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Financial Inclusion in India- Current Position and Challenges

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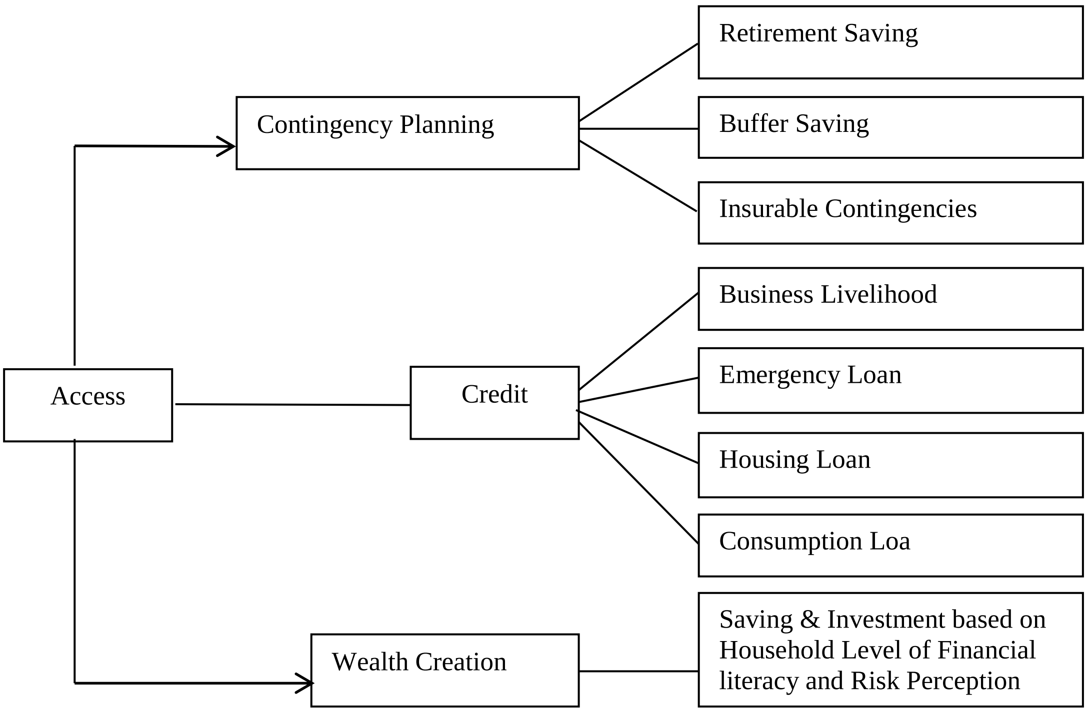
ABSTRACT: Inclusive growth is possible only through proper mechanism with channelise all the resources from top to bottom. Financial inclusive is a innovative concept which make alternative technique to promote banking habit of the rural people because India is considered as largest rural people consist in the world financial inclusion is aimed at providing banking and financial services to all people in fair transparent and equitable manner at affordable cost. This paper will examine the financial inclusion and what is the current position in India and what are the challenges on the path of it and what are the solutions to overcome these challenge.

Keywords: Financial inclusion, Banking, Inclusive growth, financial service Rural people.

Introduction

Financial inclusion may be define as the process of ensuring access to financial service timely & adequate credit where needed by vulnerable group such as weaker section and low income group at an affordable cost (The Committee on financial inclusion, chairman Dc Rangrajan).

Financial inclusion broadly define refer to universal access to a wide range of financial service at a reasonable cost. These include not only banking products but also other financial. Services such as insurance and Equity products. (The committee of financial sector reform, Chairman Dr. Raguram Rajan).



The essence of financial service is to ensure the delivery of financial service which include-bank account for saving and transactional purpose, low cost credit for production, personal & others purpose, financial advisory service, insurance facility (life & now life). In simple term the meaning of financial service is to include all the people of country in financial service & provide essay and affordable access to weaker section of society. The Government of India and the Reserve Bank of India have making concerted effort to promote financial inclusion of one of the important national, objective of country. Some of the major effort made in Last decade. Include nationalisation of Bank, building up robust brown of Scheduled Bank, Cooperative Rural & Regional Banks, Lead Bank scheme, formation of self help group. The fundamental objective of all these initiative is to reach the large section of financial excluded India population.

Review of Literature

Joseph Massay (2010) Said that the role of financial inclusion in a developing country is vital in promoting financial inclusion financial institution have a very crucial role and a wider role to play fostering financial inclusion.

Mandira Shanra & Jasim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Further physical & electronic connectivity and information availability, indicated by road network, telephone & internet usage also play a positive role in enhancing financial inclusion.

Oya Pinar Ardic et al. (2011) explain that using the financial access database by the world bank group this paper count the total number of unbanked adult around the world.

Analysis to have state of access of deposit and loan services as well as the extent of retail network, and discuss the state of financial inclusion mandate around the world. Fifty six percent of adult in the world do not have access to formal financial services.

Financial inclusion in India

The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

2. Position of households availing banking services

	As per Census 2001			As per Census 2011		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Number of households availing banking services**	**Number**	**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**

3. Bank-Branch and ATM Net-work

(a) No. of branches of Scheduled Commercial Banks as on 31 March, 2013

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

(b) No. of functioning branches of Scheduled Commercial Banks during last five years

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31, 2009	31476	19126	15273	14325	80200
March 31, 2010	32493	20855	16686	15446	85480
March 31, 2011	33905	23114	17599	16419	91037
March 31, 2012	36356	25797	18781	17396	98330
March 31, 2013	37953	27219	19327	17844	102343

(c) No. of branches of Scheduled Commercial Banks opened during five years

Year	Rural	Semi-urban	Urban	Metropolitan	Total
2008-09	706	1290	1046	953	3995
2009-10	1021	1729	1417	1139	5306
2010-11	1422	2258	919	981	5580
2011-12	2453	2686	1186	982	7307
2012-13*	1598	1422	546	451	4017

*provisional

(d) No. of villages and Average Population per Branch (APPB)

Number of villages in India as per the 2001 Census	600,000 (approx.)
Average Population per Bank Branch (APBB) as on 31.3.2013	12,100

(e) No. of bank branches of SCBs over the years:

Number of scheduled commercial bank branches as on 31st December, 1969	8,826
Number of scheduled commercial bank branches as on 31st March, 1990	59,762
Number of scheduled commercial bank branches as on 31st March, 2013	1,02,343

(f) Number of ATMs in the country as on 31s March, 2013

	Rural	Semi-Urban	Urban	Metropolitan	Total
Public Sector Banks	8552	18445	22518	20137	**69652**
Old Private Sector Banks	768	2760	2354	1684	**7566**
New Private Sector Banks	2214	6484	10995	15842	**35535**
Foreign Banks	30	21	244	966	**1261**
Total	**11564**	**27710**	**36111**	**38629**	**114014**

4. Expansion of Banking Infrastructure: As per Census 2011, 58.7% households are availing banking services in the country. There are 102,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system. To extend the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) are taking various initiatives from time to time some of which are enumerated below:-

(a) Opening of Bank Branches: Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. Out of 3,925 such identified villages / habitations, branches have been opened in 3,402 villages/ habitations (including 2,121 Ultra Small Branches) by end of April, 2013.

(b) Each household to have at least one bank account: Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.

(c) Business Correspondent Model: With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business, Facilitators (BFs) and Business Correspondents (BCs).

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion.

Banks had been permitted to engage individuals/ entities as BC like retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of kirana / medical / fair price shops, individual Public Call Office (PCO) operators, agents of Small Savings Schemes of Government of India/ Insurance Companies etc. Further, since September 2010, RBI had permitted banks to engage 'for profit' companies registered under the Indian Companies Act, 1956, excluding Non Banking Financial Companies (NBFCs), as BCs in addition to the individuals/entities permitted earlier. According to the data maintained by RBI, as in December, 2012, there were over 1,52,000 BCs deployed by Banks. During 2012-13, over 18.38 crore transactions valued at Rs.16533 crore had been undertaken by BCs till December 2012

(d) Swabhimaan Campaign: Under "Swabhimaan" - the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs).

Further, in terms of Finance Minister's Budget Speech 2012-13, the "Swabhimaan" campaign has been extended to habitations with population of more than 1000 in North Eastern and hilly States and to habitations which have crossed population of 1600 as per census 2001. About 40,000 such habitations have been identified to be covered under the extended "Swabhimaan" campaign.

(e) Setting up of Ultra Small Branches (USBs): Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion.

A USB would comprise of a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area. A total of over 50,000 USBs have been set up in the country by March, 2013.

(f) **Banking Facilities in Unbanked Blocks** : All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van. As a next step it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.

(g) **USSD Based Mobile Banking** : The Department through National Payments Corporation of India (NPCI) worked upon a "Common USSD Platform" for all Banks and Telcos who wish to offer the facility of Mobile Banking using Unstructured Supplementary Service Data (USSD) based Mobile Banking. The Department helped NPCI to get a common USSD Code *99# for all Telcos. More than 20 Banks have joined the National Uniform USSD Platform (NUUP) of NPCI and the product has been launched by NPCI with BSNL and MTNL. Other Telcos are likely to join in the near future.

USSD based Mobile Banking offers basic Banking facilities like Money Transfer, Bill Payments, Balance Enquiries, Merchant payments etc. on a simple GSM based Mobile phone, without the need to download application on a Phone as required at present in the IMPS based Mobile Banking.

5. Steps taken by Reserve Bank of India (RBI) : To strengthen the Banking Infrastructure-

(a) RBI has permitted domestic Scheduled Commercial Banks (excluding RRBs) to open branches in Tier 2 to Tier 6 Centres (with population upto 99,999 as per census 2001) without the need to take permission from RBI in each case, subject to reporting.

(b) RBI has also permitted SCBs (excluding RRBs) to open branches in rural, semi urban and urban centres in North Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting.

(c) Regional Rural Banks (RRBs) are also allowed to open branches in Tier 2 to Tier 6 centres (with population upto 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfill the following conditions, as per the latest inspection report:

(i) CRAR of at least 9%;

(ii) Net NPA less than 5%;

(iii) No default in CRR / SLR for the last year;

(iv) Net profit in the last financial year;

(v) CBS compliant.

(d) Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate atleast 25% of the total number of branches proposed to be opened during the year in unbanked Tier 5 and Tier 6 centres i.e. (population upto 9999) centres which do not have a brick and mortar structure of any SCB for customer based banking transactions.

(e) RRBs have also been advised to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centres).

(f) New private sector banks are required to ensure that at least 25% of their total branches are in semi-urban and rural centres on an ongoing basis.

6. Direct Benefit Transfer (DBT) - The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013 and would be extended to the entire country in a phased manner.

The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts. About 75 lakh beneficiaries would be benefitted in these districts.

Banks play a key role in implementation of DBT and this involves four important steps, viz.

(i) Opening of accounts of all beneficiaries;

(ii) Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper;

(iii) Undertaking funds transfer using the National Automated Clearing House- Aadhaar Payment Bridge System (NACH-APBS).

(iv) Strengthening of banking infrastructure to enable beneficiary to withdraw money.

Banks are ensuring that all beneficiaries have a bank account. All Public Sector Banks (PSBs) and RRBs have made provision for Aadhaar seeding in the CBS. All PSBs have also joined the

Aadhaar Payment Bridge of National Payments Corporation of India (NPCI). Banks are also issuing debit cards to beneficiaries. Banks have also started action for strengthening banking infrastructure and providing business correspondents in areas, which were so far unserved.

Banks have also been advised to provide an onsite ATM in all the branches in identified districts and a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience. Issuance of a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience will also strengthen the withdrawal infrastructure.

7. **Expansion of ATM network** : Pursuant to Budget announcement 2013-14, Banks are required to ensure an onsite ATM in all the branches. Out of 34,668 onsite ATMs thus identified to be installed by Public Sector Banks, 1,097 ATMs have been installed by end of April, 2013.

(As on June, 2013)

CHALLENGES TO ACHIEVING FINANCIAL INCLUSION

The broad challenges involved in financial access to low income families are set out below.

Socio-economic factors: Financial exclusion is closely related to the social exclusion of low income households, who are not able to access the available financial products and services due to constraints such as illiteracy, low income, low[7] savings, unavailability of identification documents, and generally low levels of awareness.

Geographical factors: A review by the Rangarajan Committee' shows that financial exclusion is highest among households in the Eastern, North-Eastern and Central areas of the country partly due to poor infrastructure coupled with remoteness and spare population in some areas resulting in problems with access.

High operational costs: Most financial service providers are wary of providing products and services appropriate to low income families on account of the high transaction costs intrinsic to small value accounts with limited numbers of transactions. In the perception of bank managements this reduces financially inclusive services to corporate social responsibility rather than real business.

Limited availability of appropriate technology: The key driver of widespread financial inclusion is the proliferation of e-financial inclusion or the application of innovative, stable and reliable Information and Communication Technology (ICT). The challenge is to integrate the daily transactions done through hand held devices with the bank's main server. Furthermore, the devices should be capable of handling transactions related to at least four main types of banking products: savings cum overdraft accounts, pure savings products, remittance products and entrepreneurial credit such as KCC and GCC

Inadequate banking products: Studies infrastructure coupled with remoteness and of no frills accounts show that poor people prefer to transact with banks only if the\ latter provide overdraft facilities to meet emergency needs. Their needs are more often met by remittances and entrepreneurial credit such as KCC, GCC.

Financial inclusion and banks' business plans: Since banks have a tendency to view financial inclusion as a part of corporate social responsibility rather than serious business, financial inclusion is rarely core to the banks business strategy. The lack of infrastructure and cost effective technology for facilitating small volume transactions at the doorstep of the account holder compounds the perception of high costs and thus discourages banks from providing financial services to low income individuals.

Greater emphasis is required on financial inclusion for the aged: The need for financially inclusive services has actually increased in recent years as the cost of social commitments such as health, safety and security has risen along with improved life expectancy. While people retire relatively young they need adequate funds to maintain their standards of living. The need for financial services such as insurance, remittances, reverse mortgage loans, facilities for pensioners and deposit schemes for the older population has grown, over time.

CONCLUSION

It is apparent from, the discussion, in this section that the task of increasing and maximising financial inclusion faces major challenges. These cover a range of issues including:

The social exclusion of low income families which results in the barriers of illiteracy, inhibition and poor physical access; it limits awareness, ability to overcome prejudice about their bank-worthiness and enhances the transaction costs incurred by them in using the financial services available in the country.

The small value of accounts and - transactions expected by the banking system from financially excluded families which results in high cost of operations and limits the incentive to serve them.

The lack of understanding of products and services appropriate to the needs of low income families resulting in static approaches like the no frills account where it has become apparent that mere availability is not the issue.

Limited experience with business models suitable for small value accounts and doorstep service delivery resulting in the slow adoption of mechanisms such as the business correspondent model.

Historical problems such, as the governance issues facing the cooperative credit system and RRBs which need a substantial effort to discipline and reorient thinking, an effort that requires political will in short supply in a system that is geared to populist thinking on account of frequent elections at various levels of government.

It is apparent that there is a huge task ahead in overcoming these challenges to financial inclusion.

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