

Financial inclusion: a tool for socio- economic development

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Abstract: Financial inclusion is one of the buzz-words in the development circles lately. It is also one of the major challenges throughout the world today and every government is taking different measures to make this dream come true. Various initiatives were taken up by Reserve Bank of India (RBI)/Government of India (GOI) like nationalization of banks, expansion of bank branch network, establishment & expansion of cooperative and Regional Rural Banks (RRBs), lead bank schemes, formation of Self Help Groups (SHGs), Micro Finance Institutions (MFIs) and Business correspondent model etc. in order to ensure financial inclusion. Besides all these initiatives as per census, 2011, out of 24.67 crore households in the country, only 14.48 crore (58.7%) households had access to organized banking services. To remove this disparity, government launched Pradhan Mantri Jan Dhan Yojna (PMJDY) with the objective to ensure universal access to banking facility with at least one basic bank account for every household. Government has successfully opened more than 12.5 crore bank accounts through various banks and mobilized more than INR 10,000 crore deposits up to January, 2015. In this context, this paper is an attempt to study the current trends in financial inclusion in India with special reference to PMJDY.

Keywords: 1. *financial inclusion*, 2. *Self-help groups*, 3. *Micro credit facility*, 4. *Business correspondent*, 5. *Pradhan Mantri Jan dhan yojna*.

1. Introduction

Financial inclusion has been accorded with high importance by Reserve Bank for inclusive growth process of economy. Financial inclusion plays an important role in growth and sustainable development of any economy, by providing financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as providing easy formal financial services to disadvantaged group of society. The committee on financial inclusion by government of India has defined Financial inclusion 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 (Rangarajan committee, 2008).

Sadhan Kumar (2011) worked out an index on financial inclusion (IFI) based on three variables namely penetration (number of adults having bank account), availability of banking services (number of bank branches per 1000 population) and usage (measured as outstanding credit and deposit). The results indicate that Kerala, Maharashtra and Karnataka have achieved high financial inclusion ($IFI > 0.5$), while Tamilnadu, Punjab, H.P, A.P, Sikkim, and Haryana identified as a group of medium financial inclusion ($0.3 < IFI < 0.5$) and remaining states have low financial inclusion.

1.1 Financial inclusion in India so far

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). After the report of this commission RBI advised all banks to open **Bank Saving Bank Deposit** accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.

Now after this RBI has started a new journey toward financial inclusion and start taking new initiatives like **Relaxed and simplified KYC norms** to facilitate easy opening of bank accounts, specially for small account with balances not exceeding INR 50,000 and aggregate credits in the accounts not exceeding INR 1,00,000 p.a. RBI has also **Simplified Branch Authorization Policy** to address the issue of uneven spread of branches and allowed domestic commercial banks to freely open branches in Tier 2 to Tier 6 area with population of less than 1 lakh under general permission, subject to reporting.

Central Bank also made it **compulsory to all the banks to open branches in un-banked villages** and 25% of its total no of branches should be located in un-banked (Tier 5 and Tier 6) rural Centre. **General Credit Cards (GCC)** were issued to poor and disadvantage with a view to help them in accessing easy credit. In January 2006, Reserve bank permitted to commercial bank to use services of non-governmental organizations (NGOs/SHGs), Micro finance institutions other civil society organizations as business facilitators (BF) or business correspondents (BC) to provide financial and banking services

Table1:-No. of branches of Scheduled Commercial Banks as on 31st March, 2013..

Bank Group-wise Number of branches as on 31.03.2013					
Bank group	Rural	Semi urban	Urban	Metropolitan	Total
Public sector bank	23286	18854	14649	13632	70421
Private sector bank	1937	5128	3722	3797	14584
Foreign bank	8	9	65	249	331
Regional rural bank	12722	3228	891	166	17007
Total	37953	27219	19327	17844	102343

(Sources: Department of financial services, ministry of finance, Government of India)

Table 1 shows 102343 are the total number of bank branches in India. Out of these total branches maximum branches are opened by public sector banks. Table also shows that highest number of branches are in rural area, not only RRBs or Public sector banks but private sector banks and a few no of foreign banks are also taking initiatives to open their branches in rural area.

Besides all these efforts by RBI on financial inclusion still millions of Indian household even don't have a basic bank account. The obvious reason for the same may be lack of formal financial services or due to the lack of financial literacy among people. The people are not even aware of benefits of having bank account. To counter these issues government of India launched

a new scheme i.e. **Pardhan Mantri Jan Dhan Yojna** with the main objective to ensure universal access to banking facility with at least one basic bank account for every household.

Table 2:-Pardhan Mantri Jan dhan yojna (accounts opened as on 31.01.2015)

s. no		No of accounts (in lacs)			No of rupay Debit cards (in lacs)	Balance in accounts (in lacs)	No of accounts With zero balance (in lacs)
		Rural	urban	total			
1.	Public sector banks	533	451.47	984.48	912.32	817463.04	655.41
2.	Regional rural banks	184.89	32.98	217.87	149.68	159948.08	159.35
3.	Private sector banks	32.26	20.12	52.38	45.93	72551.5	29.97
4.	Total	750.15	504.57	1254.73	1107.93	1049962.6 2	844.73

(Department of financial services, Ministry of finance, Government of India)

To be looking at the success of this scheme within 6 months of its operation government has successfully opened 12.5 crore bank account and mobilized INR 10,000 crore.

1.2:Some important guidelines on financial inclusion in India-

- In January 2006, banks were allowed to enlist non-profit Bank correspondent as agents for delivery of financial services.
- In year 2008, it was determined that BCs should be located not more than 15 kilometers from the nearest bank branch.
- In 2008 the RBI issued operative guidelines for mobile banking and amended the same in December 2009 to ease various transaction limits and security norms.
- In 2009: individual for-profit were allowed to participate as BCs, and this category includes kirana store, gas stations, PCOs etc. and area of operation was also increased to 30 kilometers.
- In June 2010, RBI and TRAI have made an agreement regarding the rollout of mobile banking.
- In September 2010, all companies listed under the company Act (1956) were allowed to act as BCs, with the exception of non-banking finance corporations.
- In 2011, RBI issued guidelines for opening Aadhaar card enabled bank accounts to facilitate routing of MGNREGA wages and other social benefits into the account using EBT.
- In 2012, RBI permitted Aadhaar letter as a proof of both identity & Address for the purpose of opening bank accounts.
- Guidelines on direct benefit transfer were issued by GOI.
- In 2013, to ease the account opening process RBI permitted to use e-KYC.
- In 2014, RBI issues guideline for scaling up of Business correspondent Model.

- In august 2014, government launches PMJDY for national financial inclusion.
- In 2015 government decided to open small and payment Banks

2. Review of literature

Joseph Massey (2010) suggest that, the role of financial insitutions in a developing economy plays a vital role in promoting financial inclusion. The efforts of the government to promote financial inclusion can be further enhanced by the pro –activeness on part of capital market players including financial institutions. National and international organization has recognized this and efforts are seen on domestic and global levels to encourage the financial insitutions to take up larger responsibilities in including the financial excluded lot.

Mandira Sarma and Jesim Paise (2008) said that financial inclusion is a development policy priority in many countries. By looking at the Financial inclusion index developed in levels human development and financial inclusion in a country move closely with each other, although a few exception exist. Among social-economic factors, as expected, income is positively associated with 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) found that financial inclusion is an inclusive development and poverty reduction strategy that manifests itself as part of emerging FI-PR-MDG nexus. However, given the current global crises, the need of scale up financial inclusion is now perhaps more important as 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 financial access database by CGAP and 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 extent of retail networks, and discusses the state of financial inclusion mandates around the world. The finding indicates that there is yet much to be done in financial inclusion arena. 56% of adults in the world do not have access to formal financial services.

3. Objectives of the study:-

1. To study the financial inclusion
2. To know India's present position on financial inclusion.
3. To compare India position with other countries.
4. To study the different measure taken by government of India to improve financial inclusion.

Table 3:- India's Position with other countries(per 1000km²)

S.no	Country	No. of commercial branches	No of ATMs
1.	India	35.68	38.96
2.	Austria	13.71	103.47
3.	Brazil	8.45	23.16
4.	France	37.96	107.04
5.	México	6.76	21.34
6.	UK	NA	NA
7.	USA	9.39	NA
8.	Korea	79.90	NA
9.	Philippines	18.32	48.73
10.	China	9.32	55.75

Table 3 compare India position with other countries. As from the table we can see that India is on third position with 35.68 bank branches among these 10 countries, Korea stands on 1st position with 79.90 bank branches per 1000 km² and France is on 2nd position with 37.96 branches, Mexico stand on 10th position with 6.76 bank branches per 1000km². As for as no of ATMs is concerned India stand on 5th position with 38.96 ATMs per 1000km², France got no position with 107.04, Austria on 2nd with 103.47, china stands on with 55.75 3rd , Philippines on 4th , with 48.73 and Mexico on 10th with 21.34 ATMs per 1000km². (Source: RBI Annual report, 2013-14)

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Table: 4 summary progress of all banks including Regional Rural Banks(RRBs), during five years period are as under:

Particulars	Year ended 2010	Year ended 2011	Year ended 2012	Year ended 2013	Year ended 2014
Banking outlets in villages					
a) Branches	33,378	34,811	37,471	40,837	46,126
b) Villages covered by BCs	34,174	80,802	1,41,136	2,21,341	3,37,678
c) Other modes	142	595	3,146	6,276
d) Total	67,674	1,17,208	1,81,753	2,68,454	3,83,804
Urban locations through BCs	447	3,771	5,891	27,143	60,730
Basic Saving Bank Deposit A/c- branches					
a) No. in millions	60.19	73.13	81.20	100.80	126.00
b) Amount in billions	44.33	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/c-BCs					
a) Numbers in millions	13.27	31.63	57.30	81.27	116.90
b) Amount in billions	10.69	18.23	10.54	18.22	39.00

OD facility availed in BSBDA's account					
A) Numbers in millions	0.18	0.61	2.71	3.92	5.90
B) Amount in billions	1.10	0.26	1.08	1.55	16.00
KCCs (no. in millions)	24.31	27.11	30.24	33.79	39.90

(Source: RBI Annual report, 2013-14)

The statistics show that there is substantial progress towards opening of accounts providing basic banking facilities during recent years as presented in table. We can see a constant growth in every type of banking whether it is through Bank branches or through Business correspondent or by other modes. Table also show growth in No of accounts whether it is with directly with bank, BCs, OD facilities or KCCs every type of accounts has shown a huge growth. Besides accounts amount deposited with bank is also show a year by year growth.

Table 5:- Key Banking Indicators of Indian Economy

Particulars	2012	2013
Commercial bank branches per 1000km ²	33.17	35.68
Credit union and financial cooperative branches per 1,000 km ² , Number	71.50	71.65
Commercial bank branches per 100,000 adults, Number	11.30	12.16
Credit union and financial cooperative branches per 100,000 adults, Number	24.36	24.41
ATMs per 1,000 km ² , Number	32.67	38.96
ATMs per 100,000 adults, Number	11.13	13.27
Deposit accounts with commercial banks per 1,000 adults, Number	1034.96	1,197.57
Household deposit accounts with commercial banks per 1,000 adults, Number	886.05	1,040.59
Loan accounts with commercial banks per 1,000 adults, Number	149.97	147.00
SME loan accounts with commercial banks (% of non-financial corporation loan accounts with commercial banks), Number	8.92	10.98
Household loan accounts with commercial banks per 1,000 adults, Number	23.37	29.77
Outstanding deposits with commercial banks as percent of GDP, Percent	60.66	69.98
Outstanding household deposits with commercial banks as percent of GDP, Percent	30.72	35.24
Outstanding deposits with credit unions and financial cooperatives as percent of GDP, Percent	5.63	6.30
Outstanding loans from commercial banks as percent of GDP, Percent	47.93	55.14

Outstanding SME loans from commercial banks as percent of GDP, Percent	5.27	6.83
Outstanding household loans from commercial banks as percent of GDP, Percent	16.05	24.59
Outstanding loans from credit unions and financial cooperatives as percent of GDP, Percent	5.15	5.78

(Source IMF report on financial access 2013)

Table 5 shows the key indicators of India Economy on financial inclusion like number of Bank branches per 1000 adults or number of ATMs per 1000km² etc. As shown above in table data is available for two years, so we can easily see whether the position of India is changing or is there any growth as comparing to past year. So table shows an growth in everything, like if we see in number of branches in 2012 there is a increase of 2.51 in a single year and no of branches per 1,00,000 adults has also shown minor growth as well as in other like no of ATMs per 100km² has also increased by 6.19, we can even see growth in each and every part some has shown very high and some of them shown just a minor growth.

Table 6:-Position of households availing banking services.

Household	As per census 2001			As per census 2011		
	Total number of household	Number of household availing banking services	Percent	Total number of household	Number of household availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

(Source: Report on Trend and Progress of Banking in India for the year ended June 30, 2012, RBI)

Table 6, reveals that number of household using banking services has been increased by 24.3% in rural and in urban by 18.3% and overall increase in number of household using banking services by 23.2% . it shows that efforts that government is taking to financial inclusion has positive impact.

Table 7:-Number of villages and average population per branch (APPB):

No of villages as per population census 2011	6,00,000 approx.
Average population per bank branch (APBB) as on 31.03.2013	12,100

(Sources: Department of financial services, ministry of finance, Government of India)

Table 1.6 represents the average population per bank branch (APBB). It reveal that total no of villages in India are around 6,00,000 and APBB is 12,100, it means that one bank branch cover around 12,100 peoples.

5. Findings

- As for as no of bank branches are concerned India is for behind then other counties.
- ATM network in India is very narrow it mostly covers cities and towns but in India huge no. of population lives in villages.
- Private banks has open their maximum number of branches in urban area.
- Various Indian banking indicators shown growth.
- Banking sector shown year by year growth in every type of banking weather it is formal or it informal banking.
- In rural area maximum number of branches has been opened by Regional Rural Banks.

6. Discussion/conclusion

As from above study I found that RBI/GOI are taking lot of initiatives to financial inclusion, they have started number of programs and launches lot of schemes for the purpose. But there still millions who don't have access to formal banking. For overcoming these issues government should expand banking network so that every citizen should have access to formal banking. Besides this RBI should also work on financial literacy programme. Private banks should also take initiatives to open their branches in rural areas.

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