Are We Financially Included? An Analysis at Grass Root Level

Anupam Singh
Research Scholar, Maulana Azad National Institute of Technology (NIT), Bhopal, India
&
Dr. Priyanka Verma
Assistant Professor, Maulana Azad National Institute of Technology (NIT), Bhopal, India

Abstract
Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. Financial inclusion is a process of ensuring access to suitable financial products and services needed by susceptible groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream financial institutional players. Even after 60 years of independence, a large section of Indian population still remains unbanked. As per census 2011, only 58.7% of households are availing banking services in our country. Financial inclusion proceeds towards integration of people who are economically and socially excluded from access to easy, safe and affordable credit and other financial services. Due to lack of financial inclusion among the lower income households, their protection from external economic shock becomes miniscule. As a result, income disparity leads to vicious circle of poverty which continues to persist in the lower income groups. This paper firstly aims at analysing efforts taken by government of India secondly find out the challenges which create hindrances for the implementation of initiative taken by government of India for building financial inclusion and thirdly design strategies to ensure maximum financial inclusion for under privileged and unbanked sector.

Keywords: Financial Inclusion, Economic Growth, India

1. Introduction
“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.” - Franklin D. Roosevelt
“Poverty is the worst form of violence.” - Mahatma Gandhi
“If the misery of the poor be caused not by the laws of nature, but by our institutions, great is our sin.” - Charles Darwin

There is recognition that in countries at all income levels, there are population groups that are not adequately serviced by the formal financial system. Financial inclusion involves expanding their access to the financial system at an affordable cost. Early definitions of financial exclusion viewed it in the larger context of social exclusion. Leyshon and Thrift (1995) defined financial exclusion processes as those which serve to prevent certain social groups and individuals from gaining access to the formal financial system. A 2006 UN report on building inclusive financial sectors for development defined an inclusive financial system as one which provides credit to all “bankable” individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone. Financial inclusion does not imply that everyone will use all available financial services rather everyone has the option to use them.

Banking with the people who are not using its services is the true test of banking industry in our country at present. Due to the scarcity and inconsistency of their income, low and moderate-income households need to be especially careful in planning how to meet their daily needs, weather unexpected shocks, and save for lump sum expenditures. However, the financial tools available to the poor to manage their money are often costly, unsafe, and inefficient. Money kept at home may be
subject to theft, temptation, and family demands, while moneylenders and other intermediaries charge high fees and prohibitive interest rates. Formal financial institutions are largely inaccessible to the poor as they are often costly, hard to reach, and offer products that seldom suit their needs. Constraints in the ability to make and act on sound decisions related to one’s financial portfolio pose an additional barrier to the optimal use of financial tools in ways that enhance the welfare of the poor. In response, households often make costly choices, such as selling valuable assets in response to economic shocks and failing to take advantage of potentially beneficial investments in their households and businesses. Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services.

2. **Objectives of the Study**

Following are the main objectives of the study

I. To analyse the efforts taken by government of India.

II. To find out the challenges which create hindrances for the implementation of initiative taken by government of India for building financial inclusion and

III. To design strategies to ensure maximum financial inclusion for under privileged and unbanked sector.

3. **What is Financial Inclusion?**

Financial inclusion may be defined 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Household access to financial services is depicted in Figure 1.

![Figure 1: Household Access to Financial Services](source)

**Source:** A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. Raghuram Rajan)

Financial Inclusion is about delivery of banking services at an affordable cost to vast sections of disadvantaged, first step in FI is to facilitate people in getting basic facilities like food, shelter and clothing to the people and then comes the provision of bank account, wherein they can save whatever little they can. Financial Inclusion can be thought of in two ways. One is exclusion from the payments system –i.e. not having access to a bank account. The second type of exclusion is from formal credit markets, requiring the excluded to approach informal and exploitative markets.
3.1 Why Financial Inclusion?
Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

4. Extent of Financial Exclusion
Financial Exclusion signifies lack of access by certain segments of society to low cost, fair and safe financial product and services from mainstream providers. It is mainly denial or inaccessibility to some basic financial services due to various factors like social & economic position, financial literacy, distance in traveling, hours of operation, etc.

In this section, the extent of financial exclusion from different perspectives/angularities is presented based on five different data sources viz.:
(a) NSSO 59th Round Survey Results
(b) Government of India Population Census 2011,
(c) CRISIL- Inclusix

4.1 NSSO 59th Round Survey Results
- 51.4% of farmer households are financially excluded from both formal/informal sources.
- Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in
the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.

Figure 3: Access to formal & informal sources of Information

4.2. Government of India Population Census 2011
As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas (Figure 2).

Figure 4: Availing of Banking Services

4.3. CRISIL Financial Inclusion Index (Inclusix)
- In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz., Inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration5, deposit penetration6 and credit penetration.
- The CRISIL Inclusix indicate that there is an overall improvement in the financial inclusion in India (Figure 5).
- CRISIL –Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.
Figure 5: CRISIL - Inclusix

5. World Bank ‘Financial Access Survey’ Results

From the table 1 given below, it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, and bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world.

Table 1: Select Indicators of Financial Inclusion, 2011

<table>
<thead>
<tr>
<th>S.No</th>
<th>Country</th>
<th>Number of Bank Branches Per 1000 KM</th>
<th>Number of ATMs Per 0.1 Million</th>
<th>Number of Bank Branches</th>
<th>Number of ATMs</th>
<th>Bank Deposits as % to GDP</th>
<th>Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>30.43</td>
<td>25.43</td>
<td>10.64</td>
<td>8.9</td>
<td>68.43</td>
<td>51.75</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>1428.98</td>
<td>2975.05</td>
<td>23.81</td>
<td>49.56</td>
<td>433.96</td>
<td>287.89</td>
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<tr>
<td>3</td>
<td>Brazil</td>
<td>7.93</td>
<td>20.55</td>
<td>46.15</td>
<td>119.63</td>
<td>53.26</td>
<td>40.28</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>8.23</td>
<td>15.91</td>
<td>8.52</td>
<td>16.47</td>
<td>43.36</td>
<td>34.25</td>
</tr>
<tr>
<td>5</td>
<td>Korea</td>
<td>79.07</td>
<td>18.8</td>
<td>18.8</td>
<td>80.82</td>
<td>90.65</td>
<td></td>
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<tr>
<td>6</td>
<td>Mauritius</td>
<td>104.93</td>
<td>210.84</td>
<td>21.29</td>
<td>42.78</td>
<td>170.7</td>
<td>77.82</td>
</tr>
<tr>
<td>7</td>
<td>Mexico</td>
<td>6.15</td>
<td>18.94</td>
<td>14.86</td>
<td>45.77</td>
<td>22.65</td>
<td>18.81</td>
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<td>16.29</td>
<td>35.75</td>
<td>8.07</td>
<td>17.7</td>
<td>41.93</td>
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<td>South Africa</td>
<td>3.08</td>
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<td>10.71</td>
<td>60.01</td>
<td>45.86</td>
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<tr>
<td>10</td>
<td>Sri Lanka</td>
<td>41.81</td>
<td>35.72</td>
<td>16.73</td>
<td>14.29</td>
<td>45.72</td>
<td>42.64</td>
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<tr>
<td>11</td>
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<td>12.14</td>
<td>83.8</td>
<td>11.29</td>
<td>77.95</td>
<td>78.79</td>
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<tr>
<td>12</td>
<td>Malaysia</td>
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<td>33.98</td>
<td>10.49</td>
<td>56.43</td>
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<td>UK</td>
<td>52.97</td>
<td>260.97</td>
<td>24.87</td>
<td>122.77</td>
<td>406.54</td>
<td>445.66</td>
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<tr>
<td>14</td>
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<td>9.58</td>
<td>35.43</td>
<td></td>
<td>57.78</td>
<td>46.83</td>
<td></td>
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<tr>
<td>15</td>
<td>Switzerland</td>
<td>84.53</td>
<td>166.48</td>
<td>50.97</td>
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<td>151.82</td>
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<tr>
<td>16</td>
<td>France</td>
<td>40.22</td>
<td>106.22</td>
<td>41.58</td>
<td>109.8</td>
<td>34.77</td>
<td>42.85</td>
</tr>
</tbody>
</table>

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

6. Financial Inclusion – RBI Policy Initiatives

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

- Advised all banks to open Basic Saving Bank Deposit (BSBD) 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.
• **Relaxed and simplified KYC norms** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year.

• **Simplified Branch Authorization Policy**, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting.

• **Compulsory Requirement of Opening Branches in Un-banked Villages**, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.

• **Opening of intermediate brick and mortar structure**, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

6.1 **Progress in Financial Inclusion**

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

- Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68681 in March 2006 to 102343 in March 2013, spread across length and breadth of the country (Figure 6).

- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

**Figure 6: Branches of Scheduled Commercial Banks**

![Branches of Scheduled Commercial Banks](image)
7. Barriers to Financial Inclusion
There are many complex factors that prevent rapid progress towards the goal of financial inclusion. In the UK, the Financial Inclusion task force (which monitors access to basic banking services) has differentiated between supply and demand side factors of financial exclusion, in its action plan for 2008-2011. The supply side factors include non-availability of suitable products, physical barriers and non-eligibility on account of documentation issues. On the demand side, financial literacy and financial capability are regarded as important factors by the task force. While financial literacy refers to the basic understanding of financial concepts, financial capability refers to the ability and motivation to plan financials, seek out information and advice and apply these to personal circumstances.

Figure 8: Barriers to Financial Inclusion

Source: Authors’ own representation

Demand Side
One of the demand side factors is financial literacy, which is a prerequisite for first time users of financial services. Another demand side factor is financial capability which is important in view of increasing complexity of financial products. The need for financial capability development is important throughout people’s lives, as financial markets and personal circumstances change (Mitton, 2008). Finally, there are the demand side factors of psychological and cultural barriers which stem from mistrust of banks, either due to negative experiences or negative perceptions. These factors lead to self exclusion from formal financial services.
Supply Side
On the supply side, lack of appropriate financial products is an important barrier. Often, the terms and conditions of banks are not suitable to low income groups. Minimum balances required to open accounts are at times found to be too high, and accounts are closed by some banks due to infrequent use.

Another common supply side barrier to financial inclusion is the physical barrier stemming from distance to bank branch or automated teller machine (ATM). Inability to provide documentation such as identity proof required by formal financial institutions is another frequently faced barrier. Banks are required by regulators to conduct sufficient identity checks before opening accounts. These regulations sometimes result in lack of access to genuine customers.

8. Strategies to ensure financial Inclusion

- Lack of awareness and illiteracy about financial product and services is the main obstruction for financial inclusion. Hence, there should be more emphasis on Financial Literacy Centres (FLCs) to rural areas in order to enhance the literacy about the financial products. Or Government in association with NGOs, SHGs and MFI must keep on putting financial literacy campaign to educate and enhance banking knowledge of public.
- In traditional farmer loan, it is observed that bank’s penetration is either zero or low. Small and marginal farmer hesitates to take loan because of cumbersome documentation process. Alternatively, they prefer to take loan from money lenders even at exorbitant rate of interest. The inability to repay huge debt forces farmers to commit suicide. Hence, documentation procedure should be made easy.
- No frill account: The bank should endeavor to open no frill accounts with zero balance in unbanked or under banked area. The overdraft facility must be extended on such accounts with no limit on number of withdrawal and deposit. The people falling under lower strata cannot afford to lose a half day wage to visit a branch for cumbersome banking procedure. A bank member could be appointed who can visit public for removing apprehension about documentation procedure, deposit and disbursement of loan. Procedures should be hassle free and understandable.
- Tailor made products that suit the requirement of bottom of pyramid should be designed at affordable cost. The survey must be conducted to understand the requirements and needs of bottom of pyramid.
- People should be informed about micro mutual funds and insurance to mobilize their savings.
- ATM & IT support: opening a branch in each village and town involve huge infrastructure cost which is unaffordable by banks. Installation of ATM in vernacular language with biometric cards could be solution. To reduce dependencies on inorganic source, specified overdraft facility with the help of ATM card could be extended to rural population. The reason being, people rely more on inorganic source to avoid bank’s cumbersome procedures in eleventh hour.

9. Conclusion
An overwhelming majority of rural India, and a significant portion of urban India, do not avail of financial services. While availing of any service is a matter of choice in a market economy, it is mandatory for society to allow access to all services for the entire population.
In achieving inclusive growth in India, the Financial Inclusion will play a vital role and help the nation to drive away the not only rural poverty but also urban poverty in India.

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