₹ billion) during the year	234	524	-

Source: Annual Report 2013-14, RBI

Micro Financial Institutions: SHG-Bank linkage programme initiated by NABARD has been quite successful over the years. Similarly, Micro Financial institutions are also playing a important role in achieving the objective of financial inclusion. These institutions are providing their services in channelizing the credit to rural areas of the country. Their widespread reach and greater understanding of the issues related to the rural people make them able to offer the suitable financial services according to the needs and requirements of the concerned area.

Kissan Credit Cards(KCCs): KCCs has also emerged as great supportive tool for the farmers to meet their financial requirement for farming activity. Total number of KCCs issued reached to 40 million by March 2014 amounting to ₹ 3,684 billion. The corresponding figures in the previous year were 34 million and ₹ 2623 billion respectively.

General credit cards: RBI advised to rural and semi-urban areas' banks to issue general credit card. The objective of the scheme was to provide hassle-free credit facility to customers. This can be issued as smart card/ debit card (biometric smart card compatible for use in the ATM, hand held swipe machine and capable of ensuring adequate information about its holder. There is no ceiling on the loan amount as long as the loan is for the non-farm entrepreneurial activity. Interest rate to be charged is to be decided by the concerned bank based on the policies approved by the bank. The total 7 million cards were issued by March 2014 amounting to ₹ 1097 billion. The corresponding figures during the previous year were 4 million and ₹ 76 billion respectively.

OTHER INITIATIVES

There are many others efforts have been made for financial inclusion in India over the years. Some of them are-

Mobile Banking: According to a report published in The Economic Times the expected number of mobile internet users in India may reach to 213 million by June 2015. There were total 173 million mobile internet users in India by end of December, 2014. With the rapid growth in the number of mobile users, the mobile banking has emerged as strong alternative channel for the delivery of banking services. Now many banks are offering mobile banking services to their customers. Earlier there was a transaction limit of ₹ 50000 per customer per day but now this limit has been removed by the RBI. However, banks have been allowed to fix per transaction limit based on their own policies. According to a report published in Business Standard magazine, HDFC bank had witnessed tremendous growth in mobile banking with transaction amount of ₹ 4906.86 crore through 1.49 million transactions in January 2015 followed by ICICI Bank, State Bank of India and Axis Bank.

Mobile Banking Vans: It is extension of banking facilities through mobile vans. RBI directed to banks to open mobile branches in the unbanked areas. The places and time to visit by ICT enabled vans are informed to the customers in advance to avoid any kind confusion among the customers. This is a very cost effective means to provide banking services in remote areas.

Pradhan Mantri Jan Dhan Yojana: This scheme has set a milestone towards financial inclusion. The target of the scheme is to open account of every family of the country. This scheme was announced by Prime Minister of India in his Independence Day speech on 15th August 2014 and it was taken as national mission on financial inclusion. It was inaugurated on 28th August 2014. On the inaugural day itself banks had opened around 1.5 crore account under the scheme. The account under the scheme can be opened without any balance. Table- 4 is evident of significant role the scheme towards financial inclusion. It shows that a huge number of accounts - 15.59 crore accounts had opened comprising 12.19 crore, 0.64 crore and 2.76 crore accounts in public, private and regional rural banks respectively. Total

54.52% of the total number of accounts were opened with zero balance while the other account holders deposited a total of ₹ 16,918.91 crore in their accounts.

Table: 4 – Progress of Pradhan Mantri Jan Dhan Yojana (13.05.2015)

(*Figures in Crores)*

Sl. No.		No. of Accounts			Balance in Accounts (₹)	% of Zero Balance Accounts
		Rural	Urban	Total		
1.	Public Sector Banks	6.63	5.56	12.19	13087.42	54.55
2.	Private Banks	0.38	0.26	0.64	919.96	50.00
3.	Regional Rural Banks	2.35	0.41	2.76	2911.53	55.43
	Total	**9.36**	**6.23**	**15.59**	**16918.91**	**54.52**

Source: www.pmjdy.gov.in

CONCLUSION

Financial inclusion is a process to provide banking services at an affordable cost to the vulnerable section of the society. A number of measures have been taken over the years to bring the financially excluded people within the financial system. These measures have widened the base of Indian financial system and mobilized a huge amount of fund over the years. It has helped for sustainable economic and social development of the nation. Though, schemes launched so far have achieved a lot towards increasing the level of financial inclusion in the country, still more steps will have be taken in future. Mere opening a bank account is not enough, the people will have to educate about the different financial products to increase the usage of banking services.

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