

Financial Inclusion- A Road towards Development

PROF. RAJESH RAUT

Wing of Computer and Business Studies,

Modern College of Arts, Science and Commerce, Pune 05.

Abstract

Financial inclusion can be defined as a process of providing broad range of financial services at affordable costs to poor and low income households and their micro enterprises so that large sections of society can be served. RBI along with Government of India has taken initiatives for financial inclusion like Providing Banking outlet in un-banked villages, Engagement of Business Correspondents (BC), use of Smart Card Banking (SDB) and so on. Now the question is can this lead a society or a nation as a whole towards development? Answer to an extent is yes! But what if; a person may have a bank or financial institution next to his door but what if he is not able to buy a loan for his own benefit? This means merely providing financial services to the door of weaker section will not solve the problem but the need is to make them capable to use the benefits. With this view, an attempt is being made to highlight the present scenario of Financial Inclusion in India.

Introduction

With a vision of becoming developed nation, India in 1991 adopted liberal and free-market principles and liberalised its economy to international trade. As a result India improved a lot; and now in present scenario the economy of India is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country is one of the G-20 major economies and a member of BRICS. On positive note India is reaping the benefits of globalization and on the other hand there is lot of economic inequality. According to RBI survey, it was found that 51% of bottom household (having asset less than Rs. 50000) own just 10% of total asset, as against 9.6% of the rich household (owning asset worth Rs. 2.5 Lakhs and above) accounted for nearly 49 % of total asset, while United Nations Development Programme (UNDP), ranked India at 134 (134/ 187) on the basis of Human Development Index (HDI). After more than sixty years after planned development in India, the rural transects are still facing impoverishment; a consequence of failure of trickle down of development efforts to the grass roots. In spite of planner's motivation to achieve development with equality popularly known as 'inclusive growth', the country has been

facing wide regional disparities both between urban and rural and between regions. Poverty, a cause and consequence of underdevelopment is a continuing issue to be tackled with. Rural indebtedness has been an agenda of discussion right from the time of independence. Safe, easy and affordable credit and other financial services to the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to well-functioning financial system by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks (RBI, 2009). Thus India at this time is occupying two worlds simultaneously. In the first, economic reform and social changes have begun to take hold and growth has had an impact on people's lives. In the other, citizens appear almost completely left behind. The reason is everyone is not included in the process of growth and development.

To sum up the challenge before India in one word, it would perhaps be — inclusion. How do we ensure that every section of the population is included in the process of growth and development, and that every citizen has equal access to the benefits and opportunities that economic progress will bring to us? To answer this question, RBI along with Government of India have taken an initiative of financial inclusion like Providing Banking outlet in un-banked villages, Engagement of Business Correspondents (BC), Smart Card Banking (SCB) and so on but will this justify the motive of financial inclusion?

Empirical Studies:

Report of the Committee on Financial Inclusion defines financial inclusion as delivery of financial services at an affordable cost to vast sections of disadvantaged and low-income groups. (GOI, 2008). Unrestrained access to public goods and services is the sine qua non of an open and efficient society. This view is reiterated in the definition “the process of ensuring access to timely and adequate credit and financial services to vulnerable groups at an affordable cost (Kamath, 2007). As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. In India the focus of financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account. The international definitions of financial inclusion have been viewed in much wider perspective (Leeladhar, 2005).

The 'focus' dimension links the other dimensions of exclusion. This dimension essentially takes care of the potential difficulties faced by some segments of the population, viz, individuals, households or communities in accessing mainstream financial services. It is a process that ensures ease of access, availability and usage of formal financial system for all members of an economy (Sharma, 2008). These definitions emphasize several dimensions of financial inclusion, viz., accessibility, suitability, availability and usage of the financial system. These dimensions together build an inclusive financial system. Another issue that needs to be taken care of is whether to measure access or usage; because in transaction banking and insurance we can find that people do not use it even if they are having access to it. Access dimension implies mere access to services while usage dimension is a broader term requiring examination of aspects like access, suitability, availability and actual usage. The World Bank also distinguishes between those who are 'formally served' that is those who have access to financial services from a bank and / or other formal providers and those who are 'financially served' who also include people who use informal providers. In contrast to the other work described above, the term 'financially excluded' is only used to describe those who have no access at all (World Bank, 2005). This study considers only the formal sector which includes all legally endorsed financial service providers for the purpose of measuring financial inclusion. Hence "financial inclusion" also infers accessibility and usage of financial services from formal service providers. The United Nations(UN, 2006) define financially included as the financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.

The 'degree' dimension is the narrowest of all and defines financial exclusion as exclusion from usage of particular sources of credit and other financial services including insurance, bill payment services and accessible and appropriate deposit accounts. World Bank (2005) describes exclusion as a phenomenon where access to key areas such as transaction banking, savings, credit and insurance. For the purpose of the study this definition has been accepted as the bench mark. Though all services including credit, savings and insurance offered by the banks and other financial institutions are taken as the benchmark, more weightage is given to credit segment. Financial inclusion may be interpreted as the ability of every individual to access basic financial services which include savings, loans and insurance in a manner that is reasonably convenient and flexible in terms of access and design and reliable in the sense that savings are safe and that insurance claim will be paid

with certainty (Mor and Ananth, 2007). In India, the focus of the financial inclusion at present is more or less confined to ensuring a bare minimum access to a savings bank account without frills to all. However, having a current account/savings account on its own, cannot be regarded as an accurate indicator of financial inclusion. [Vallabh and Chathrath, 2006]. Financial inclusion is characterized primarily as either general access to loans or access to savings accounts. [Arunachalam R.S, 2008]. Very few risk management and vulnerability reducing products are available to small holder producers. Financial inclusion cannot be restricted merely to opening savings accounts and/or providing credit for consumption/consumer spending but should also encompass delivering financial products tailor-made to cope with the fluctuating earning pattern of the poor.

Rogaly 1999 defines financial exclusion in the perspective of exclusion from particular sources of credit and other financial services (including insurance, bill payment services, and accessible and appropriate deposit accounts)”

Data Source:

The study is entirely based on secondary data. The objectives of the study are examined by using time series data. Relevant data for the study is obtained from Reports, Websites, and Surveys on Indian Economy. This study has examined the impact of financial reach on development.

Objectives:

Objective of the study is to critically evaluate the steps taken by RBI and Government of India for financial inclusion on the basis of -

- A) Reach of financial services
- B) Use of Financial Services
- C) Case study.

A) Reach of financial services:

Reserve Bank of India advised banks to provide banking outlet in villages having population over 2000 before March 2012.

Following table shows the comparison of geographic and demographic penetration of bank services of some countries using following criteria-

- a) Geographic branch penetration number of bank branches per 1000 Km.

- b) Geographic ATM per 1000Km.
- c) Demographic branch penetration number of branches per 100,000 people.
- d) Demographic ATM penetration number of ATMs per 100,000 people.

Table 1- Geographic and demographic penetration of bank services

Country	Geographic Penetration		Demographic Penetration	
	No. of Bank branches per 1000 Sq. Km	No. of ATMs per 1000 Sq. Km	No. of branches per 100,000 people	No. of ATMs per 100,000 people
Korea	65.02	436.88	13.40	90.03
U.K.	45.16	104.46	18.35	42.45
India	22.57	45.00	6.30	0.45
Indonesia	10.00	5.73	8.44	4.84
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.80
Russia	0.19	0.53	2.24	6.28

Source: *Reaching Out: Access to and use of Banking Services across countries*, World Bank Policy Research WPS 3754, World Bank, 2010.

Table 2- No. of villages and Average Population per Branch (APPB) in India.

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

An analysis shows that in case of geographic penetration India is way behind the developed nations. If we consider no of bank branches per 1000 Sq. km. India has 23 branches whereas Korea tops the list with 65 branches followed by U.K. Again in case of No. of ATMs per 1000 Sq. Km. Korea is on top having almost ten times more ATMs than India. As far as the number of branches per 100,000 people is concerned, U.S.A tops the list (30.86), other countries have poor banking per 100,000 population. The number of ATMs per 100,000 people is again highest in case of U.S.A., followed by Korea and U.K. In India we have 1 branch for almost 12100 people, which means still Indian banking system have to work on its penetration.

B) Use of Financial Services:

Following is a Comparative chart showing use of financial services in different countries and a table showing Position of households availing banking services in India.

Table 3- Comparative chart showing use of financial services in different countries.

Country	Private credit as % of GDP per capita (2004)	GDP per capita US\$	Saving Account (deposit services)				Loans Services (SME)				Amt. of fee for using ATM cards (% of \$ 100)
			Min. Amt reqd to open A/C as % of GDP per capita	Min Amt Reqd to maintain As % of GDP per capita	Annual Fee as % of GDP per capita	Documents required (Nos)	Physical Access#	Fee (% of Min Loan	Days to Process (Nos)	Cost of Transfer Funds internationally	
Australia	100.9	22083	00	00	0.10	3	5.00	17.7	7.2	8.05	00
Bangladesh	27.4	402	0.89	0.79	00	4	2.12	0.15	43.3	1.93	NA
Brazil	33.9	3564	0.10	00	0.03	2	4.85	2.94	3.63	14.85	0.11
Denmark	154.0	30735	00	00	00	1	5.00	1.73	1.00	4.09	00
India	32.8	638	5.02	5.02	0.17	2	2.44	0.93	10.8	6.49	00
Indonesia	21	906	3.03	0.65	0.66	2	3.10	Na	9.7	2.83	00
Pakistan	25.8	566	1.59	0.71	00	2	3.09	Na	33.6	Na	0.6
Philippines	33.5	1085	11.88	11.88	00	2	2.36	Na	33.3	Na	00
Sri Lanka	28.5	962	3.54	0.84	00	1	2.90	Na	10.4	Na	Na
Minimum	-	-	00	00	00	00	1.77	00	1.0	0.12	00
Average	-	-	8.14	6.15	0.38	2	3.26	2.55	10.5	6.64	0.14
Maximum	-	-	68.26	64.75	3.63	4	5.00	29.32	43.3	20.2	0.6

Source: "Banking Services for Everyone? Barriers to Bank Access and Uses around the World ". Policy Research Working Paper 4079, World Bank, Washington, DC. 2010.

Out of 5 and in terms of number of location to submit loan application (like Bank headquarters, branches, other offices, phone, internet, etc)

Table 4- Position of households availing banking services in India.

Households	As per Census 2001			As per Census 2011		
	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

If we consider private credit as a criteria India is not in competition as compared to Australia and Denmark. An analysis of Private credit as % of GDP per capita shows that India account for 32.8 per cent as opposed to the very high share of Denmark and Australia with respective shares of 154.0 per cent and 100.9 per cent. Other countries fall in the vicinity of India in terms of penetration of people exercising the private credit as per cent of GDP. If we look at GDP per capita India looks very poor and has US\$ 638, whereas Australia has US\$ 22083 and Denmark US\$ 30735. It is surprising that Srilanka has better figures than India also Pakistan is close vicinity. Another important thing is that in India the minimum requirement to open account is 5.02 per cent of GDP per capita where as it is zero in

Australia and Denmark. If we look at loan processing criteria Bangladesh takes nearly 43 times more number of days in sanctioning loan as compared to Denmark. Though, India takes 10 times more number of days. Philippines and Pakistan each takes 33 days to clear the loan, which hinders in the process of financial inclusion. The fee for using the ATM cards is negligible in most of the countries under study. If we compare the- Position of households availing banking services in India, then it seems that India improved a lot in 2011. In rural area 54.4 per cent of the people avail banking services whereas in urban area it is

Following barriers are identified in expansion of financial services in India.

- Non-availability of a bank branch within near distance for physical access.
- Banks do not prefer low income people as their clients.

C) Case study:

This is story of schedule tribe in Nasik district, Maharashtra who used to do agriculture in traditional way for long period of time and used to earn only to feed their family. With every facility available including water, transportation, banks and market they were still earning very badly. One of the NGO with central government had given them a project on 18 ha. Land and provided them technical knowledge and an amount of Rs. 9 Lakh as a result they earn Rs. 1, 16,149 per ha. in four months by exporting the output to London.

It is evident from above case study that financial reach will not help the weaker section or society unless they are able to use it.

Results and Discussion:

1. Result shows that India is very poor in reaching the target audience for financial inclusion. Approximately 50% of rural population is yet to have bank account & one branch serve almost 12000 people that means there is lot of scope for financial penetration.
2. Indian people generally prefer money lenders over banks because either they do not have access to the bank as well bank does not prefer low income customers.
3. It is been observed that despite of having financial facilities, people are reluctant to use them because of financial illiteracy & low level of confidence.

A Roadmap for financial inclusion:

Following are some suggestions for financial inclusion.

- Allow private sector operators in banking services to increase the reach of banks in un-banked area.
- Fast track procedures to issue credit at affordable cost according to need of customer.
- Compulsory saving banks account for every house hold.
- Financial literacy starting at school level.
- Facilities like micro financing through agents at home as well depositing fewer amounts upto Rs. 50 per day.

Conclusion

It is been observed from the study that Financial reach will help weaker section of Indian society only if society is capable of reaping the benefits of facilities. And to make them capable we need to create a mechanism which will invest in human capital and give them hope, confidence and make them capable to harvest the benefits of economic progress so that they lead India towards development.

References:

Bandyopadhyay, Taman 2007; 'Targeting the Unbanked in India: Will be lucrative', Live mint, October 8, 2011.

Bell, C. 1990; 'Interactions between Institutional and Informal Credit Agencies in Rural India', The World Bank Economic Review, Vol. 4(3), 297-327.

Bright, Helms 2006; 'Access for All: Building Inclusive Financial Systems.' CGAP/World Bank, Washington, pp. 35-57.

Reports:

A report by Indian Overseas Bank, Financial Inclusion Cell, Central Office, Chennai

A Report of committee on Financial Inclusion" headed by Dr. C. Rangarajan, Chairman Economic Advisory Council to Prime Minister (2008).

A report on "Financial Inclusion", NABARD (2009).

A report on "Building Inclusive Financial Sector for Development" United Nation (2006).

Report by Reserve bank of India, All India debt and investment survey.

Magazines:

Lokrajya, August 2013.

India Year Book, 2012