

## **Perspective of Financial Inclusion in India and its effect**

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### **Abstract**

Financial inclusion is the key factor of growth in the country. After economic turnaround of 1991 India is emerge as the leading economic power in the world. Currently India is the fastest growing economy in the world. Financial inclusion refer to delivery of financial services at affordable cost to the low income segment of country and since 1969 many initiative were taken to promote financial inclusion in the country but even in 21<sup>st</sup> century the level of financial inclusion in India is low as compare to the world. The paper will highlight the current situation of India with reference to world and also portray the development of banking service to the people of the country. The study will also showcase the development of various initiative taken by government and RBI to promote financial inclusion jan dhan yojana in particular.

### **Introduction**

After the economic turnaround of 1991 India has witness an average economic growth of 6-7%. Since then India is emerge as the economic superpower in the world and many reports claim India will be the third largest economy after USA and China in near future. The world is also looking at India as the engine of global economy after China. There are various optimistic assumptions for India which clearly predict bright future for the south Asian giant. But in the era of globalization the urban has reached to the sky and rural still remain deep into the ground. A large section of rural India is still remaining outside the formal banking system of the country. Since 1969, when banks were nationalized, the strategy for addressing the banking needs of the poor has been biased toward providing credit, neglecting other aspects, such as building a deposit base, promoting a savings culture, or extending the payment network. Financial inclusion initiative in India mainly comes in a light when former governor of RBI Y. Venugopal Reddy highlight this term in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. In 2015 government of India introduce national financial inclusion system which aims to provide financial services to the untouched section of the society.

### **Objective of study**

- a) To appraise critically the prominence of financial inclusion in India in a competitive mode with other contender countries.
- b) To analyse the evolution in agriculture credit and banking development in the country.
- c) To review the measures taken by RBI and Government for encouraging financial inclusion in India

### **Literature review**

Abheek Barua , Rajat Kathuria and Neha Malik(2016), The new architecture of inclusion reflects the failure of the traditional formal sector and the need to adopt modern methods to serve the poor. In this context, regulation has a fundamental role to play in ensuring that market-oriented solutions to poverty alleviation coexist with other social initiatives. India's financial inclusion agenda has seen a welcome shift away from an emphasis on credit to a more comprehensive approach.

Dr. Manisha Vikas Jagtap2016, Financial Inclusion And Growth Of Banking Sector In India Financial inclusion is 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. The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way.

Ankita Bbirla (2016), Role of commercial banks in financial inclusion study in respect to Indian economy. Financial inclusion is core tool for economic growth of a developing nation like India. India is country where level of poverty is high .there are lots of section of society including vulnerable ,deprived, low income group, illiterate household are still suffering from lack of availability of financial services.

Purvi Shah and and Medha Dubhash(i2015), Financial Inclusion – The Means of Inclusive Growth It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion.

Dr. Vipin Kumar Aggarwal(2014), financial inclusion in india: an analytical study . there is a titanic need to adopt strategies like adaptation of advanced technology, opening up the bank branched in rural areas, no-frill account, use of regional languages, synergistic partnerships with technology service providers, simple KYC norms, introduction of new saving schemes for low income people etc. to strengthen financial inclusion.

Neha Dangi(2014), Current Situation of Financial Inclusion in India and Its Future Visions. Financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals but the ball is set in motion.

Dr. Anupama Sharma and Ms. Sumita Kukreja(2013), An Analytical Study: Relevance of Financial Inclusion For Developing Nations. For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth. There is a long way to go for the financial inclusion to reach to the core poor.

### **Financial inclusions in India**

In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, then Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion. In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Mangalam, Puducherry became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

### **Financial inclusion in India - Global perspective**

**Table -1 Automated Teller Machines (ATMs) per 100,000 adults**

Country	2012	2013	2014	2015
India	10.99	12.87	17.80	19.71
Brazil	114.46	115.54	114.79	114.00
China	37.12	46.24	54.44	76.37
Indonesia	35.85	42.21	49.48	53.31
United kingdom	126.24	128.78	129.76	131.59
France	109.38	109.05	108.03	106.98
Thailand	95.45	103.00	111.31	113.54

Source - <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>

**Table – 2 Branches of commercial banks per 100,000 adults**

Country	2012	2013	2014	2015
India	11.19	11.85	12.87	13.55
Brazil	20.02	20.23	21.05	20.67
China	7.64	7.73	7.97	8.45
Indonesia	16.93	17.72	17.93	17.76
United kingdom	22.14	25.19		
France	39.01	38.67	37.99	37.52
Thailand	11.77	12.18	12.61	12.62

Source - <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>

The South Asian giant or a potential superpower whatever you can call India but there is huge deficiency in the availability of banking services to the people of the country and when it compared to the rest of the world the situation seems more worst as mention in the table 1 the availability of ATM machine per 100,000 adults is only 19.71 and if you look at other countries India is not even in the pictures that reflects the non -availability of basic financial services in the country but the continuous increase reflects that government is taking initiative to increase the reach of the service but the pace of work is not in accordance for the country of 1.2 billion . In table 2 Branches of commercial banks per 100,000 adults portray that the availability of commercial bank per 100000 adults is not bad when it is compare to global scenario as it is the result of 1969 nationalisation bank policy which mainly focus to provide banking service across the country and current financial inclusion initiative by the government of India is generating a fair outcome at least numbers are showing that.

**Agriculture credit flow and banking development**

**Table – 3 Credit flow to agriculture**

Credit flow to agriculture				
(₹ billion)				
Year	Banking sector (includes RRBs and co-operative banks)		Commercial banks	
	Target	Achievement	Target	Achievement
2010-11	3750	4683	2800	3459
2011-12	4750	5110	3550	3686
2012-13	5750	6074	4200	4325
2013-14	7000	7116	4750	5090
2014-15	8000	8406	5400	5997
2015 – 16*	2600	2726	5900	6047

Source- <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=836#CH1>

Although agricultural credit has been rising every year, as reflected in table and increase in the number of accounts, the extent of financial exclusion still remains high, especially for tenant farmers, share-croppers and agriculture labourers who still have limited or no access to the formal credit system. Additionally, indirect credit has risen more impressively as compared to direct credit, due mainly to more and more categories being brought within the ambit of priority sector lending for agriculture. It therefore, becomes exigent to find out ways to reach the small and marginal farmers for agri-credit, taking due care of risk factors. One of the primary reasons is the reluctance of landowners to formally lease out their land for cultivation for fear of losing their rights over the land. As a result, banks are reluctant to grant credit for want of any evidence of cultivation. Low financial literacy and mindset of farmer acts as the biggest hurdle in agriculture credit and it is very unfortunate that even after 70 years of Independence there is no mechanism in the country to encourage agriculture credit.

**Table - 4 Growths in Individuals' Savings Bank Deposits Accounts with SCBs**

Growth in Individuals' Savings Bank Deposits Accounts with SCBs								
Population Group	Number of Individual Saving Bank Deposits Accounts (million)				Individual Saving Bank Deposits' Amount Outstanding (₹. billion)			
	2006	2010	2015	CAGR (%)	2006	2010	2015	CAGR (%)
Rural	104	167	384	15.6	962	1,703	3,601	15.8
Semi-urban	85	136	320	15.9	1,124	2,155	4,470	16.6
Urban	68	97	186	11.8	1,246	2,381	4,541	15.5
Metropolitan	71	100	180	10.9	1,838	3,731	6,476	15.0
All India	329	500	1,070	14.0	5,170	9,970	19,088	15.6
CAGR is for all scheduled commercial banks (SCBs) including regional rural banks (RRBs) during 2006-15.								

Source- <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=836#CH1>

In normal conditions, the availability of banking services could be predicated on the level of economic activity and in past years when there is a global economies are facing serious challenges that resulted in global slowdown but Indi remain as bright star in darkness with the economic growth of 6-7%. Their is a sharp rise in a number of saving account with all scheduled commercial banks (SCBs) and the notable change is that there is major rise in the saving accounts of rural and semi urban areas which clearly depict that the people are coming in a mainstream of financial services . Recent development also depicting a sharp rise in bank branches in India.

**Table – 5 Progress Report of banks in rural sector**

Particulars	End-March 2010	End-March 2015	End-March 2016
1	2	3	4
Banking Outlets in Villages – Branches	33,378	49,571	51,830
Banking Outlets in Villages – Branchless Mode	34,316	504,142	534,477
Banking Outlets in Villages –Total	67,694	553,713	586,307

<https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/ORBIAR2016CD93589EC2C4467793892C79FD05555D.PDF>

India is the country of billion and very large portion of population remain out of the formal banking system in the country and almost half of the population has no access to banking system in the country and even till last decade the position of banking sector in rural India is very poor. According to the Rangarajan Committee on Financial Inclusion, reporting a couple of years later, only 27% of farm households have access to bank credit. Table 5 showcases that in 2010 the number of banking outlet in rural India is very low and with the passage of time there is a rise in the banking branches in rural India. The interesting fact that data is showing that there is sharp rise in branchless banking outlet in rural India. There is almost 800% rise in branchless banking and many experts believe optimistic future of branchless banking in India.

### **Importance of financial inclusion in India**

- The rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account can be completed using fingerprint authentication. The confidence of fulfilment is provided by issuing an online receipt to the customer.
- Reduction in cash economy as more money is brought into the banking ecosystem
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- Direct cash transfers to beneficiary bank accounts, instead of physical cash payments against subsidies will become possible. This also ensures that the funds actually reach the intended recipients instead of being siphoned off along the way.
- Availability of adequate and transparent credit from formal banking channels will foster the entrepreneurial spirit of the masses to increase output and prosperity in the countryside.

Hence, it is believed that financial inclusion can initiate the next revolution of growth and prosperity. In the 21st century, India has been pulling all the right levers to advance financial inclusion and economic citizenship by channelling its own transactions to

lubricate the system. India's journey towards economic ascension relies on how the 65% unbanked population of India (conservative 2012 estimate by World Bank) is enabled with financial infrastructure.

## **Measures by RBI and GOI towards Financial Inclusion**

### **Steps taken by RBI**

#### **a. BSBDA (Basic Savings Bank Deposit Account)**

RBI instructed the bank to provide Basic Savings Bank Deposit Account which no frill account either with nil or low balance the objective is to provide banking facilities in more uniform manner in the country.

#### **b. Relaxation in KYC guidelines**

In 2014 RBI relax many KYC norms in a view to help common man in opening a bank account in the country. The objective was to remove certain element which act as a barrier for the common man.

### **Measures taken for simplification**

- Single document for proof of identity and proof of address
- No separate proof of address is required for current address
- No separate KYC documentation is required while transferring accounts from one branch to another of the same bank
- Small Accounts
- Relaxation regarding officially valid documents (OVDs) for low risk customers

#### **c. Opening of branches in unbanked rural areas**

India is the country where most of the population still lives in the villages and according to estimate most of villages in India don't have banks branch in their village which is one of the root cause of financial exclusion in the country. In 2005 when financial inclusion came into the light the RBI took many initiatives to open a bank branches in rural India.

#### **d. Use of extensive technology in banking**

Banks today have the onus of being proactive in technology, making themselves available to customers anytime and anywhere and staying ahead of the competition. Interestingly, these factors also serve as the basis for emerging trends in the banking industry of 2016.

**e. Licensing of differentiated banks like Payment Bank and Small Bank**

In 2014 RBI issue a two separate draft guidelines for Payment Bank and Small Bank with the common objective financial inclusion in the country. Small banks will provide a whole range of banking services and product but perform its all operation in limited area. Payment bank is newly introduced concept in banking and it provides a limited range of the product such as acceptance of demand deposits and remittances of funds, but will have a wide network of access points particularly in remote areas. RBI licensed these niche banks to promote financial inclusion in the country. Licensing this niche bank will be a ray of hope for financial inclusion and an important milestone in the crucial journey of inclusion.

**Steps taken by GOI****a. Pradhan Mantri Jan Dhan Yojana – A crown jewel**

Pradhan Mantri Suraksha Bima Yojana is the flagship financial inclusion programme was formally launched by government of India on 28th August, 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. The beneficiaries would get a RuPay Debit Card having inbuilt accident insurance cover of Rs.1.00 lakh. In addition there is a life insurance cover of Rs.30000 to those people who opened their bank accounts for the first time between 15.08.2014 to 26.01.2015 and meet other eligibility conditions of the Yojana. PMJDY is different from the earlier financial inclusion programme (Swabhimaan) as it, interalia, seeks to provide universal access to banking services across the country and focuses on coverage of all households (both rural and urban) while the earlier Financial Inclusion Programme was limited to provide access point to villages with population greater than 2000. Further, PMJDY focuses on interoperability of accounts which was not there earlier; has simplified KYC guidelines and involves the Districts and States for monitoring and follow-up. Under PMJDY, banks were given target to carry out surveys in allocated Sub Service Areas (SSAs) and Wards and to open accounts of all uncovered households by 26.01.2015. All the States/Union Territories in the country have been mapped into 2,26,197 SubService Areas (in rural areas)and Wards (in urban areas) and out of total number of 21.22 crore surveyed households, bank accounts have been opened for 99.99 % households.

**Table – 6**

**IAN DHAN PROGRESS REPORT**

RURAL ACCOUNT: 16.73CR	URBAN ACCOUNT: 10.92CR	TOTAL: 27.64CR	NO OF RUPAY CARDS: 21.50CR
AADHAAR SEEDED: 16.59 CR	BALANCE IN ACCOUNTS: 65225.81 CR	% OF ZERO-BALANCE-ACCOUNTS: 24.20%	

Source - <https://www.pmjdy.gov.in/account>

**Overdraft (OD) in PMJDY accounts:** As on 30.10.2015, 22.43 lakhs accounts have been sanctioned OD facility of which 8.37lac account holders have availed this facility involving an amount of Rs. 11,824.97 lakhs

**b. Pradhan Mantri Jeevan Jyoti Bima Yojana**

It was launched by Prime Minister Narendra Modi on 9<sup>th</sup> may 2015. It is a\the helpful insurance scheme which will provide a benefit of 2, 00,000 Rs which will be payable to the family in case of death of the person irrespective of reason. Pradhan Mantri Jeevan Jyoti Bima Yojana is available to people between 18 and 50 years of age with bank accounts. It has an annual premium of ₹330 (US\$4.90) excluding service tax which is above 14% of the premium. The amount will be automatically debited from the account. In case of death due to any cause, the payment to the nominee will be ₹2 lakh (US\$3,000)

**Table – 7 progress report of Pradhan Mantri Jeevan Jyoti Bima Yojana**

	Total No. of claims recd.	Total No. of claims disbursed	Date of commencement
	626	325	As on. 01.08.2015
	1841	1043	As on. 01.09.2015
	3581	2208	As on. 01.10.2015
	5871	4012	As on. 02.11.2015
	9107	6542	As on 01.12.2015
	11680	9306	As on 01.01.2016
	19372	15497	As on. 01.03.2016
	22212	19409	As on. 01.04.2016
	23798	21385	As on. 02.05.2016
	28636	25555	As on. 01.06.2016
	32861	28796	As on. 01.07.2016
	36639	31654	As on. 01.08.2016
	41067	35854	As on. 01.09.2016
	44158	39692	As on. 01.10.2016
Total	281449	241278	1-08 -15 TO 1-10-16

Source - <https://data.gov.in/catalog/progress-pradhan-mantri-jeevan-jyoti-bima-yojana-pmjby>

Table 7 showcase the progress report of Pradhan Mantri Jeevan Jyoti Bima Yojana and according to that almost 85% of claim was settled by the government and the mechanism of the scheme is working effectively in the country.

**c. Direct Benefit Transfer**

**Direct Benefit Transfer** or **DBT** is an attempt to change the mechanism of transferring subsidies launched by Government of India on 1 January 2013. This program aims to transfer subsidies directly to the people through their bank accounts. It is hoped that crediting subsidies into bank accounts will reduce leakages, delays, et

**d. RuPay Card**

Rupay card is the Indian face of debit and credit card. It has been created to integrate with financial system in the country. Rupay card is the indian version of visa and it is widely accepted worldwide for electronic payment but cost of transaction still remain high to monopoly of foreign payment gateway like visa and MasterCard.

**e. Pradhan Mantri Suraksha Bima Yojana**

Pradhan Mantri Suraksha Bima Yojana is a government-backed accident insurance back scheme in India. It was initially said in the 2015 Budget discourse by Finance Minister Arun Jaitley in February 2015. It was formally propelled by Prime Minister Narendra Modi on 9 May in Kolkata. As of May 2015, just 20% of India's populace has any sort of protection, this plan expects to expand the number. Pradhan Mantri Suraksha Bima Yojana is accessible to individuals in the vicinity of 18 and 70 years old with financial balances. It has a yearly premium of ₹12 (18¢ US) barring administration impose, which is around 14% of the premium. The sum will be naturally charged from the record. In the event of incidental passing or full handicap, the installment to the chosen one will be ₹2 lakh (US\$3,000) and if there should arise an occurrence of fractional Permanent incapacity ₹1 lakh (US\$1,500). Full handicap has been characterized as loss of utilization in both eyes, hands or feet. Incomplete Permanent inability has been characterized as loss of utilization in one eye, hand or foot. 124,738,419 people i.e. 124 million Indians have already enrolled for this scheme as of 2 February 2016.

**Conclusion**

India is the fastest growing economy in the world with high growth rate of 7.1% in last financial year and world is looking at India as the engine for global economy but to have a strong standing at global platform the financial inclusion is the key factor for the growth. If compare to global level the financial inclusion in India is long way to go and still the access of financial service to the people is very low especially in rural areas although agriculture

credit is increasing but it is not enough for the country in which agriculture is the only source for employment for maximum people and still most of the people in rural India depends on money lender for credit and there is no mechanism of any sort to encourage the agriculture credit in India. In past 5 years many initiative was taken by government of India and reserve bank of India to encourage financial inclusion in India which has created a huge impact on the country. Jhan dhan yojna can be term as the Jewel in the crown for financial inclusion with more than 27 crore people got access to bank account and many other initiative in the yojna generate fruitful outcome like jeevan jyoti beema yojna and jeevan jyoti yojna. The development of banking sector in the country is the important element for development and the process which was started in 1969 is still going. Recent increase in banking facilities in rural India will encourage financial inclusion in India and we can be optimistic regarding financial inclusion in India in coming future but at last there is long way to go and enchanting economic figure will not make India prosperous until people of country will not have access to basic financial services.

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