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Including the Excluded: The Scenario of Financial Inclusion in India

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Abstract: *The term 'Financial inclusion' generally understood to mean 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. Both developing and developed countries have faced the challenge of including the people those who are financially excluded. Financial inclusion has a direct impact on the growth of the economy of the country. The reserve of bank of India and Government of India has taken many initiatives to include the people those who financially excluded. This paper outlines the various barriers that impede financial inclusion in India. This study also aims to reveal the outcome of initiatives taken by RBI and GOI. This paper is based on the secondary data collected from the different sources. The results of this study indicate that the initiatives taken by Reserve bank of India and Government of India has reached the majority of the financially excluded people in India. Lack of financial literacy and Low and irregular income affects the growth rate of financial inclusion in India.*

Keywords: *Barriers, Commercial Banks, Financial Exclusion, Financial Inclusion, Initiatives*

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I. Introduction

India is a developing country and is having around 121crore people as its population. The majority of the population of India is residing in rural and semi-urban areas where agriculture & related activities are their major sources of income. Majority of the people are still working in unorganized sectors. They earn their wages on daily basis. If they go to work, they would get salary otherwise they do not. They often face risks and uncertainties in their lives.People in rural are generally finding it difficult to access financial services from the formal financial institutions. All the financial institutions are focusing their business operations only in commercial areas where they have the entire infrastructure and gain profit. Rural area's population density is low and is always suffering from poor infrastructure facilities. People from rural are undereducated and particularly their awareness level is very low about financial services. Formal financial institutions focus the key customers and business concerns for developing their business instead of focusing on underprivileged people. These financial institutions are giving much importance to paperwork and documentation. It makes the process very slow and takes much time to complete whereas private moneylenders do not give much importance to paperwork and their transaction speed is incredible. Therefore, the majority of the people do not approach the formal financial institution for their immediate financial requirements. They approach private moneylenders for their emergency financial requirements. The government of India and Reserve bank of India has taken various measures such as No-frill accounts, Business correspondents, MFI, SHG, GCC etc to overcome the barriers to financial inclusion.

1.1 The concept of financial inclusion:

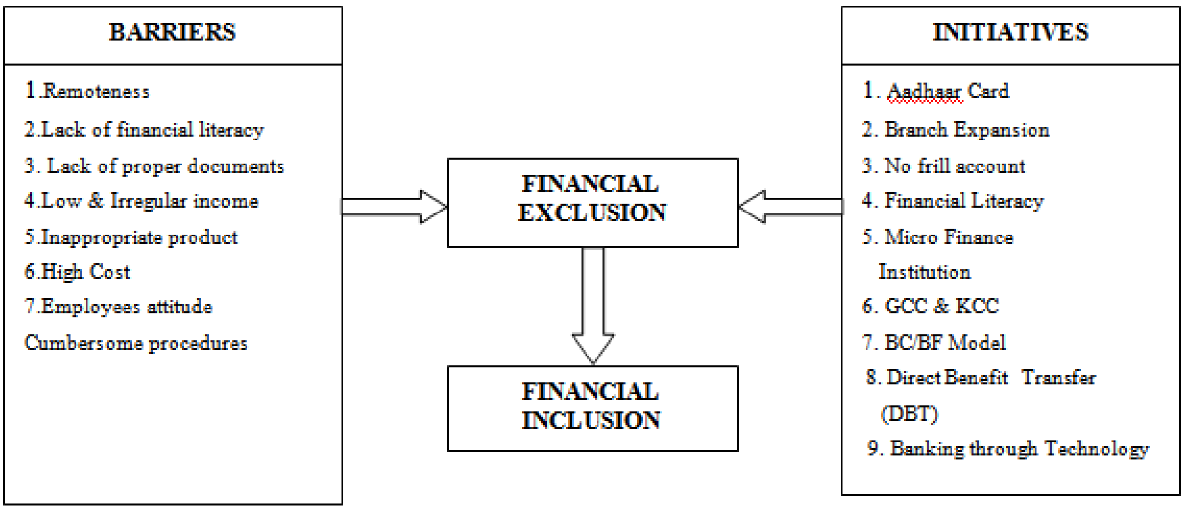
According to Rangarajan, C. (2008)[1], Financial Inclusion is defined as "the process of ensuring access to financial services in time and adequate credit facility are needed by vulnerable groups such as weaker sections and low- income groups at an affordable cost". "Financial inclusion is the process 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", Chakrabarty, K. C. (2013)[2]. As per the report of World Bank (2014)[3], financial inclusion means that individuals and businesses have access to useful and affordable financial products and services (transactions, payments, savings, credit, and insurance) that meet their needs delivered in a responsible and sustainable way.

According to the above definitions, financial inclusion means making all financial products easily available to all sections of the society without any discrimination. It ranges from savings, credit, payment, transactions, insurance etc. Merely opening on a savings account does not mean financial inclusion. They should access all the financial products whenever they require it.

II. Review of Literature

Raja Babu (2015)[4], has studied the determinants of financial inclusion in Andhra Pradesh. This study aims at finding out the reason for financial exclusion and the factors influencing the households to approach informal financial sources. He collected data from 30 respondents, each from 25 Mandals. His study revealed that most of the rural people depend upon the informal financial sources due to lack of documents and financial literacy. Mohammad Shafi and Ali Hawi Medabesh (2012)[5] have studied the financial inclusion in the state of Jammu & Kashmir in India. They found that all the banks are giving much importance to opening No frill account instead of giving affordable credit. This shows that the banks do not trust the financially excluded people. Opening no-frill accounts are not considered as financial inclusion whereas they have to avail all ranges of products from the banks. Savita Shankar (2013)[6] has studied the microfinance institutions in Tamilnadu. She conducted field interview among the 103 MFI field officers about the financial accesses of people. She investigated the barriers such as Supply-side barriers (Physical barriers, lack of suitable products, Documentation barriers) and demand- side barriers (Psychological, cultural, & lack of financial literacy). She found that many individuals are willing to access microfinance but they could not access it due to lack of documentation, lack of an attendance at weekly group meetings, and lack of market-oriented economic activity. Gwalani and Parkhi (2014)[7], have studied the financial inclusion in the Indian context. They pointed out that poverty, unavailability of banking services, complex procedures, financial illiteracy, traditional cultural values and lack of faith in the banking system are the reasons for financial exclusion. They discussed the different models such as lead bank system, correspondent banking, mobile banking, microfinance model to include the financially excluded people. Ms. Jisha Joseph and Dr. Titto Varghese (2014)[8], has studied the role of financial inclusion in the development of Indian economy. They made this study based on secondary data from RBI, GOI and another review of the literature. They pointed out that the RBI and Government of India (GOI) have taken many initiatives to include the financially excluded people such as Branch expansion, business correspondent, business facilitator model, Relaxed KYC norms, acceptance of Aadhaar card for opening a bank account, opening no-frill accounts, General Purpose Credit Card (GCC) and Kisan Credit Card (KCC) and direct benefit transfer etc. They highlighted that though the Government of India and Reserve Bank of India have taken many initiatives, there is still room for financially excluded people. Zins and Weill (2016)[9] have studied the determinants of financial inclusion in Africa by using World Bank's Global Findex database on 37 African countries. They found that a man, richer, more educated, and older favour that financial inclusion. They stressed that the government has to design policies for targeting groups who get affected by financial exclusion like women. Iqbala and Samia (2017)[10] have studied the role of banks in financial inclusion in India. Under this study, they investigated the impact of financial inclusion on the growth of the economy. They used secondary data and multiple regression tools for achieving their purpose. They found that there was a significant positive impact on the number of bank branches and the credit-deposit ratio of banks.

III. Proposed Research Model



IV. Objectives of the study

- To know the various barriers those impede financial inclusion.
- To reveal the initiatives taken by Reserve Bank of India and Government of India to overcome the barriers to financial inclusion.

V. Methodology

This study is purely based on the secondary data collected from the government reports, RBI and other financial institutions reports, journals and web resources.

VI. Barriers to Financial Inclusion

The census report, 2011 shows that 41.3 percent of the Indian population in urban and rural areas do not have access to banking facilities. The following are the main barriers that hinder the financial inclusion movement in India. They are:

6.1 Remoteness from the financial institutions:
Usually, banks are locating its branches in the high densely populated areas for covering its cost of operations. Unfortunately, people are scattered in rural India. The population densities of rural areas are very low. The remoteness of the financial institution makes rural people do not utilize such services. They have to travel far to approach these institutions which is again a time and cost consuming process.

6.2 Financial Illiteracy:
Most of the people suffer from financial stress due to lack of financial literacy. Financial literacy teaches the vulnerability of the investments and loans given by the informal financial institutions. It also gives clarity about the formal financial institutions and its merits.

6.3 Low and Irregular income:
Income level is one of the prominent factors that hinder the underprivileged from availing services from banks. Majority of the people's income level in the rural area is low and irregular too. A major portion of people is in seasonal employment. Hence, income level decides the people's saving and investment avenues.

6.4 Inappropriate products:
Generally, banks are targeting educated and a high-income group of people. They develop financial products based on these target groups' requirements. The needs of low income and weaker section of people are quite different. This increases the percentage of financially excluded people in the society.

6.5 High Cost:
Nowadays banks are operating for profit under the competitive environment. They levy charges for different transactions like minimum balance requirement, charges for usage of ATM services, processing fee etc. People are already suffering from low and irregular income. Therefore paying these kinds of excessive charges make them more burdened.

6.6 The attitude of employees:
Employees of the formal financial institutions give differential treatments to dissimilar target groups. The high-income group receives overwhelming response whereas low income and rural people suffer from bitter experiences. This affects the self-respect and dignity of the people and hampers the financial inclusion process.

6.7 Lack of proper Documents:
As per norms of the banks, it is mandatory to submit legal documents at the time of opening an account. Majority of the poor people like migrants, tribes etc cannot access the formal financial services due to lack of having any legal documents. Getting legal document is an expensive and time-consuming process.

VII. Initiatives to overcome barriers to financial inclusion:

7.1Aadhaar - Unique identification authority of India (UIDAI):
The government of India has decided to issue a unique individual identification number to every individual in India in the year 2009. For this purpose, GOI established the Unique Identification Authority of India (UIDAI), which issues Aadhaar numbers to every Indian citizen. 1.14 billion People in India were enrolled in Aadhaar as of March 2017. It contributes 85% of India's Population. Around 400 million bank accounts linked to Aadhaar as of April 2017 and 6 million-bank accounts opened by e-KYC. This reduces the number of people who have not opened bank accounts due to lack of legal documents. (State of Aadhaar Report, 2016-

2017)[12]

7.2 Direct Benefit Transfer:

The government of India has launched so many social protection programmes for its citizen. Both state and central governments have administered various social protection programmes in the form of food subsidy by Public Distribution System (PDS), employment guarantee by Mahatma Gandhi National Rural Employment Scheme (MGNRES), Cooking Fuel Subsidy, and pensions. The government of India has introduced Direct Benefit Transfer for preventing financial leakages in the form of intermediaries, fake beneficiaries, and delayed payment. Totally, Rs.22006 Crore DBT payments sent using Aadhaar payment Bridge System in the financial year 2016 – 17. ((State of Aadhaar Report, 2016-2017)

7.3 Financial Literacy Programmes:

The Reserve Bank of India has identified the following five target groups such as Farmers, small Entrepreneurs, Self Help Groups (SHGs), school students, and senior citizens to provide financial literacy programmes through Financial Literacy Centers (FLCs). As of March 2016, 1384 FLCs were operational. The Financial Literacy Centers (FLCs) has conducted totally, 87710 financial literacy camps in the financial year 2015-16 (RBI, 2016). Based on the recommendation of the committee on the medium-term path on financial inclusion, the financial literacy week conducted from June 5 to 9, 2017. The financial literacy week was focused on four broad themes such as, Know Your Customer (KYC), Exercising Credit Discipline, Grievance Redressal and Going Digital (UPI and *99#). (RBI, 2017)

7.4 Expansion of ATM network

In close consultation with the Department of Financial Services, the Public Sector Banks (PSBs) worked on a model of area-based deployment of ATMs/Cash dispensers, taking benefit of the power of aggregation, with all PSBs/RRBs clubbing their requirements and one of the PSB issuing a common RFP on behalf of all these banks for a geographical cluster. At present, PSBs have installed around 60,000 ATMs.

7.5 Financial inclusion progress report

Particulars	**Year Ended March 2010**	**Year Ended March 2016**	**Year ended March 2017**
Banking Outlets in Rural locations – Branches	33,378	51,830	50,860
Banking Outlets in Villages>2000-BCs	8,390	98,958	105,402
Banking Outlets in Villages<2000- BCs	25,784	432,271	438,070
Total Banking Outlets in Villages – BCs	34,174	531,229	543,472
Banking Outlets in Villages- Other Modes	142	3,248	3,761
Banking Outlets in Villages –Total	**67,694**	**586,307**	**598,093**
Urban Locations covered through BCs	447	102,552	102,865
BSBDA-Through branches (No. in millions)	60	238	254
BSBDA-Through branches(Amt. in billions)	44	474	691
BSBDA-Through BCs (No. in millions)	13	231	280
BSBDA-Through BCs (Amt. in billions)	11	164	285
BSBDA-Total (No. in millions)	73	469	533
BSBDA Total (Amt. in billions)	55	638	977
OD facility availed in BSBDAs (No. in millions)	0.2	9	9
OD facility availed in BSBDAs (Amt. in billions)	0.1	29	17
KCCs -Total (No. in millions)	24	47	46
KCCs -Total (Amt. in billion)	1,240	5,131	5,805
GCC-Total (No. in millions)	1	11	13
GCC-Total (Amt. in billions)	35	1,493	2,117
ICT A/Cs-BC-Total Transactions (No. in millions)	27	827	1,159
ICT A/Cs-BC-Total Transactions (Amt. in billions)	7	1,687	2,652

Source: RBI Report on Financial inclusion 2017

7.5.1 The opening of bank branches:

During the second phase of financial inclusion programme, 4, 90,298 unbanked villages with population less than 2000 have identified and allotted to public sector banks, private sector banks, and regional rural banks. As on June 30, 2016, as reported by SLBCs, 4,52,151 villages have been provided banking services; 14,976 through branches, 4,16,636 through BCs and 20,539 by other modes viz. ATMs, mobile vans, etc., thereby achieving 92.2% of the target (RBI, 2016)[11]. The above table shows that In March 2017, the total banking outlets in villages are 5, 98,093 and it was 5, 86,307 in the year 2016 and in 2010 it was 67,694.

7.5.2 No-frills account/Basic Savings Bank Deposit Account (BSBDA)

Based on the report on financial inclusion, 2017, there were 73 million BSBDA accounts in India in the year 2010. In 2016, the number of BSBDA accounts increased to 469 million a huge rise of 500%. In the year 2017, BSBDA accounts increased to 533 million, 15% increase over the past year.

7.5.3 Business correspondent model

In the year 2006, RBI has permitted intermediaries such as Business Facilitators (BFs) and Business Correspondents (BCs) for providing financial services to the places where banks are not able to provide services directly. In the year 2010, the total banking outlets in villages through BCs were 34,174 and 447 in urban areas. In 2016, it was 531,229 in rural and 102,552 banking outlets in urban. In the year 2017, the total banking outlet in villages through BCs were 543, 472 and in urban areas, it was 102,865 (RBI, 2017)

7.5.4 General Credit Card (GCC)/Kisan Credit Card (KCC)

With a view to helping the poor and the disadvantaged with access to easy credit, banks have introduced the general-purpose credit card facility in their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security or end use of the credit. In 2010, the banks issued 1 million GCC and 24 million KCC cards to the people. In the year 2016, banks issued 11 million GCC and 47 Million KCC cards. In the year 2017, it was 13 million GCCs and 46 Million KCCs. (RBI 2017)

VIII. Conclusion And Suggestions

For overcoming the barrier of remoteness, Business Facilitators and Business Correspondents model have introduced. Furthermore, ATM, Mobile Banking, and online banking also serve the same purpose. The banks opened considerable numbers of branches in the rural areas.

BSBDA accounts and Direct Benefit Transfer (DBT) have made considerable growth in including the people who financially excluded. The government of India has overcome the barrier of "Lack of legal documents" by issuing Aadhaar number to everyone. Now the banks are accepting the Aadhaar card as a legal document for an opening bank account. RBI has identified five target groups of people for improving the financial literacy level and conducted many outbound camps. No Frill and BDSA accounts were created for serving the poor people. Though the Government of India and Reserve Bank of India has taken many initiatives to include all the citizens, there is still a considerable percentage of people who are financially excluded due to lack of financial literacy and low or irregular income. Apart from these, people are approaching private moneylenders for their financial requirements. Just opening an account in banks will not create much impact in the economy. Bankers are rather giving much importance to opening new accounts, than providing loans to these kinds of people. Therefore, GOI and RBI have to take initiative to provide loans to these people.

a) Each Bank branch should adopt a particular rural geographical area and extend their service to the people residing in that area.
b) Banks may open a special counter for meeting out the needs of these people.
c) The Government of India and Reserve Bank of India should formulate a policy for providing small loans to the poor people based on their requirements.
d) Educational institutions may be included in disseminating financial literacy in the form of including financial knowledge contents in their curriculum.
e) Improving employment opportunities for the poor people will improve their income.
f) Why not adopt a 50-50 percentage system (Urban and Rural Population coverage) in the implementation of all financial services by the Banks and Financial Institutions.

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