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# Financial Inclusion-An Indian Perspective

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## Introduction

The extension of financial services forms a core to aim for inclusive development and growth in India. A wide gap is created due to inequalities in income and earning opportunities in India because of the financial exclusion. The gap of inequality in income can be observed in countries with high levels of exclusion than the countries with low levels of the same tendency. The financial system in India has always acted as a backbone in the supply of finances to the entrepreneurs with new business ideas and a zeal for growth. With the advent of global markets the search for capital has crossed boundaries and the people do not restrict themselves to their own domestic markets. As a result the impact of international efforts has also increased on financial inclusion. In spite of this scenario in India due to absence of debt leverages; the small enterprises either borrow at a high interest rate or will be contended with their own capital which leads to restricted growth in economic activities. When talking about financial inclusion in India, we talk about two categories of people: those who have a bank account and those who don't. With the many financial inclusion reforms that India has seen over the last 5 years, the proportion of the adult population with a bank account has increased to 65 percent. But, a substantial 23 percent of those accounts remain dormant, indicating that it will take a lot more than just opening formal bank accounts for the financially excluded to be truly included.

The perceived benefits of urban financial inclusion can be sub- divided into two sub categories:

## Major macro benefits are:

(i) Increased qualitative output ;(ii) Rapid economic growth (iii) Decrease in inequalities in income;(iv) Enhanced location and centre specific development;(v) Worldwide recognition and admiration, (vi) Hike in national income ;(vii) Avenues for improvement in employment and income opportunities (viii) Effective allocation of subsidies;(ix) Effective implementation of schemes useful for society, such as old age and widow pensions;(x) Direct distribution of subsidies into the bank accounts.

**Major micro level benefits are :**(i) Deals with consumption issues;(ii) Reduction in expenditure;(iii) Protection of assets from disruptions;(iv) Satisfactory incomes ;(v) Efficient utilization of savings;(vi) Reduced stress from moneylenders; (vii) Increased risk taking ability;(viii) Creation of opportunities to earn bread;(ix) Reduction in time in collection of state and central government bills;(x) Increased morale and boost in self esteem.

The perceived benefit of urban financial inclusion can also be studied on the basis of various stakeholders:

## Urban Scenario: Financial Inclusion and Demonetization

Urban financial inclusion is likely to result into number of benefits for Indian economy as a whole. Some of the probable benefits are explained herein:

- An avenue for bringing the additional savings into the savings into the formal financial channel boosting the collective economic resources;
- Probability of higher incomes coupled with reduction in cash economy can lead to overall economic growth;
- Better possibility of unlocking the economic potential of the people residing in urban centers;
- Possibility of tracking individuals financial history ; better utilization of

consumers protection mechanism ; high level of financial literacy;

- Chance to achieve faster growth in the country by way of including the as mainstream of the country.

Urban inclusion is a win-win opportunity for the left outs, for the banks, for the intermediaries and for the economy as a whole. Because of growing incomes, better access to communications and media, improving awareness levels, aspirations of the urban left-outs are on the rise. Banks can ignore these opportunity at their own peril. Need of the hour is to awaken, start and grab the opportunity aggressively.

As on March	Number of Branches			Estimated population* (in million)			Branches/ 100,000 population		
	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Metro-politan	Total
2001	44,905	20,713	65,618	851	177	1,028	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1,115	5.0	12.3	6.2
2010	53,086	31,072	85,158	980	211	1,191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1,044	228	1,272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1,061	233	1,294	7.8	18.7	9.7
June 2015	82,794	43,910	1,26,704	1,065	235	1,300	7.8	18.7	9.7

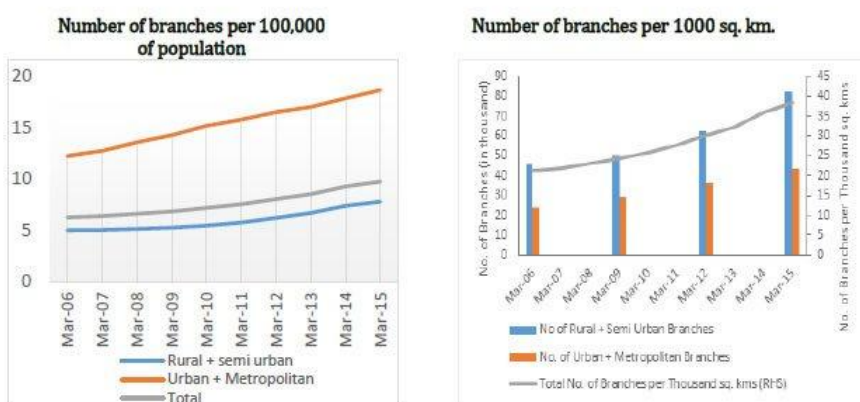
\*Population estimates are based on CAGR between Census 2001 and Census 2011 data

### Banking penetration of rural and semi-urban areas has increased significantly

At the turn of the century, the expansion of brick-and-mortar branches, despite several efforts, was limited. The low penetration of formal banking led the Reserve Bank to look at financial inclusion as a major policy drive. The slew of measures that followed were the introduction of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while

ensuring sufficient coverage to hitherto unbanked areas. Concurrently, relaxations in the BC model were made to bridge the ‘last mile’ problem. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Notwithstanding this development, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas (Chart 1.1 and Table 1.1).

Chart 1.1: Penetration of branch network of SCBs



Concurrent with higher branch expansion in semi-urban and rural areas, the compound annual growth rate (CAGR) for both the number of individual saving bank deposit

accounts as well as deposit amounts outstanding therein was the highest for semi-urban regions followed by rural, urban and metropolitan regions (Table 1.2).

Table 1.2: 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>

In normal conditions, the availability of banking services could be predicated on the level of economic activity. The Committee examined whether the recent supply-push towards financial inclusion has made a difference. Regression analysis suggests that while per capita income is the dominant factor in explaining the penetration of banking services, the slope of the regression line has flattened over time, suggesting policy-induced improvements in supply in recent times.

**Rural Scenario: Financial Inclusion and Demonetization**

We have seen above is a drive towards cashless and inclusion in urban areas. If you look at the pyramid figure of levels of financial inclusion in states, many of the states with lower levels of financial inclusion, almost by definition have an entrenched cash economy.

**Effect of financial inclusion in different states of India**



Jan Dhan accounts have been opened on a war footing in the last 2+ years, but a significant fraction (22%) of them are zero-balance pre-demonetization, even though the trend was declining. Jandhan accounts have

seen a surge of deposits which in part is suspected to be benami deposits. The demonetization of old high denomination notes (OHDs) of Rs. 500 and Rs. 1000 has led to a combination of praise and criticism

of the government. The hardships faced by people in line to exchange cash or deposits are undeniable. This is only worse in semi-

urban and rural areas with lower density of bank branches.

Small towns, big strides									
Ticket size in ₹	No of transactions in lakhs								
	Tier 1			Tier 2			Tier 3		
	Pre	Post	% change	Pre	Post	% change	Pre	Post	% change
0-250	0.35	2.1	227	0.19	1.15	226	0.07	0.36	187
250-500	0.82	4.86	222	0.36	2.47	269	0.09	0.79	385
500-750	0.97	3.61	103	0.33	1.89	209	0.14	0.87	249
750-1,500	1.17	3	40	0.66	1.97	64	0.29	0.88	68
1,500-5,000	1.06	2.59	34	0.53	1.22	26	0.27	0.77	54
>5,000	0.45	1.01	21	0.22	0.55	36	0.15	0.41	52
<b>Grand total</b>	<b>4.82</b>	<b>17.16</b>	<b>94</b>	<b>2.3</b>	<b>9.26</b>	<b>120</b>	<b>1</b>	<b>4.09</b>	<b>123</b>

### Use of technology in financial inclusion

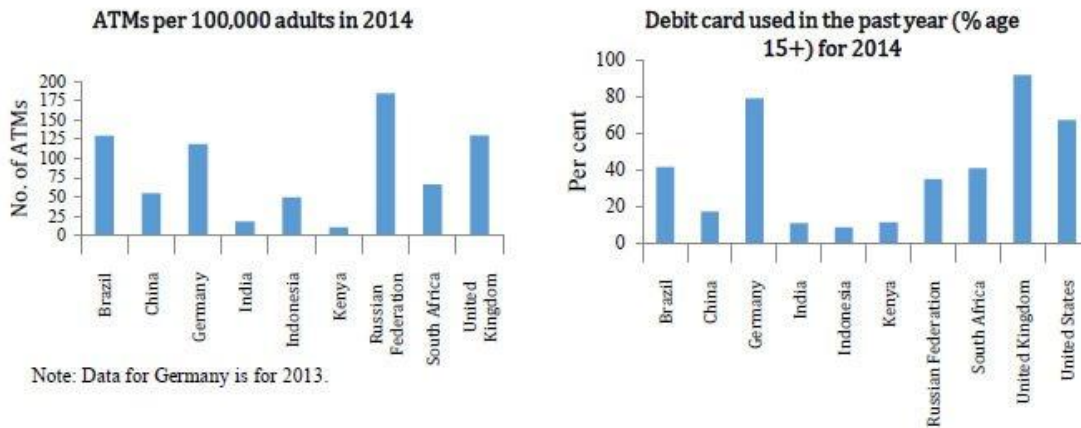
Technology and financial inclusion are the popular coinage in banking parlays in the country. While technological up gradation and mobile banking are catching up so fast, financial inclusion is tardy. The reach the country is having with technological progress mobile banking has the potential to emerge as a game changer in terms of costs, convenience, and speed of reach. Business models of banks, telecom operators and other stakeholders need to converge. We need to remember that we should work towards bringing nearly 400 million citizens to the formal fold of the banking sector. It is not just about opening 'no frill' accounts. As of today, 75 million 'no frill' accounts have

been opened but there are hardly any transactions in them. Banks need to work towards providing a full range of financial services and this would need a low cost, reliable, easy to use and secure technology backbone linking six lakh villages in the next four-five years". Innovations such as wallet-on-demand (to replace cash-on-demand for e-commerce transactions), mobile ATMs and POS app (though it was pulled back on privacy concerns) are expanding footprint the financial systems and giving a more comfort feeling / convenience sense to the aam aadmi (common man). Oxigen and RBL bank have partnered on a micro-ATM initiative to deliver cash and take in old notes as deposit at your doorstep! Even though some of these

innovations are more urban oriented, these concepts such as mobile ATM, POS app

have the potential to meaningfully reach rural / semi-urban masses as well.

Chart 2.2: Use of technology in financial inclusion



**CONCLUSION-**

In conclusion it can be said that financial inclusion has picked up in India in the last few years with many new innovations like mobile banking, ultra small branches etc., but still it is far from adequate. Mobile banking has covered only 2.2% of total population. India has mobile phone connections even with the poor people but they are not aware of mobile banking. Banks need to create awareness amongst people through various means of mass communication like television channels, which have reached rural India. The knowledge, capital and technology to address these challenges however now exist in India, although they are not yet fully aligned. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to poor people in India. In the new millennium, banks should attempt to achieve significant increase in their productivity, efficiency and profitability. The area of challenges that lie ahead would be:

- Closing down/ merging of unviable branches particularly in urban and metropolitan areas;
- Develop new products and services that would meet the emerging consumer needs;
- Efforts should be made to remove high cost, poor services, and low profitability.

Beyond technological innovation, distribution channels being mobilized; it is cultural change that has emerged as a leading barrier for financial inclusion. While the demonetization dislocation is a huge opportunity driving people into bank accounts and using them at least once, it will be a journey that is a combination of secure technological options that people trust, deeper penetration of smart phones and easy-for rural-use mobile cashless & banking options, and social/behavioral change that will drive progress. The network effect of adoption and acceptance of cashless modes will drive up usage.

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