FINANCIAL INCLUSION IN INDIA: EVOLUTION, CURRENT SCENARIO AND THE ROAD AHEAD

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Abstract

Strong financial institutions are the foundations of economic growth and progress of any country. The population landscape of Indian society has always been skewed towards the rural parts of the country. While it is not difficult to include the urban population in the formal financial sector, having formal institutions to cover the entire semi-urban and rural population of the country has always been a challenge. With the aim to include the population from these areas in the financial sector as well, the term Financial Inclusion was introduced in India in 2005. Since then, the Reserve Bank of India (RBI) has undertaken a number of initiatives in this regard. Banks have been encouraged to open up new branches and to install ATMs across the country, credit facility to the rural poor has been enhanced by way of Kisan Credit Cards and other credit schemes, Business Correspondent (BC) model has come into effect, and in 2014, PM Modi announced the launch of Pradhan Mantri Jan DhanYojana, a central scheme for further enhancing inclusion of the Indian populace to financial services. After further demonetization of Rs 500 and Rs 1000 currency notes in the country, financial inclusion, by way of cashless promotion of transactions has attained even more prevalence.

Keywords Online auction, Internet – based auctions, e – auctions, auction frauds

Introduction

Reserve Bank of India introduced the concept of Financial Inclusion in the year 2005. The objective was to include the entire population of India in the formal financial sector. In the last 10 years, RBI has taken a lot of measures in this regard which have further been supported by the governments of India as well. The advent of Pradhan Mantri Jan Dhan Yojana (PMJDY) in the year 2014 has given a boost toward inclusion of the low income group of the rural India.

RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players".

The primary focus of financial inclusion is therefore to ensure appropriate financial services are available to the economically weaker sections of the society. The major focus of financial inclusion initiatives have always been on bringing rural and semi-urban people of our country under formal financial sector. However in a country of more than 1.2 billion population, it is a challenging task to bring these services to the entire population. The people don't just need bank accounts and debit/credit cards to begin transactions in/out of their accounts. They need to be financially literate of the benefits of keeping money in a bank account. They need to be well-informed of the advantages and disadvantages of being a part of the formal financial sector. And this is one of the major challenges being faced by RBI in the last 10 years. Although over the years a lot has been done in this regard, a lot still need to be done to achieve the dream of 100% financial inclusion in India.

Objectives of the study

1. To study the present scenario of financial inclusion in India
2. To study the major initiatives taken by RBI and Government of India towards financial inclusion
3. To study how the recent demonetization move by the Government of India has impacted financial inclusion in the country

Evolution of financial inclusion in india

In India, the concept of Financial Inclusion was first introduced in the year 2005 in an Annual Report by the then RBI Governor Y. Venugopal Reddy. The objective was to bring the unorganized sector of the country, especially in the rural areas under a formal financial system. Since then a number of initiatives have been taken by the RBI and the GoI towards inclusion of the rural poor in the financial sector. Mangalam was the first village in India where all households were provided with basic banking services. The endeavor of financial inclusion began with opening of no frills bank accounts for people across the country. Later on, the RBI shifted focus to providing easy credit facility to the poor and the disadvantaged. General Credit Cards (GCCs) and Kisan Credit Cards (KCCs) were issued to provide ease of credit to the poor. Following the recommendations of the Khan Committee, the RBI introduced Business Correspondent/Business Facilitator (BC/BF) model to since it was difficult to expand the outreach of the financial services through banking via brick and mortar branches across 600,000 villages of the country.

In the words of HR Khan, the Deputy Governor of RBI in 2011, "It (financial inclusion) could enable a higher disposable income in the hands of rural households leading to greater savings and a wider deposit base for banks and other financial institutions. It will enable the Government to provide social development benefits and subsidies directly to the beneficiary bank accounts, thereby drastically reducing leakages and pilferages in social welfare schemes."

In the 10 years from 2001 to 2011, steps have been taken by RBI which have led to more number households with access to banking services in both the unserved and the underserved areas of rural and urban population. The table below shows the position of households availing banking

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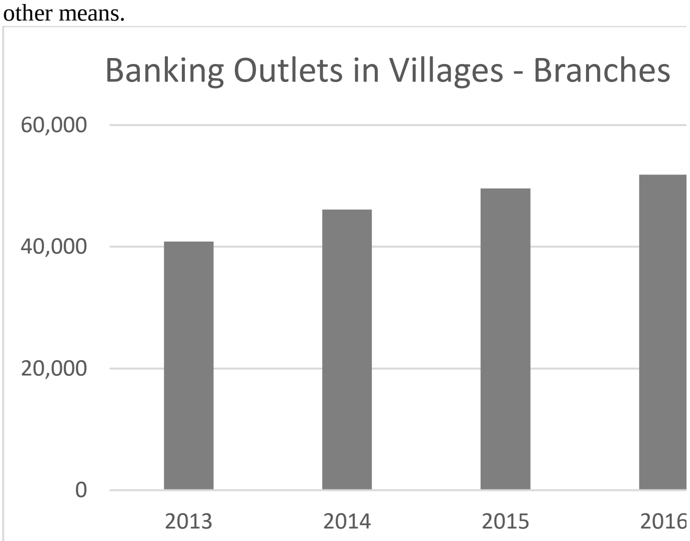
services both in Rural and Urban areas of the country:

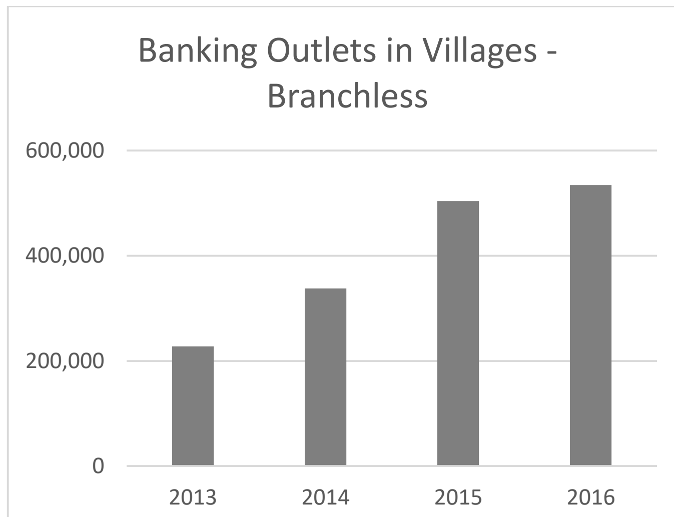
	As per Census 2001			As per Census 2011		
Households	Total number of households	Number of households availing banking services	Percent	Number of households availing banking services	Number	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Source: Department of Financial Services, Ministry of Finance

As per the above records, even though we have improved the banking services up from 35.5% to 58.7% as on 2011, we are still far from achieving the goal of complete financial inclusion.

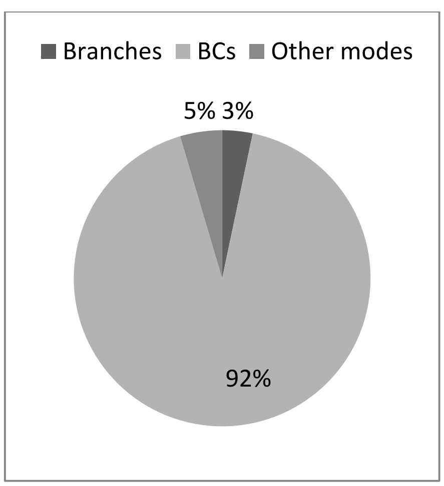
Since 2013 there has been a considerable increase in the number of banking outlets, both in terms of branches and branchless via BC/BF and other means.





Source: RBI Annual Report (various issues)

In fact such has been the impact of the BC/BF model that out of 450,686 previously unbanked villages in the country with population less than 2000 which have been covered under banking services in the year 2015-16, 415,207 (92.1%) have been through BCs. Out of the remaining villages, 14,901 (3.3%) have been covered through branches and 20,578 (4.5%) through other modes such as ATMs and mobile vans as shown in the graph below.



Source: RBI Annual Report, 2015-16

Looking at the progress that has been done in the last 10 years in this regard, financial inclusion is really expected to bring out a positive change in the country in the coming times. A few benefits of this initiative are also mentioned in the below text.

BENEFITS OF FINANCIAL INCLUSION TO INDIAN ECONOMY

Financial inclusion is expected to have the following benefits towards a stable economy:

a. Financial inclusion facilitates greater participation by different segments of the economy in the formal financial system
b. Financial inclusion can help improve the health of the household sector across the economy. With direct linkages of individual's bank accounts, transfer of benefits such as LPG subsidy or other benefits for agriculture may be done directly

into the bank accounts of the poor instead of relying on cash transfers which involve a lot of mishandling and corruption in the hands of the people with power.

c. With increased participation of the population in the formal financial sector, the banking system is also expected to rise due to increase in stable retail base of deposits.

d. The transfer of people from cash economy largely to bank accounts and other means of transactions also help facilitate the implementation of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) guidelines of the IMF to combat terrorism and other anti-national threats.

e. Financial inclusion can also improve the access to finance and the quality and cost of service that small businesses receive from banks as the cost of credit is likely to go down due to increase in savings.

f. Efforts to involve large sections of the population in formal banking sector has already led to technological innovations such as mobile wallets towards a cashless economy and will certainly lead to more such innovations in the coming times we well.

Rbi and goi policy measures and initiatives towards financial inclusion

Both RBI and new Government which came in power in 2014 have taken significant measures towards financial inclusion in India. In addition to RBI measures already in place, the Government of India launched Pradhan Mantri Jan Dhan Yojana (PMJDY) on August 28, 2014. This move of the government has further paved the steps towards extending formal financial services to the excluded population of the country. Some of the salient features of scheme include:

i. To open a basic saving bank deposit (BSBD) account in any bank branch or BC outlet

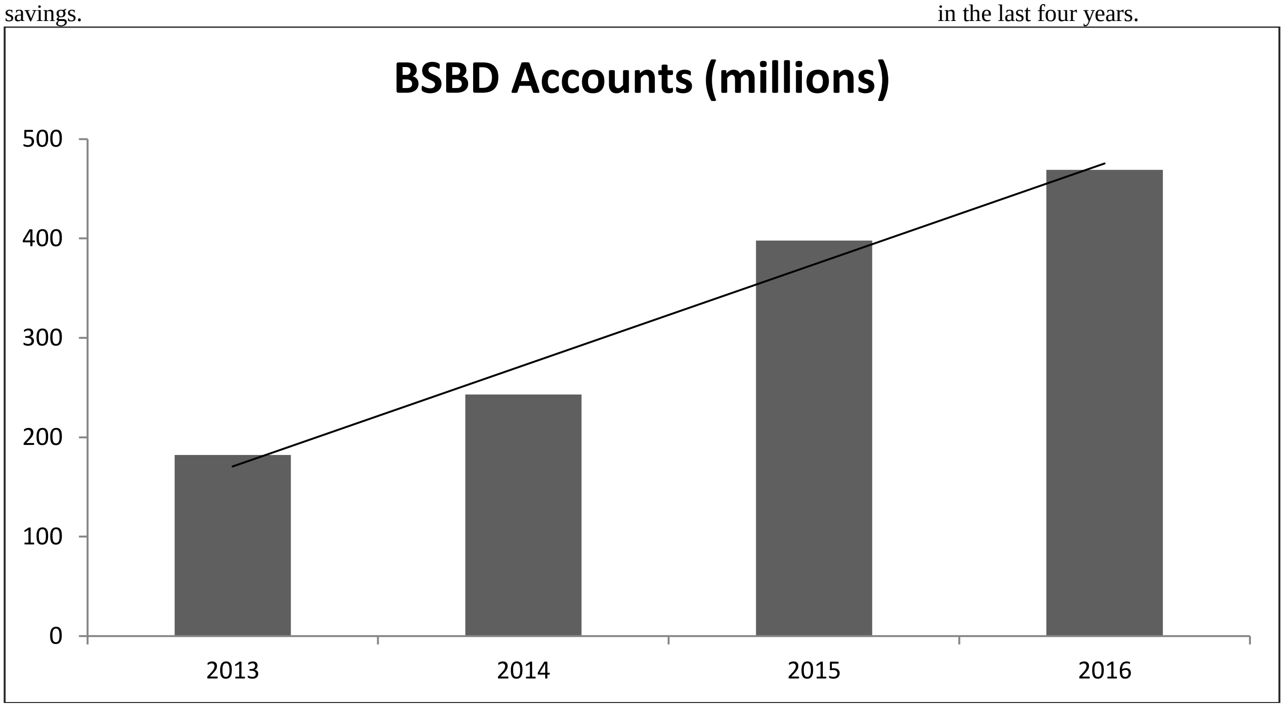
ii. Accidental insurance cover (Rs 0.1 million) and life insurance cover (Rs 30,000) with RuPay card

iii. Overdraft (OD) facility after satisfactory operation of the account for six months

iv. Direct Benefit Transfers (DBT) of subsidies to accounts linked with Aadhar Ids

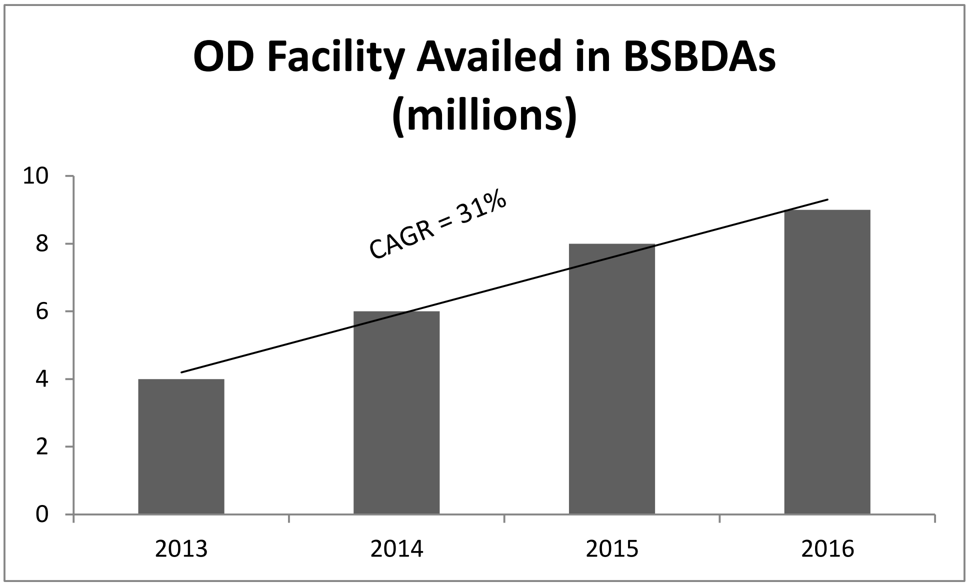
Over the years, the measures taken by RBI and GoI, which are further strengthened by PMJDY are:

a. **Basic Saving Bank Deposit (BSBD) Account:** Meeting the stringent conditions set by banks for maintaining regular savings bank accounts was not possible for the poor section of the society. In order to provide basic financial services to the poor, BSBD accounts were introduced with zero minimum balance required, a free RuPay ATM card, a passbook and a cheque book. BSBD accounts have shown 37% growth in the last four years.



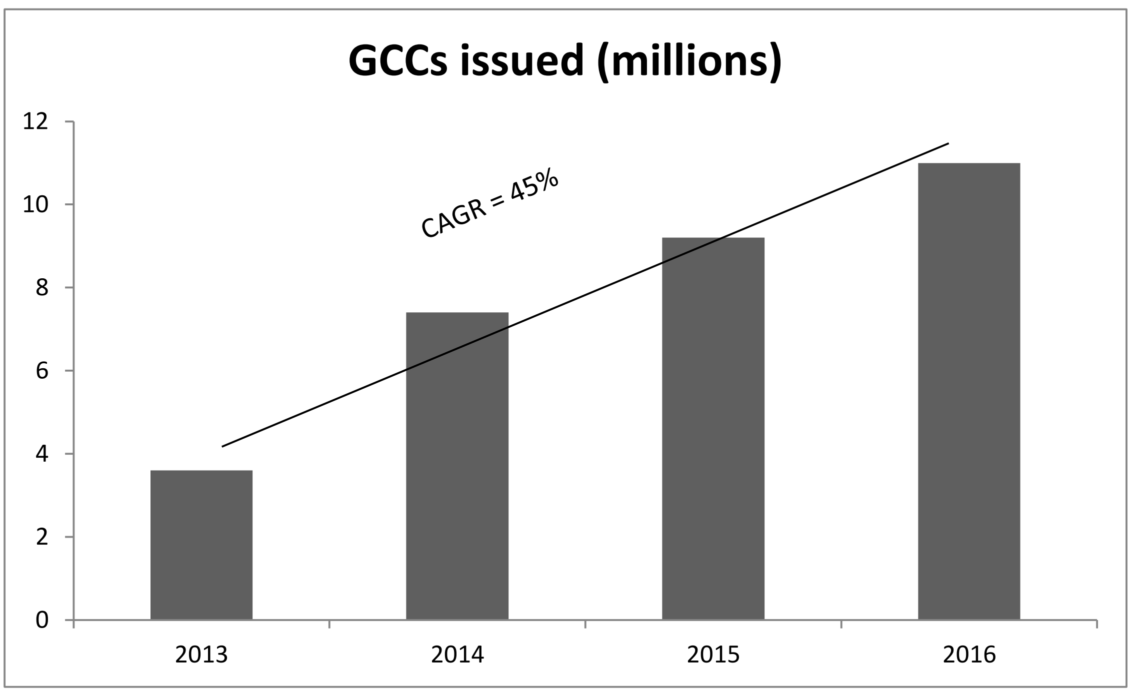
Source: RBI Annual Reports (various issues)

b. **Overdraft facility in BSBD Accounts:** In addition to opening BSBD accounts, overdraft facilities were also provided by banks in order to transact in the market with credit. More and more number of people have availed this overdraft facility in the last four years.



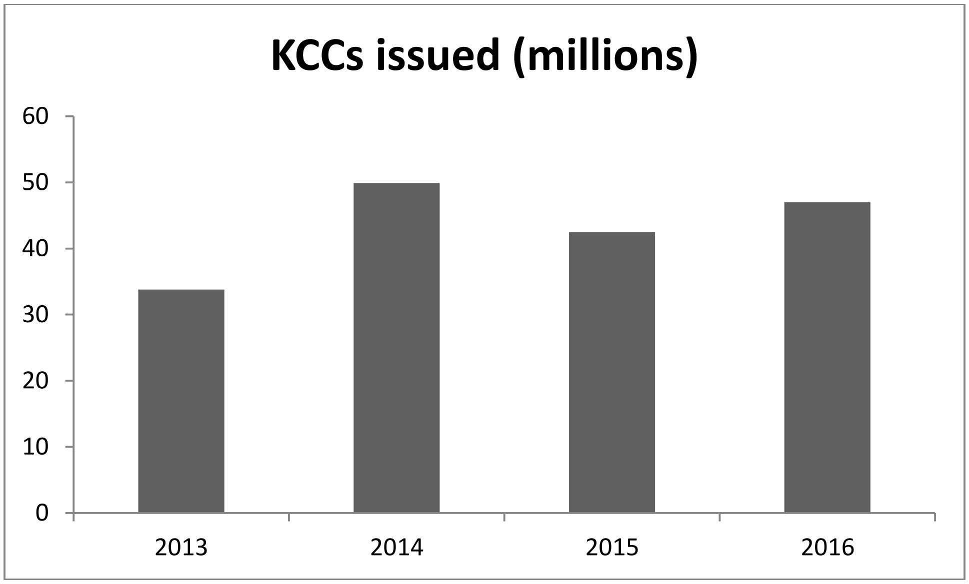
Source: RBI Annual Reports (various issues)

c. **General Credit Cards (GCCs):** General credit cards were introduced in banks in their rural and semi-urban branches with credit facility of up to Rs 25,000. Based on the assessment of the income and the cash flows of the respective household, credits were sanctioned without any additional security.



Source: RBI Annual Reports (various issues)

d. **Kisan Credit Cards (KCCs):** Apart from GCCs, Kisan Credit Cards (KCCs) have also been issued by the banks for small farmers with low credit limits. Although there has been a rise in the KCCs issued in the last four years, the growth in KCCs per se has not been very consistent as shown below:



Source: RBI Annual Reports (various issues)

e. **Business Correspondents (BCs) and Business Facilitators (BFs) Model:** In places where setting up a bank branch was a challenge due to remoteness in location, small population or other similar reasons, RBI advised banks to engage BCs and BFs to act as intermediaries for banks providing banking and financial services. The following are the key highlights of the BC/BF model:

Eligibility:

i. NGOs/ MFIs set up under Societies/ Trust Acts,
ii. Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States,
iii. Section 25 companies that are stand alone entities or in which NBFCs, banks, telecom companies and other corporate entities or their holding companies did not have equity holdings in excess of 10 per cent,
iv. Post offices
v. Retired bank employees
vi. Ex-servicemen
vii. Retired government employees
viii. Individual kirana/medical/fair price shop owners
ix. Individual Public Call Office (PCO) operators
x. Agents of Small Savings Schemes of Government of India/Insurance Companies
xi. Individuals who own petrol pumps
xii. Retired teachers
xiii. Authorised functionaries of well run Self Help Groups (SHGs) linked to banks
xiv. Some non deposit taking NBFCs (non-banking finance companies)

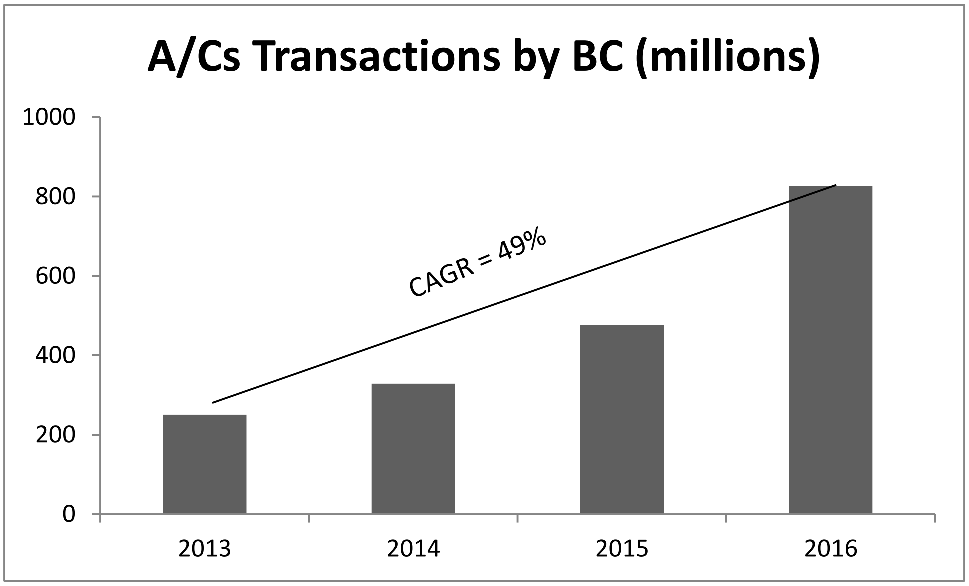
Appointment of BCs:

i. Must be a permanent resident of the area in which they propose to operate.
ii. They should be well established, enjoy good reputation and have the confidence of the local people.
iii. BCs should have the know-how and the funds to invest in POS machines and other equipments.
iv. In case of individuals selected as BCs, the criterion are as under :
   a. Minimum education qualification - Xth pass.
   b. Field Investigation/RCU for verification of residence and dealings, etc. to be conducted.
   c. Credibility check – A/c with any other bank.
   d. Should open account with IDBI Bank (base branch)
   e. Suitable amount of Security deposit /Bank guarantee based on business volumes

Scope of Activities to be undertaken by BCs:

i. Creating awareness about savings and other products and education and advice on managing money and debt counseling.
ii. Identification of potential customers
iii. Collection and preliminary processing of various forms for deposits including verification of primary information/data
iv. Filling of applications / account opening forms including nomination clause and submission to the bank.
v. KYC of applicants
vi. Opening of no frill deposit accounts and other products as permitted from time to time by leveraging technology.
vii. Collection and payment of small value deposits and withdrawals with a zero minimum limit and Rs 2000 as maximum limit per transaction.
viii. Receipt and delivery of small value remittances / other payment instruments, as per FI Plan of IDBI Bank.
ix. In respect of all such transactions, the BC/his agent will be authorized to accept / deliver cash either at his place of work or at any convenient location subject to the ceilings per customer (Rs 2000/- in each case).
x. Furnishing of mini account statements and other account information, for a period of 3 months.
xi. Any other service on behalf of the Bank, duly authorized by the appropriate authority.
xii. Cross-selling of other financial products like insurance / mutual fund products / pension products / any other third party product, as and when they are assigned to do so.
xiii. In case duly appointed sub-agents of BCs, BCs shall also take care of any reputational risks involved

The BC model has worked significantly well in the last few years and with the advent of the PMJDY, there has been a significant rise in the number of transactions done by by BCs in the last four years (49% CAGR) as shown in the graph below:

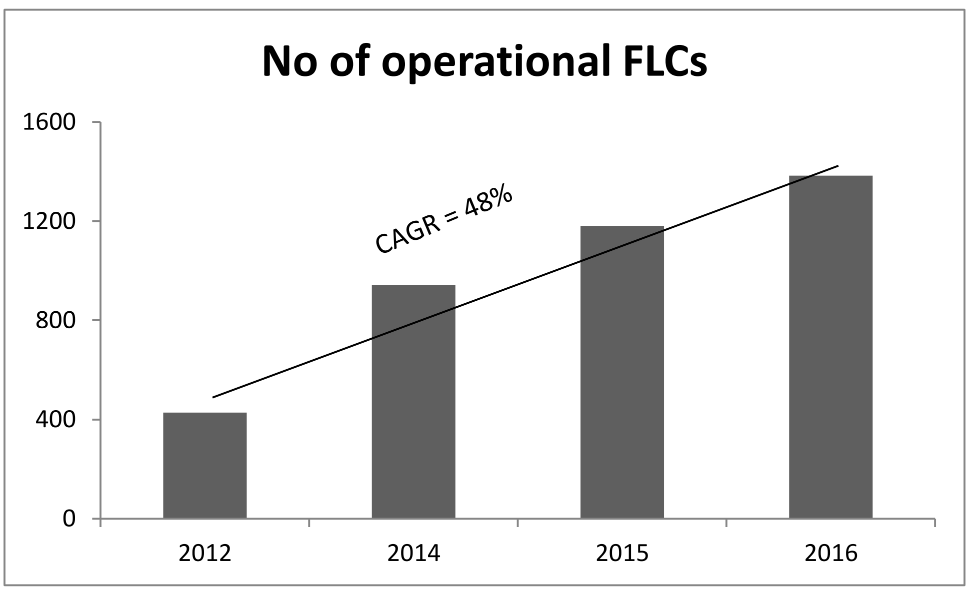


Source: RBI Annual Reports (various issues)

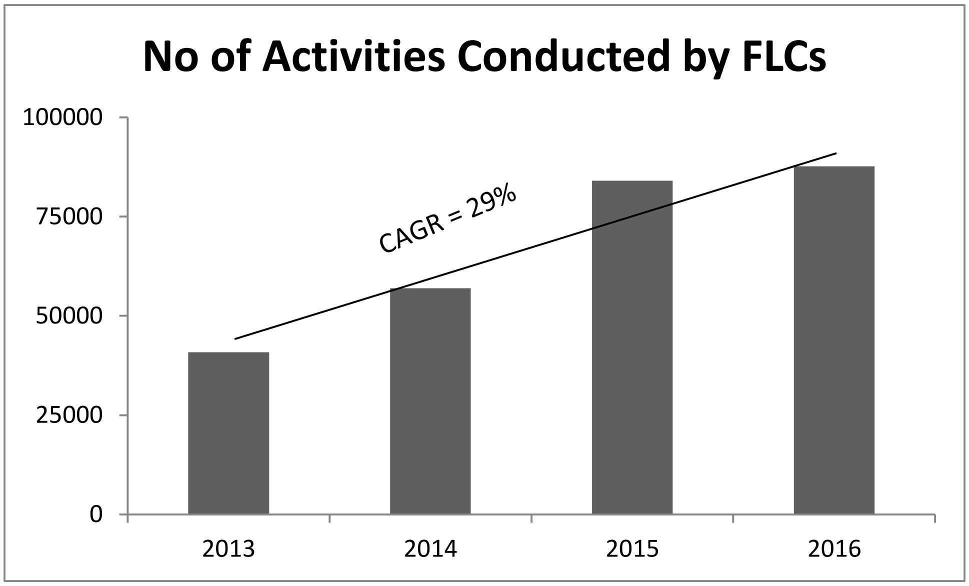
f. Financial Literacy

Apart from opening up the bank accounts in the rural locations, the RBI has also focused on spreading financial literacy in the unbanked locations. As per RBI's annual report 2013-14, "The overall objective of the Reserve Bank's financial literacy strategy is to achieve financial inclusion by creating awareness about the formal financial system." In order to meet this objective, RBI instructed banks to set up financial literacy camps by way of financial literacy centers (FLCs) in rural areas and to undertake activities in the form of awareness camps at least once a month. The financial literacy campaign was undertaken in three stages, creating general awareness in the first stage, account opening the second and monitoring the usage of accounts as the third stage.

In the last four years since 2012, number of FLCs operational in the country has increased with an annual rate of 48% as shown below:



The number of activities conducted by FLCs has also increased annually with around 29% rate from the year 2012-13 when 40,838 activities were conducted vis-à-vis in 2015-16 when the number of activities increased to 87,710 as shown below:



Apart from these initiatives, National Centre for Financial Education (NCFE) has also been set up by RBI to create financial education material and conduct financial education campaigns across the country to educate existing and potential customers in increasing their knowledge, skills and competence.

g. **Financial Inclusion Fund (FIF):** To facilitate financial inclusion, Financial Inclusion Fund and Financial Inclusion Technology Fund were set up in 2007-08 for a period of five years with a corpus of Rs 5 billion each. In October 2015, the GoI merged these two to form a single Financial Inclusion Fund (FIF) with a corpus of Rs 20 billion. The fund is to be administered by NABARD. The main aim of FIF is to support developmental and promotional activities towards greater financial inclusion in the country. The fund shall be undertaking the following activities:
   i. Building new and supporting the existing Financial Literacy Centers (FLCs) to promote financial literacy
   ii. Setting up of financial literacy kiosks in Gram Panchayats and other locations
   iii. Support to NABARD and banks for running business & skill development centers
   iv. Help set up technological infrastructure and improve technological absorption capacity of financial service providers/users

FINANCIAL INCLUSION: THE ROAD AHEAD

As the phase II of the Financial Inclusion Plan (FIP) has been concluded in March 2016, all domestic scheduled banks have been advised to set new board approved FIP targets for the next three years 2016-19. The Committee on Medium-term Path on Financial Inclusion (CMPFI), which was constituted by RBI submitted its report focused on impact assessment of financial literacy camps and preparing a curriculum for training programs to educate and empower the people towards greater financial inclusion.

i. **Roadmap for opening brick and mortar branches for villages with population less than 5000:** In light of the recent enhancements in the financial inclusion policy across the country, RBI has further come to conclude that brick and mortar branches are an integral component of the banking system and hence it has been decided to focus on villages with population less than 5000 without an existing bank branch of a scheduled commercial bank. State Level Bankers' Committee (SLBC) Convener Banks have identified 6,953 such villages and SCBs (including RRBs) have been allotted to open brick and mortar branches in these villages. The task of opening such branches is to be completed by March 2017.

ii. **Pilot project on setting up Centres for Financial Literacy (CFLs):** Although FLCs are doing a great job in spreading financial literacy across the villages they are primarily focused in only a few states and thus have a limited outreach. Further, FLCs are focused on spreading financial literacy at the ground level. In order to spread the cause of financial education at block level, RBI is now encouraging banks to set up CFLs at the block level on a pilot basis. The key elements of this block level CFL project are:
   a. Area based approach (block)
   b. Schedule of camps
   c. Skilled workforce
   d. Partnerships with NGOs
   e. Use of technology
   f. Common name and logo 'Moneywise Centre for Financial Literacy'

The pilot project for setting up of 100 CFLs has been initiated with funding being generated from the Financial Inclusion Fund. Further partnerships with NGOs and other stakeholders are being explored to bring in innovative and more efficient approaches for conducting financial literacy activities.

iii. **Financial Education in School Curriculum:** In collaboration with CBSE, NCFE has prepared financial education workbooks for classes VI to X and are in process of approval from CBSE. Further, state education boards are also being pursued by NCFE and RBI to include financial education in their school curriculum. So far, Goa, Meghalaya, Jammu and Kashmir and Mizoram have principally agreed to this proposal and talks with other states are in progress and are at different stages.

iv. **Scaling up the BC model:** In order to further promote the BC model, the RBI has prepared a framework for certification/training program for BCs. BCs with a good track record would now be required to undergo advanced training and shall then be entrusted to handle complex financial tasks that go beyond deposits and remittances. Further, a framework for Registry of BCs has also been created to officially register a BC with the government officials.

v. **Accreditation of credit counsellors:** RBI along with SIDBI and other stakeholders has also finalised a framework for accreditation of credit counsellors to act as facilitators for local entrepreneurs to access the formal financial system. The SIDBI will be acting as the registering authority and will be responsible for rolling out the Certified Credit Counsellors scheme.

The following table highlights the progress that has been made in financial inclusion in the Half year ended September 2016.

Progress made under financial inclusion plans – as on September 2016

(Scheduled commercial banks including RRBs)

Sr. No.	Particulars	Year ended March 2010	Year ended March 2016	Half year ended# September 2016
1	Banking Outlets in Rural locations – Branches	33,378	51,830	52,240
2	Banking Outlets in Rural locations – Branchless mode	34,316	534,477	537,609
3	Banking Outlets in Rural locations -Total	67,694	586,307	589,849
4	Urban Locations covered through BCs	447	102,552	91,039
5	BSBDA-Through branches (No. in million)	60.2	238.2	247.4
6	BSBDA-Through branches (Amt. in ₹ billion)	44.3	474.1	537.9
7	BSBDA-Through BCs (No. in million)	13.3	230.8	247.8
8	BSBDA-Through BCs (Amt. in ₹ billion)	10.7	164.0	181.1
9	BSBDA-Total (No. in million)	73.5	469.0	495.2
10	BSBDA Total (Amt. in ₹ billion)	55.0	638.1	719.0
11	OD facility availed in BSBDAs (No. in million)	0.2	8.0	8.4
12	OD facility availed in BSBDAs (Amt. in ₹ billion)	0.1	14.8	18.1
13	KCCs -Total (No. in million)	24.3	47.3	46.4
14	KCCs -Total (Amt. in ₹ billion)	1,240.1	5,130.7	5,543.4
15	GCC-Total (No. in million)	1.4	11.3	11.5
16	GCC-Total (Amt. in ₹ billion)	35.1	1,493.3	1,613.2
17	ICT-A/Cs-BC- Total number of transactions (in million) *	26.5	826.8	550.6
18	ICT-A/Cs-BC- Total amount of transactions (in ₹ billion) *	6.9	1,686.9	1,199.2

Source: Report on Trend and Progress of Banking in India 2015-16

With consistent focus and regular progress monitoring by RBI, the future of Financial Inclusion in India looks bright. The recent move on demonetization of the Indian economy by Government of India and an increase in cashless transactions are further expected to boost financial inclusion via the advent of more technological innovations and advancements to financially include the entire population of the country.

KEY FINDINGS

The paper found that a large number of people in India are still far away from the formal financial system and have no access to formal banking services. RBI and the various governments of India has taken a multitude of measures in the last decade towards achieving the goal of 100% financial inclusion. However, such lofty target is still far from reality and meeting it is going to be really difficult for RBI. The paper also found that Business Correspondent (BC) model has worked tremendously well, especially with setting up of PoS machines at the BC premises. This way the transition towards a cashless society in light of the current demonetization is also being promoted considerably. Financial literacy, especially via FLCs and more so by NCFE via instituting financial education courses in school syllabi is definitely going to pave way for a financially literate India.

SUGGESTIONS

1) The rules and guidelines issued by the RBI at times seem to be imposing on the commercial banks which should ideally not be viewed as such. Instead the RBI and the commercial banks should work in tandem, looking at the country as untapped markets to be tapped towards the greater good of all the parties involved.
2) The BCs also at times tend to work in their favor and not in the interest of the people whom they are serving. Measures need to be instituted to ensure the BCs are under control and does not take advantage of the powers vested upon them by the central bank.
3) The entire nation has been affected with the recent move on demonetization, people belonging to rural areas being at the bottom of the funnel, were affected the most. Brisk measures towards cashless mode of transactions should be taken by RBI and other commercial and non-commercial banks to ease the hassles being faced by the rural poor in the absence of handy cash.

CONCLUSION

Complete financial inclusion is a dream which, for a country with more than 1.2 billion mouths to feed is an immensely challenging task and is going to take consistent efforts by RBI, government of India and other institutions engaged in the process. Constant balance is to be maintained between ensuring financial literacy and ensuring the actual work is happening on the ground. With increasing financial inclusion in the country, care also needs to be taken about regulation of the authorities in power. Overall, financial inclusion is a long and necessary road which

India needs to travel towards successfully achieving the dream of becoming a world super power in the coming years.

Future scope of study

The advent of digitization in financial transactions, especially with an increase in GCCs and KCCs and also with a rise in Direct Benefit Transfers (DBT) in the bank accounts of rural poor should ideally lead to a rise in credit and debit cards by the rural population as well. However the extent to which it will be successfully adapted by the Indian rural populace, which comprise of 70% of the overall population is still a question mark. Will the country successfully move towards a less cash, if not a cashless economy? It is the next stage in the evolution of financial inclusion and the extent to which digitization is truly adopted by the rural population of the country is going to be an interesting question to be answered in the coming times.

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