

Financial Inclusion: A Viable Option for Inclusive Growth

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Abstract

“Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom”. - Nelson Mandela

Financial inclusion is an important tool in the hands of government to achieve an overall growth of the country. India has been currently the second-highest number of financially excluded households in the world. It is a part of our economic policy from the days of independence. The aim of financial inclusion is empowerment of excluded sections of the society. There we can see a binding force between financial inclusion and economic growth. It is necessary to have increased penetration of banking for the successful implementation of financial inclusion. The increase in number of banks leads to economic growth. The study aimed at to explore the need and significance of financial inclusion for economic and social development of society, to analyse the current status of financial inclusion in Indian economy and also to study the access of rural people to bank branches. The study mainly depends on secondary data and percentage analysis is used to analyse the data. From the study it is found that India is showing a fast trend in financial inclusion. Day by day it is opening number of RRBs, ATMs, and so on. Special tools like KCCs and GCCs are issued in large number to cover up rural people.

Key words: Financial inclusion, empowerment, economic growth, penetration

Introduction

Beginning of Financial inclusion concept in India

Financial inclusion is an important tool in the hands of government to achieve an overall growth of the country. India has been currently the second-highest number of financially excluded households in the world. It is a part of our economic policy from the days of independence. Since 2005 it became an explicit policy endeavour of the Reserve Bank of India. We can trace back the development of financial inclusion in India from the RBI's Annual policy statement for 2005-06. In India financial inclusion gave birth when it was introduced by K C Chakraborty, Deputy Governor, RBI. RBI has set up a commission (Khan

Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the midterm review of the policy (2005-06). In which RBI instructed banks to make available no frills or minimal balance accounts to the vast sections of the population. Banks are also encouraged to provide a general purpose credit card followed by this. It allowed the card holder to meet his financial needs upto Rs.25000. In 2007-08 two funds, i.e., the Financial Inclusion Fund (FIF) for promotional interventions and the Financial Inclusion Technology fund (FITF) for meeting the cost of technology adoption, were also established with NABARD. Many other initiatives and programmes were developed by financial system thereafter.

The following diagram shows the ways through which financial inclusion is made available to the people.

Source: RBI report.

Importance of the study

There we can see a binding force between financial inclusion and economic growth. It is necessary to having increased penetration of banking for the successful implement of financial inclusion. The increase in number of banks leads to economic growth. We have recognised the necessity of financial inclusion in the post independence period itself. Nationalisation of banks, introduction of lead banks, SHG bank linkage programmes etc played a crucial role in the expansion of financial inclusion. Prosperity of a nation depends on availability of Sound infrastructure – both urban and rural. Efficient infrastructure therefore, holds the key to improving the quality of life and reducing vulnerability of rural poor.

Objective of Study

1. To explore the need and significance of financial inclusion for economic and social development of society.
2. To analyse the current status of financial inclusion in Indian economy.
3. To study the access of rural people to bank branches.

Research Methodology

Research methodology is partly descriptive, partly exploratory and partly casual. For this study data and

information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD etc. percentage analysis were used in this study.

Literature Review

(sayantani Banergee, 2014) : “Financial inclusion can be a worthy goal only if it helps to reduce poverty levels. Easy access of credit will help to boost growth and fight against poverty”

(Kelkar, Sep.2009) : “The promotion of financial inclusion can be achieved through two major ways. One is expanding the formal financial system including banking. Another is through the growth of micro finance institutions in rural and urban areas”.

According to committee of financial inclusion, “The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.”

(Massey, 2010) : Lack of financial literacy is the major hindrance in spreading financial inclusion..

(Dr.Anupama & Ms. Sumitha, march 2013) For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .

Results and Discussion:

I. Banking Penetration on the basis of area in India

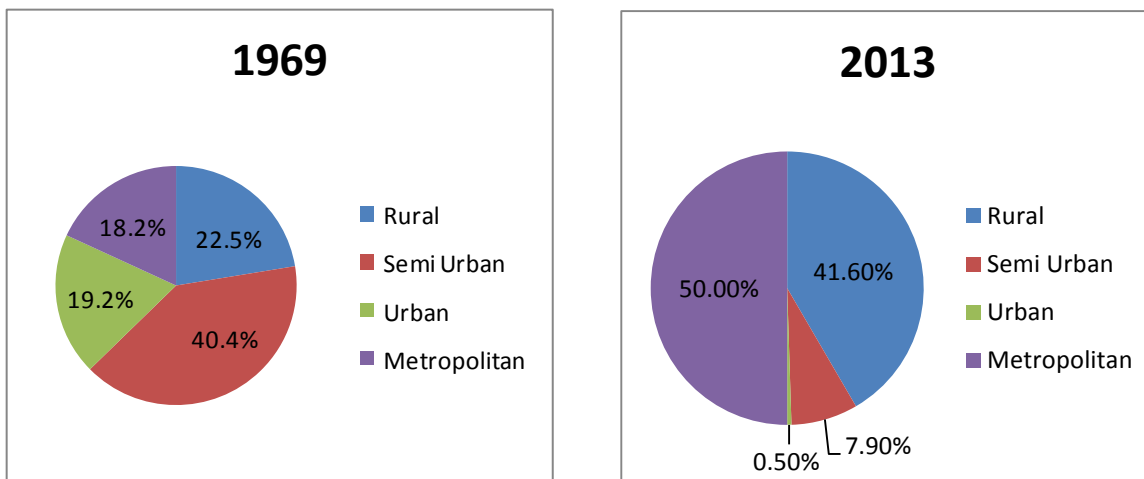
From table 1 and chart 1, it is clear that there a tremendous growth in the banking, especially in rural areas. In 1969 there was only 22.5% growth in rural banking, where as in 2013 banking penetration in rural area became 41.60%.At that time , in 1969 Semi urban ,urban, and metropolitan areas banking was 40.4%,19.2% and 18.2% respectively. Now it became 7.90%,.0.5% and 50% respectively for Semi urban, Urban and Metropolitan areas.

Table 1
 Banking Penetration on the basis of area in India (in per cent)

Area	Offices			
	1969	1996	2005	2013
Rural	22.5	51.2	45.7	41.6
Semi Urban	40.4	21.3	22.3	7.9
Urban	19.2	15.2	17.6	0.50
Metropolitan	18.2	12.3	14.4	50.0
Total	100.00	100.00	100.00	100.00

Source : RBI annual report.

Chart 1. Penetration of Banking Services in India



II. Banking penetration on the basis of Banking Services in India

Table 2 Banking penetration on the basis of Banking Services in India

Particulars	Year ended , 2010	Year ended , 2011	Year ended, 2012	Year Ended, 2013	Year Ended, 2014	Absolute Change (2010-14)	Percentage Change (2010-14)
Banking Outlets in Villages a) Branches	33,378	34,811	37,471	40,837	46,126	5,289	14.11
b) Villages covered by BCs and Other modes	34,316	81,397	144,282	2,27,617	3,37,678	1,10,061	76.25
Basic Saving Bank Deposit A/C- branches							
a) No.in millions	60.2	73.13	81.20	100.80	126	25.2	31.03
b) Amt.in billions	44.3	57.89	109.87	164.69	273	108	98.3
Basic savings Bank Deposit A/C -BCs							
a) No.in millions	13.3	31.63	57.30	81.27	116.9		62.30
b) Amt.in billions	10.7	18.23	10.54	18.22	39	20.7	196.39
OD Facility availed in BSBDAs Account							
a) No.in millions	0.2	0.61	2.71	3.92	6	2	73.8
b) Amt.in billions	0.1	0.26	1.08	1.55	16	14.5	1342.6

Source : NABARD annual report 2012-13, RBI report 2013-14

Chart 2(1). Showing Banking Outlets in villages a) Branches

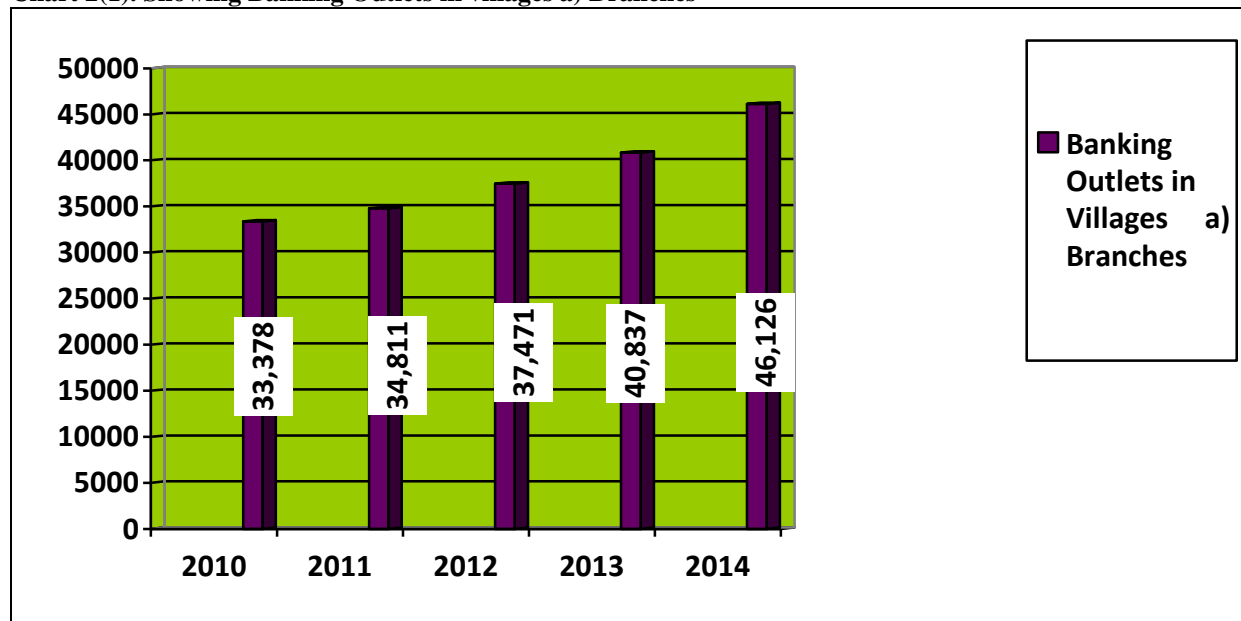


Table 2 and Chart 2 (1) reveals there is an upward trend in the growth of number of banking outlets in village branches from 33,378 to 46,126 from the year 2009-10 to 2013-14.

Chart 2(2).Showing Banking outlets in villages-covered by BCs and other modes

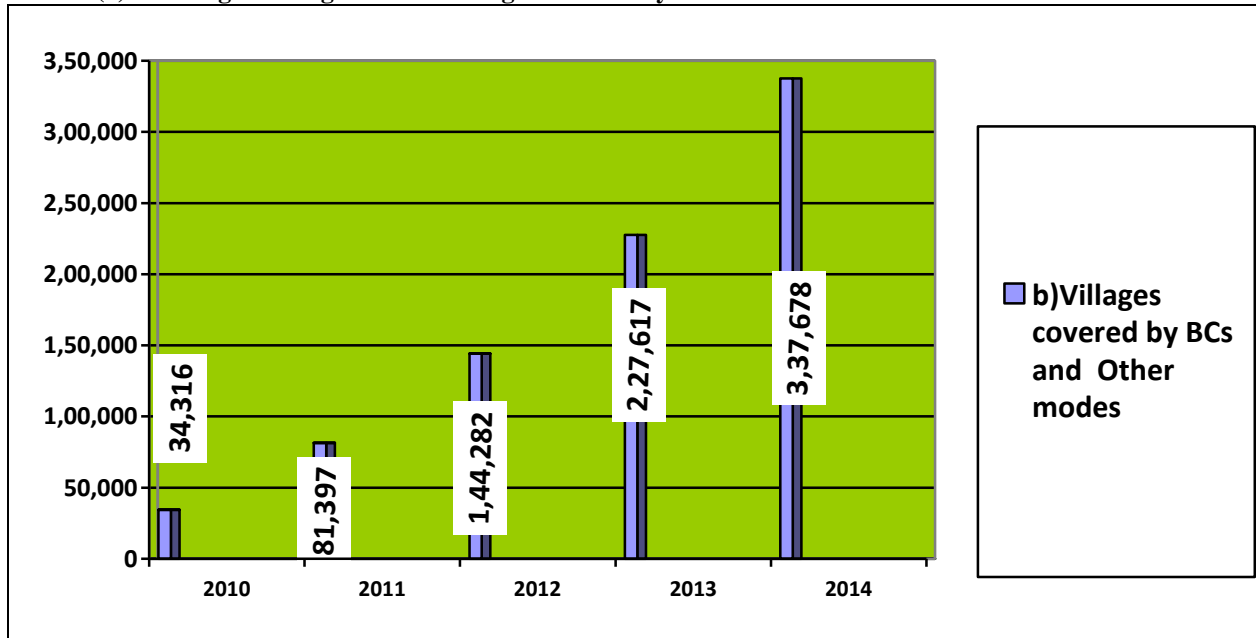


Table 2 and chart 2(2) shows that banking outlets in villages covered by BCs and other modes. In 2010 it was only 34,316, in 2013 it was increased to 2,27,617 and in 2014 it became 3,37,678. There is also we can see a large growth from 2009-10 to 2013-14.

Chart 2(3). Showing BSBD A/C -Branches

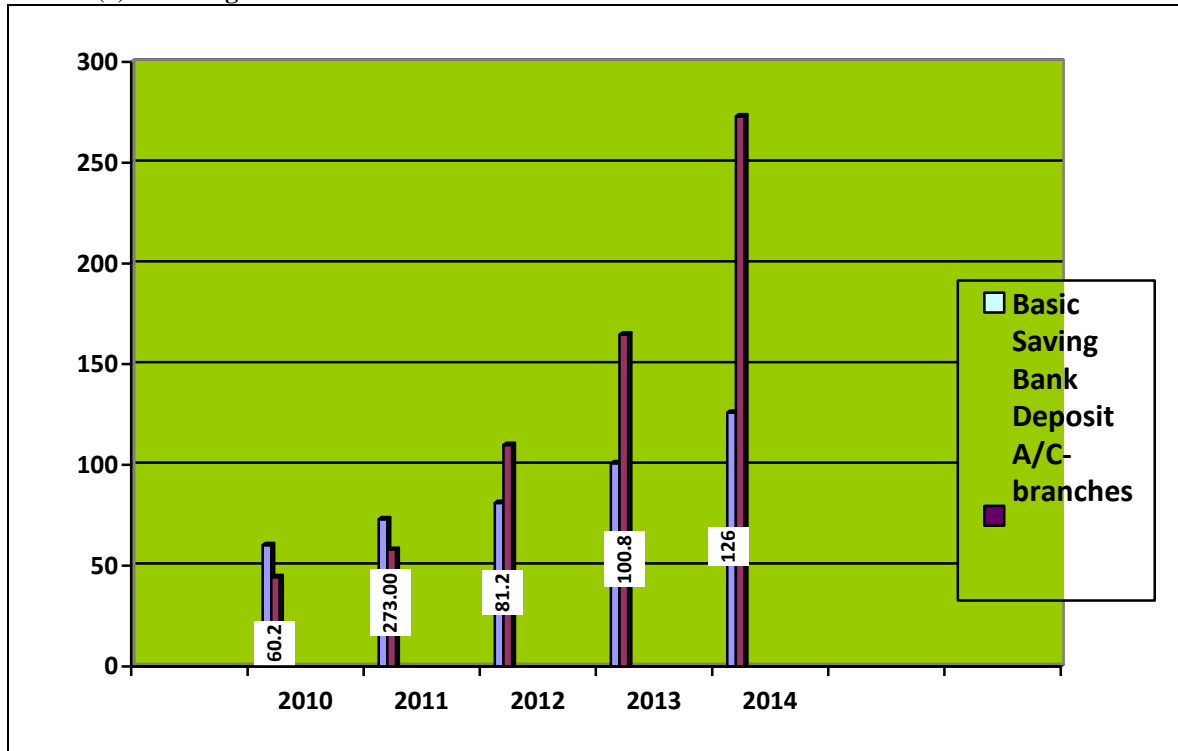


Table 2 and Chart 2(3) make a clear picture of number of branches, which opened Basic Savings Bank Deposit accounts in the last three years with amount. In 2010 we could open 60.2 million BSBD accounts with an amount of 44.3 billion. In 2014 it has increased to 126 million with an amount of 273 billion. In 2014 there is tremendous change in the number of BSBD accounts through branches.

Chart 2(4). Showing BSBD A/C -BCs

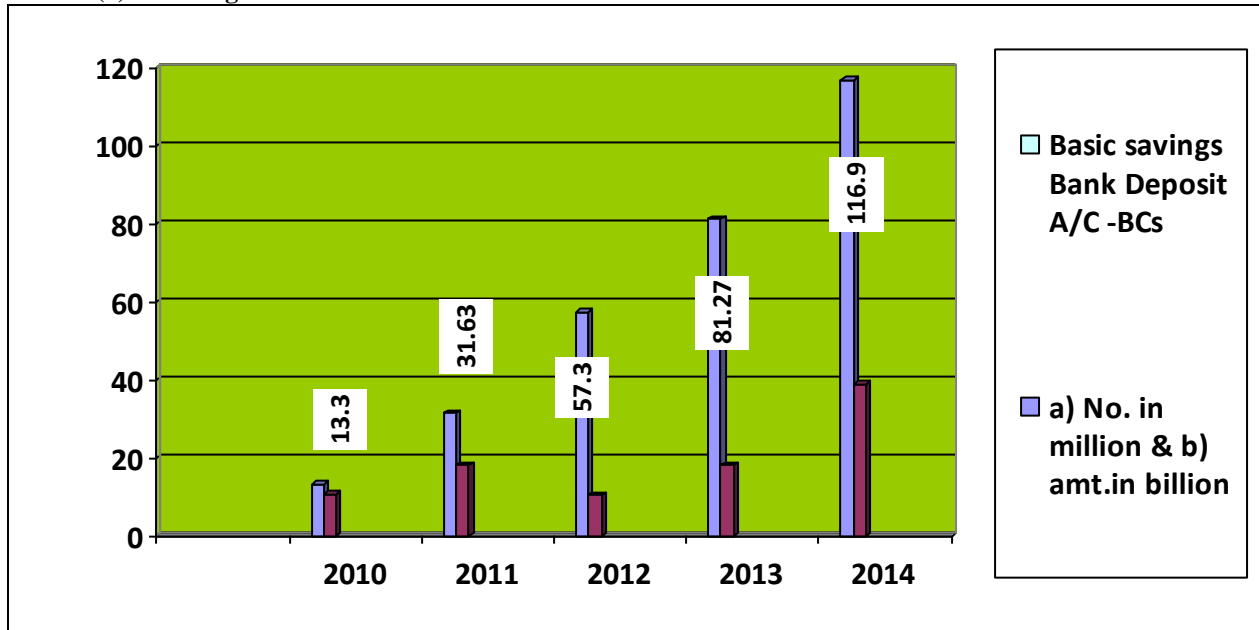


Table 2 and Chart 2(4) giving an idea about BSBD accounts through Business correspondents against the branches. Through BCs it could able to achieve 13.3 million accounts in 2010 with an amount of 10.7 billion and 81.27 million accounts in 2013. In 2014 it could able to make 116.9 million accounts with an amount of 39 billion.

Chart 2(5). Showing OD facility availed in BSBD A/Cs

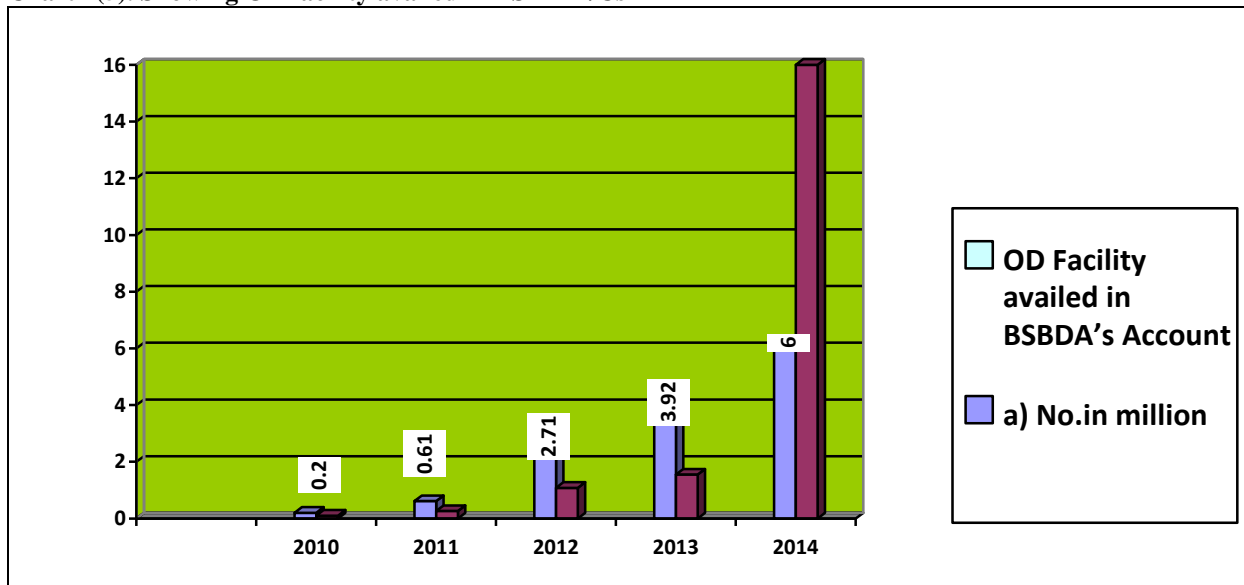


Table 2 and Chart 2(5) showing that in 2010, 0.2 million OD facility were availed in BSBD accounts with 0.1 billion amount, where as in 2014 there is a large increase in both number and amount in OD facility availed in BSBD accounts with same figure of 6 million number with 6 billion amount.

III. KCCs, GCCs, and ICT A/Cs opened in India

Table 3 and Chart 3 (1) picturise penetration of financial inclusion tools like KCCs and GCCs. In the year 2009-10 there was issue of 24.3 million KCCs and 1.4 million GCCs. In the year 2013-14 corresponding figures shows 40 million KCCs and 7 million GCCs. We can also see that there an absolute change of 15.7 KCCs and 5.6 GCCs respectively for the years 2009-13. Percentage change in KCCs were 65 % and in GCCs 400 % for the period in number.

Table 3
KCCs, GCCs, and ICT A/Cs in the last five years with absolute change

	2009-10	2010-11	2011-12	2012-13	2013-14	Absolute change in 2009-13	Percentage Change 2009-13
KCCs (No.in millions)	24.3	27.11	30.24	33.79	40	15.7	65
KCCs (amt.in billion)	1240.	1,600.	2,068.	2,623.	3,684.	2444	197.1
GCCs Total (No. In million)	1.4	1.7	2	4	7	5.6	400
GCCs –Total (Amt.in Rs.billion)	35.	35.	42	76	1,097	1062	3034.3
ICT A/Cs BC transactions (No.in million)during the year	26.5	94	156	250	329	302.5	1142
ICT A/Cs BC transactions Amt.in Rs.billion) during the year	6.9	58	97	234	524	517.1	7494

Source: NABARD annual report and RBI annual report 2012-13,2013-14

Chart 3(1). Showing penetration of KCCs & GCCs with Absolute change (No.in million)

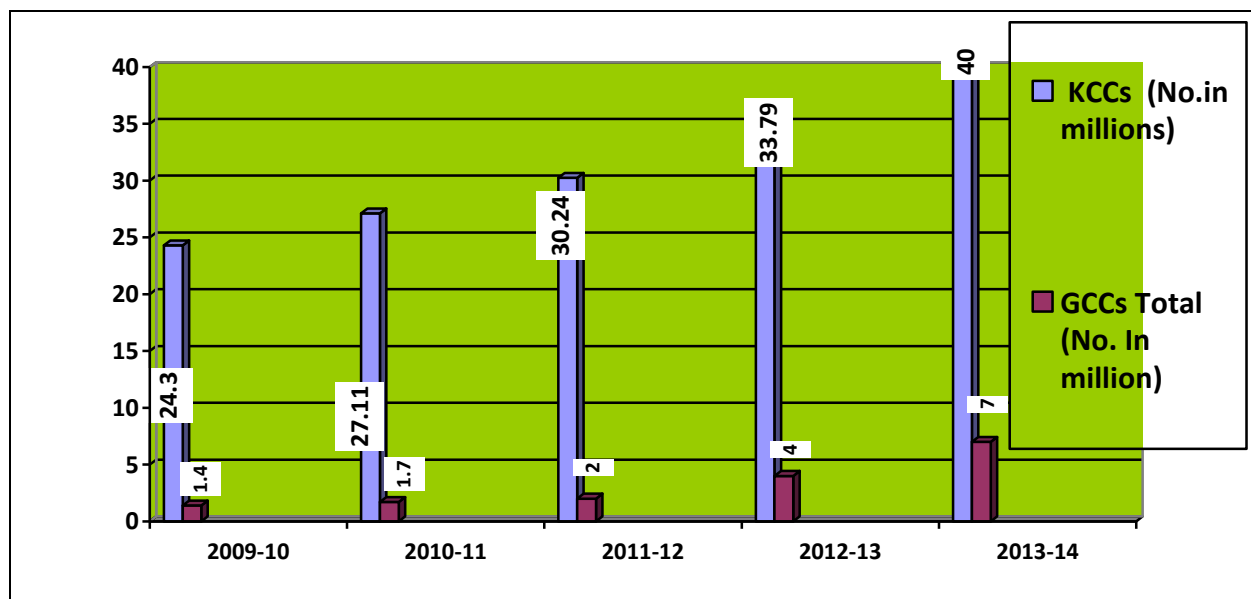


Chart 3(2). Showing ICT A/Cs BC Transactions

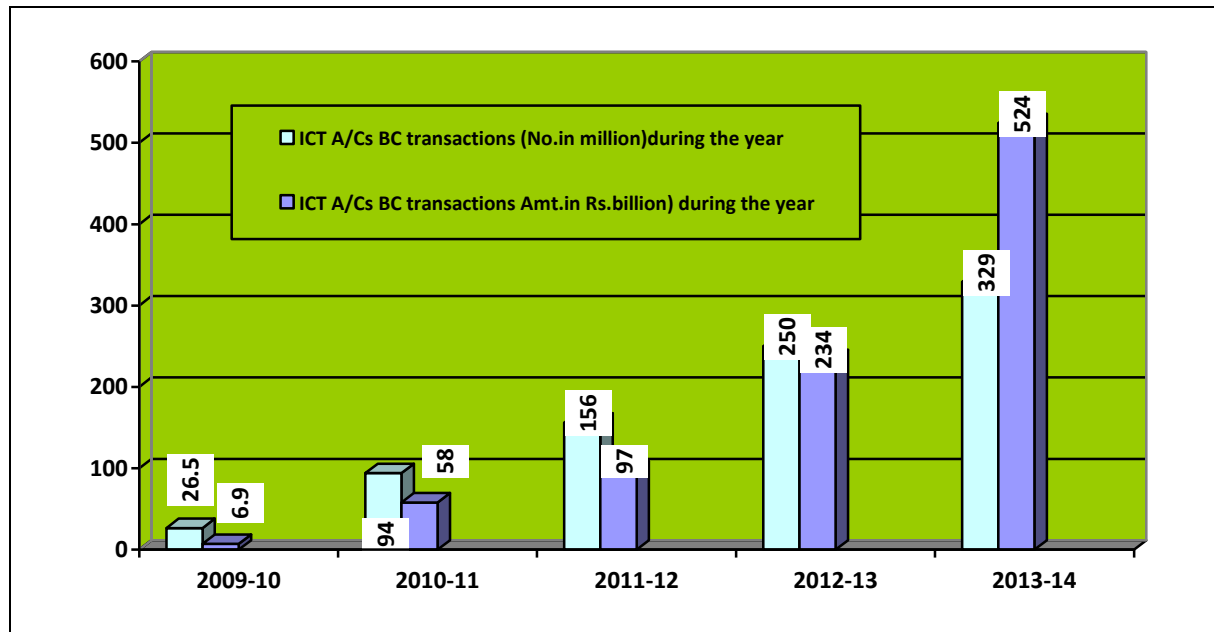


Table 3 and Chart 3 (2) reveals Information and Communication technology based accounts through BCs in the year 2009-10 was only 26.5 million number with 6.9 billion amount. While in the year 2013-14 it increased to 329 million number and 524 billion amount with a percentage change of 1142% .

IV Micro finance programmes in India

Table 4 Micro finance Programmes in India

	Number(in million)		Amount (billion)	
	2012-13	2013-14	2012-13	2013-14
Micro finance programmes				
Disbursed banks	1.2	1.4	206	240
Loan Outstanding with banks	4.5	4.2	394	429
Savings with Banks	7.3	7.4	82	99

Source:NABARD annual report 2012-13 and 2013-14

Table 4 Shows that micro finance programmes in India showing a rapid increase in both number and amount. While analysing the years 2012-13 and 2013-14 number disbursed banks were 1.2 million and 1.4 million respectively. In amount 206 billion and 240 billion respectively. Loan outstanding with banks were 4.5 million number with 394 billion amount in 2012-13 and 4.2 million number with 429 billion amount in the years 2012-13 and 2013-14 respectively. For the period Savings with banks came to 7.3 million number with 82 billion amount in

2012-13 and 7.4 million number with 99 billion amount in 2013-14 respectively.

According to world bank Findex Survey (2012) ,only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution in last 12 months. The statistics shows that there a gradual progress in opening of accounts. RBI has adopted many deregulation measures for achieving greater financial inclusion. They are Basic Savings Bank Deposit (BSBD), Related and simplified KYC norms, Simplified Branch authorisation

policy, Compulsory Requirement of opening Branches in Un-banked villages, Opening of intermediate brick and mortar structure, Public and private sector banks had been advised to submit board approved three year financial inclusion plan starting from April 2010, FIPs should be disaggregated and percolated down up to the branch level., Starting up of Financial Literacy Centres (FLCs), Accordingly 718 FLCs have been set up as at end of March 2013, Licensing of New Banks etc.

Pradhan manthri Jan Dhan Yojana is one of the significant programme adopted by government in this regard. It was launched on 28 August 2014. It envisages at least one basic bank account for every household, financial literacy, access to credit and insurance

- 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 penetration, deposit penetration and credit penetration.
- The CRISIL Inclusix indicate that there is an overall improvement in the financial inclusion in India .
- 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.

In our country financial exclusion measured in terms of bank branch density,ATM density,bank credit to GDP and Bank deposits to GDP is quite low as compared with most of developing countries in the world.

V CRISIL Financial Inclusion Index (Inclusix)

VI Indian Banking Sector Technological development

Table 5.

Indian Banking Sector Technological development (Payment system indicators)

item	Volume (in million)					Percentage Change
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-14
Credit cards	234.2	265.1	320.0	396.6	509.1	117.4
Debit cards	170.2	237.1	327.5	469.1	619.1	263.7

Source :RBI annual report 2009-10 to 2013-14

Chart 5 showing total number of credit cards & debit cards issued in 2009-10 to 2013-14

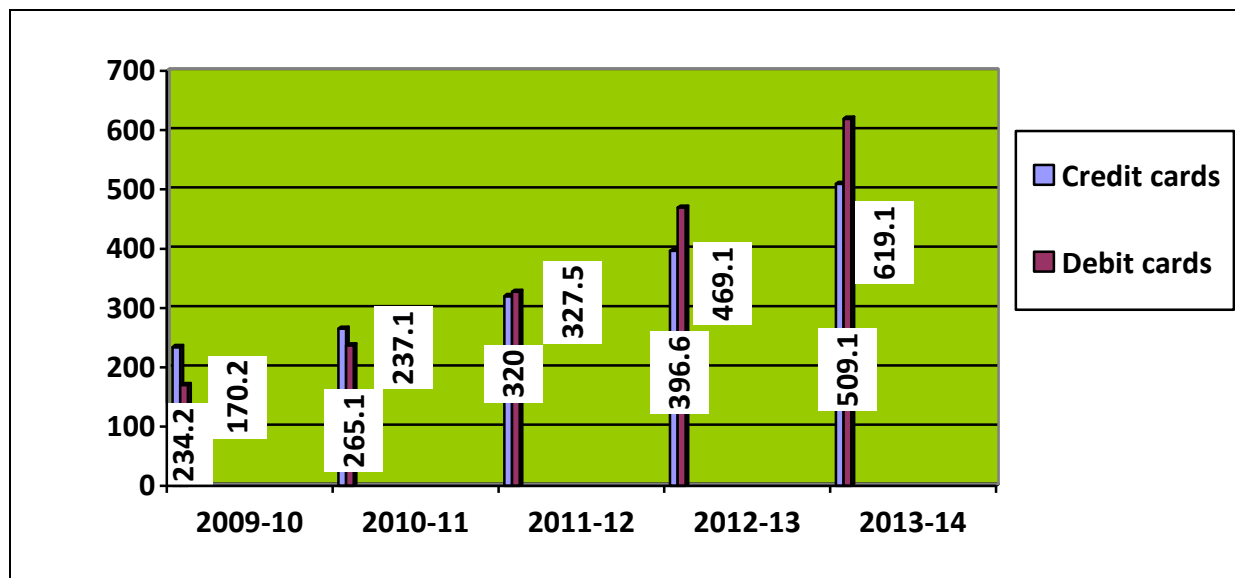


Table 5 and Chart 5 shows total number of Credit cards (CC) and Debit cards (DC) issued in the year 2009-10 to 2013-14 in million. Figure shows that 234.2 million CCs in 2009-10 and 509.1 million CCs in 2013-14 with a percentage change of 117.4. While 170.2 million DCs in 2009-10 and 619.1 million DCs in 2013-14 with a percentage change of 263.7. It depicts an overall growth in number of credit cards and debit cards in the country.

VII Regional wise penetration of number of offices of scheduled commercial banks in India

Table 6
Showing Important indicators of Financial Inclusion

Area	No,of Offices of Scheduled Commercial banks in India			
	2009-10	2010-11	2011-12	2012-13
Rural	85393	90263	98330	105437
Semi Urban	32624	33683	36356	39195
Urban	20740	22843	25797	28165
Metropolitan	17003	17490	18781	19902

Source : NABARD Annual report 2012-13

Chart 6. Showing important indicators of financial inclusion

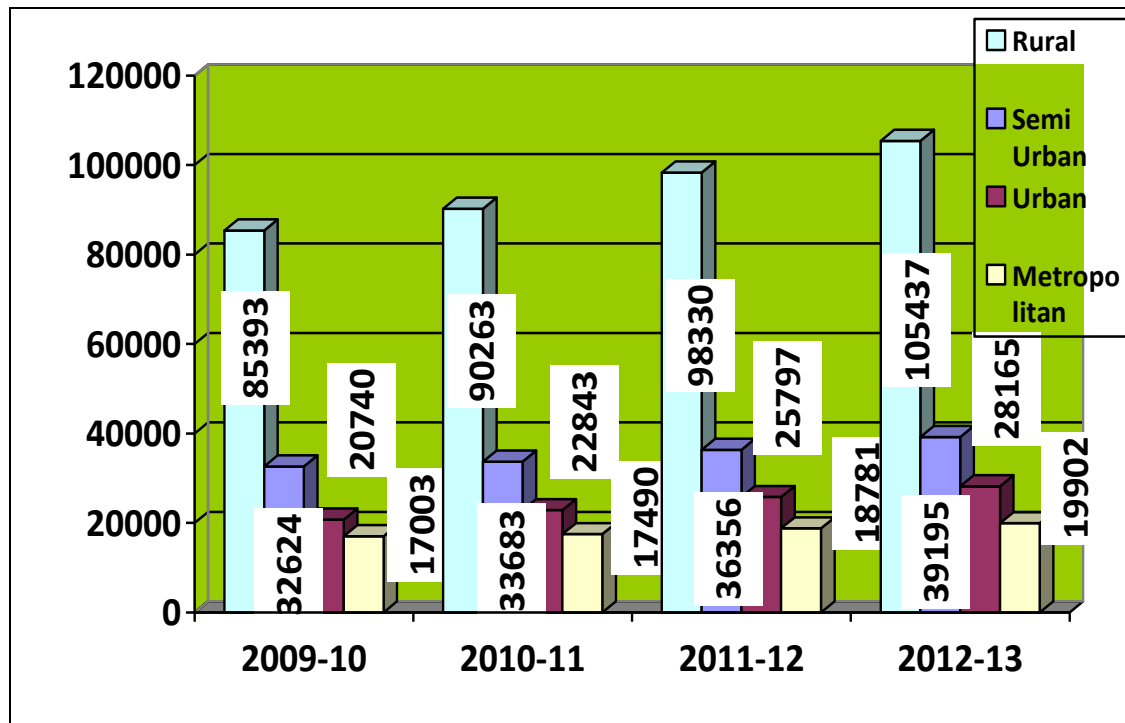


Table 6 and Chart 6 shows that Penetration of offices of scheduled commercial banks in various regions of the country. In rural area in the year 2009-10, it was 85,393 and in 2012-13 it became 1,05,437. Semi urban banks in 2009-10 was 32,624 and in 2012-13, it became 39,195. Urban banks increased from 20,740 in 2009-10 to 28,165 in 2012-13. Metropolitan banks increased from 17,003 to 19,902 respectively in the years 2009-10 to 2012-13.

FINDINGS OF THE STUDY.

1. As the financial inclusion is a fast growing tool in the hands of Government, GOI, RBI and NABARD giving more importance to this scheme.
2. Due to the backwardness of our rural villages it is necessary to having such an efficient scheme to uplift the society to a higher grade.

3. From the analysis made on current status of financial inclusion in the Indian economy we could find that there are many schemes, programmes and tools were developed. More Branches and BCs were opened in rural areas, Large number of KCCs, GCCs and ATM cards were issued for the expansion of financial inclusion.
4. As part of Prathana mantri's Jan Dhan Yojana programme, it is ensuring at least one basic savings account for each households. More over RRBs, BCs, and large number of branches were opened to serve the village people.

Conclusion

Financial inclusion is certainly a way to innovative growth. As it encourages a number of innovative banking devices and encourages people to make savings. Since the government realises the relevance of such a scheme GOI, RBI, and NABARD taking much efforts to make it a successful venture. Day by day RBI taking many deregulating measures and liberalising rules regarding the banking activities. For the convenience of rural people RBI encourages banks to open new branches in rural areas. As a whole financial inclusion will become a big success in the near future. And it is sure that we can achieve a 100% financial inclusion in the coming years.

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