

Inclusive Banking : The Journey So Far

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Abstract

Strong banking system is the pillar of economic growth and success of the economy. Over the period of time, several measures have been taken by the Reserve Bank of India and the Government to ensure inclusive banking through banking penetration and outreach, particularly in rural areas. Specific focus on inclusive banking was given in Annual Policy Statement of RBI in 2005-06 when it introduced a pilot project in Pondicherry for widespread banking services. In India, where a large section of population lives outside the ambit of banking services, the need to focus on inclusion is of paramount importance.

INTRODUCTION

India is a bank-based economy and its financial landscape is dominated by the banking sector with banking flows accounting for over half of the total financial flows in the economy. Banks have a major role not just in purveying credit to various productive sectors of the economy but also as facilitators of financial inclusion. Financial inclusion is delivery of financial services at an affordable cost to the vast sections of society who are disadvantaged/low-income groups and who tend to be excluded from the formal financial system. It spurs the processes of economic growth and also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which put them in a vulnerable situation. Availability of timely and sufficient credit from formal banking system will boost up the development in the country. It will open the doors to the low income and unbanked populace who, presently, are in the fold of informal

banking system. Thus, on the whole, Financial Inclusion has an immense potential to bring in the unbanked masses into the formal banking system, inculcate the habit of savings, channelize the savings, making available adequate and timely credit and thus give a boost to the economy. Financial inclusion has been made an integral part of the banking sector policy in India. Though the term 'financial inclusion' was used for the first time in the Annual Policy Statement for 2005-06 when it was introduced from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborty (Chairman of Indian Bank). Though there has been a widespread expansion of the Indian banking sector during the last three decades but still a sizeable proportion of the households, especially in rural areas, remained outside the ambit of the formal banking system.

OBJECTIVES OF THE STUDY

1. To study the present status of financial inclusion in India.
2. To study the major initiatives and various policy measures adopted by RBI for financial inclusion.
3. To suggest the future prospects of financial inclusion in India.

RESEARCH METHODOLOGY

The present study is descriptive in nature and is based on secondary data that has been collected from different sources like: RBI bulletins, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, Handbook of Statistics on Indian Economy, various journals, newspapers and website of RBI, NABARD and Ministry of Finance, Government of India etc.

ORGANISATION OF STUDY

The paper is divided into two parts. First part of the paper studies the present status of financial inclusion in India and second part covers the various initiatives of Government of India and RBI from time to time to extend the reach of banking in India.

Present Status of Financial Inclusion

Table 1 depicts the position of households availing banking services in India. As per Census 2011, 58.70 per cent households are availing banking services in the country as against 35.5 per cent in 2001. At present, 67.8 per cent of households are availing banking services in urban areas as compared to 49.5 per cent in 2001.

Table 1
Position of Households Availing Banking Services

Households	As per Census 2001 Per cent	As per Census 2011 Per cent
Rural	30.1	54.4
Urban	49.5	67.8
Total	35.5	58.7

Source : Census Reports, 2001 and 2011, New Delhi.

The percentage of households availing banking services in rural areas has increased from 30.1 per cent in 2001 to 54.4 per cent in 2011. Though there has been an improvement in position of households availing banking services over a decade, but still India has a long journey to cover as still 41.3 per cent of households are not covered by banking services.

Table 2 depicts the position of states with regard to percentage of households availing banking services in India. For this, states have been classified into three groups i.e highly inclusive, moderately and less inclusive. It can be seen that there are 11 states/ U.Ts that have been classified as highly inclusive states i.e. where households availing banking services are more than 70 per cent. These states includes : A & N islands, Himachal Pradesh, Goa, Lakshadweep, Uttrakhand etc. Moderate States cover those States/ U.Ts where percentage of households availing banking services is less than 70 per cent up to 58 per cent and these include 8 States/U.Ts : Maharashtra, Haryana, Rajasthan etc. and the remaining 16 States / U.Ts (Jharkhand, Andhra Pradesh, Arunachal Pradesh etc.) are less inclusive states.

It can be seen from the Table 3 that over the period of 5 years i.e from 2009 to 2013 the branches of scheduled commercial banks increased from 80200 to 102343 and branches in rural and semi-urban areas accounted for major proportion of total branches of scheduled commercial banks. There are 102,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37.0 per cent) bank branches are in the rural areas and 27,219 (26.0 per cent) in semi-urban areas, constituting 63.0 per cent of the total number of branches in semi-urban and rural areas of the country. The branches in rural and semi urban areas accounted for 63.1 per cent in 2009 but over the time period, no significant increase can be seen in branches in rural and semi urban areas.

Table 2
State wise Percentage of Households Availing Banking Services in 2011

S. No.	India /State/Union Territory #	Percentage of Households Availing Banking Services	Ranking
01.	A & N Islands	89.3	HI
02.	Andhra Pradesh	53.1	LI
03.	Arunachal Pradesh	53.0	LI
04.	Assam	44.1	LI
05.	Bihar	44.4	LI
06.	Chandigarh	80.1	HI
07.	Chhattisgarh	48.8	LI
08.	Dadra & Nagar Haveli	56.7	LI
09.	Daman & Diu	65.4	MI
10.	Delhi	77.7	HI
11.	Goa	86.8	HI
12.	Gujarat	57.9	LI
13.	Haryana	68.1	MI
14.	Himachal Pradesh	89.1	HI
15.	Jammu & Kashmir	70.0	HI
16.	Jharkhand	54.0	LI
17.	Karnataka	61.1	MI
18.	Kerala	74.2	HI
19.	Lakshadweep	85.3	HI
20.	Madhya Pradesh	46.6	LI
21.	Maharashtra	68.9	MI
22.	Manipur	29.6	LI
23.	Meghalaya	37.5	LI
24.	Mizoram	54.9	LI
25.	Nagaland	34.9	LI
26.	Odisha	45.0	LI
27.	Puducherry	64.0	MI
28.	Punjab	65.2	MI
29.	Rajasthan	68.0	MI
30.	Sikkim	67.5	MI
31.	Tamil Nadu	52.5	LI
32.	Tripura	79.2	HI
33.	Uttar Pradesh	72.0	HI
34.	Uttarakhand	80.7	HI
35.	West Bengal	48.8	LI
	All INDIA	58.7	

Source : Census Report, 2011, New Delhi.

HI represents highly inclusive, MI represents moderately inclusive and LI represents less inclusive states/U.T

Table 3**No. of Functioning Branches of Scheduled Commercial Banks during last Five Years**

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31, 2009	31476 (39.25)	19126 (23.85)	15273 (19.04)	14325 (17.86)	80200 (100.00)
March 31, 2010	32493 (38.01)	20855 (24.40)	16686 (19.52)	15446 (18.07)	85480 (100.00)
March 31, 2011	33905 (37.24)	23114 (25.38)	17599 (19.33)	16419 (18.05)	91037 (100.00)
March 31, 2012	36356 (36.97)	25797 (26.24)	18781 (19.09)	17396 (17.7)	98330 (100.00)
March 31, 2013	37953 (37.08)	27219 (26.60)	19327 (18.89)	17844 (17.43)	102343 (100.00)

Source : RBI, Mumbai.

As at the end of 2013 it stood at 63.68 per cent of the total no. of branches. However, a significant proportion of households are still outside the formal fold of banking especially in rural areas.

With an objective to ensure uniform progress in provision of banking services in all parts of the country, banks were advised to draw up a roadmap for opening banking outlets in every unbanked village having a population of more than 2,000, through a brick and mortar branch or any of the various forms of ICT-based models, including through BCs. In January 2010, all public and private sector banks were advised to frame three-year Financial Inclusion Plan (FIP) for 2010 to 2013. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013. These plans included: self-set targets for rural brick & mortar branches opened; BCs deployed; coverage of unbanked villages with population above and below 2,000 through branches/ BCs/ other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued; and other products designed for financially excluded segments. The first phase of FIPs has already been implemented over the period 2010-2013. The progress made by banks under the FIPs (April 10 - March 13) for key parameters during the three year period are as under :

Table 4
Financial Inclusion Plan

Particulars	Mar-10	Mar-11	Mar-12	Mar-13	Progress April 2010 - Mar 13
Banking Outlets in Villages — Branches	33,378	34,811	37,471	40,837	7,459
Banking Outlets in Villages — BCs	34,174	80,802	1,41,136	2,21,341	1,87,167
Banking Outlets in Villages — Other Modes	142	595	3,146	6,276	6,134
Banking Outlets in Villages — TOTAL	67,694	1,16,208	1,81,753	2,68,454	2,00,760
Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696
Basic Savings Bank Deposit A/c through branches (No. in millions)	60.19	73.13	81.2	100.8	40.61
Basic Savings Bank Deposit A/c through branches (Amt. in ` billions)	44.33	57.89	109.87	164.69	120.36
Basic Savings Bank Deposit A/c through BCs (No. in millions)	13.27	31.63	57.3	81.27	68
Basic Savings Bank Deposit A/c through BCs (Amt. in ` billions)	10.69	18.23	10.54	18.22	7.53
BSBDA Total (in millions)	73.45	104.76	138.5	182.06	108.61
BSBDA Total (Amt. in ` billions)	55.02	76.12	120.41	182.92	127.9
OD Facility availed in Basic Savings Bank Deposit A/c (No. in millions)	0.18	0.61	2.71	3.95	3.77
OD facility availed in Basic Savings Bank Deposit A/c (Amt. in ` billions)	0.1	0.26	1.08	1.55	1.45
KCCs - (No. in millions)	24.31	27.11	30.24	33.79	9.48
KCCs - (Amt. in ` billions)	1,240.07	1,600.05	2,068.39	2,622.98	1,382.91
GCCs - (No. in millions)	1.39	1.7	2.11	3.63	2.24
GCCs - (Amt. in ` billions)	35.11	35.07	41.84	76.34	41.23
ICT A/Cs-BC- Transaction — No. in millions	26.52	84.16	155.87	250.46	490.49
ICT A/Cs-BC- Transactions — Amt. in ` billions	6.92	58	97.09	233.88	388.97

Source : RBI, Mumbai

The outlets in villages have shown an increase from 67,694 in March 2010 to nearly 2,68,000 as on March 2013.

- About 7400 rural branches were opened during this period
- Nearly 109 million Basic Savings Bank Deposit Accounts have been opened during the period and hence the total no. of BSBDA's stood at 182 million.
- With the addition of nearly 9.48 million farm sector households during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013
- With the addition of nearly 2.25 million non-farm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.
- About 4904 lakh transactions have been carried out in ICT-based accounts through BCs during the three year period. It is important to analyse this progress against the achievements prior to this, as the number of banked centres in the country between 1991 and 2007 had actually come down (from 35236 to 34471). Second, the number of rural branches during the same period had also declined significantly (from 35206 to 30409). Against this backdrop, the progress made during 2010-13 is certainly remarkable.

FUTURE PLANS OF FINANCIAL INCLUSION 2013-16

In order to continue with the process of ensuring access to banking services to the excluded, banks had drawn up a fresh 3-year Financial Inclusion Plan for the period 2013-16. The focus has been now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

RBI's Policy Initiatives to Foster Financial Inclusion

The second part of the paper discusses the various initiatives of Government of India and RBI from time to time to strengthen Financial Inclusion in the country and is discussed as under :

(i) Expansion of Branches in Rural Areas : For spreading of banking services in every corner of the country, RBI has relaxed its branch authorisation policy and for that prior permission to open new branches in centres having population less than 1 lakh is not needed. To further boost up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres. Further, new private sector banks are required to ensure that at least 25% of their total branches are in semi-urban

and rural centres on an ongoing basis.

In the Annual Policy Statement for 2013-14, banks have been advised to consider the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This will facilitate the penetration and expansion of branches especially in unbanked rural areas. In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target and have covered approx. 75000 unbanked villages. In the second phase, roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4,90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks to ensure availability of at least one banking outlet in each village

(ii) Each Household to have atleast One Bank Account : Banks have been advised to ensure service area bank approach in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account. "Each household to have at least one bank account" and for this, our honourable Prime Minister, Mr. Narendra Modi has launched Jan Dhan Yojna on 28th August 2014 to bring poor and financially excluded people into the ambit of banking system. The scheme focussed both urban and rural people. It targets to cover 7.5 crore unbanked families into banking system by opening more than 15 crore bank accounts at the rate of two bank accounts per household. On the inaugural day, 1.5 crore bank accounts were opened up across the country which has been the landmark in the history of banking industry.

(iii) Business Correspondent Model : With the aim of ensuring greater financial inclusion and increasing the outreach of the banking sector, RBI has permitted in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). Business Correspondents are retail agents that are engaged by the banks for providing banking services at those locations other than a bank branch/ATM and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion. During 2012-13, over 18.38 crore transactions valued at Rs.16533 crore had been undertaken by BCs. All the unbanked blocks (91 in North-East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business

Correspondents or Mobile Van. As a next step, it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.

(iv) Setting up of Ultra Small Branches (USBs) : Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs. A USB would comprise a small area of 100 sq ft (9.3 m²) - 200 sq ft (19 m²) where the officer designated by the bank would be available with a laptop on pre-determined days. A total of over 50,000 USBs have been set up in the country by March 2013.

(v) Self-Help Group Bank Linkage Programme : The credit linkage of Self-Help Groups (SHG) by Commercial Banks is one of the major initiatives to bring low income poor people into the folds of banking. The poor people come together and pool the savings of the group and dispense small loans for meeting the individual requirements of members. Up to 31-03-2013, 73.18 lakh SHGs were linked to banks.

(vi) Swabhimaan Campaign : Under "Swabhimaan" — the Financial Inclusion Campaign that was launched in February 2011 and under this campaign by March 2012, various banks had provided banking facilities to over 74,000 habitations having population in excess of 2000 by using various models and technologies.

(vii) Increased Usage of ATM Services : Growing propagation of mobile services and ATMs in rural areas of India has created a new chance to achieve financial inclusion and is a valuable tool to provide financial services to the un-banked areas, with reduced overheads for providing access to banking services in isolated rural destinations of India. The total number of ATMs in rural India increased from 5,196 in March 2010 to 11,564 in March 2013. Banks are also working on setting up of 'Rural ATMs' for dispensing currency notes of smaller denominations as per requirements of rural people.

(viii) Products : In 2005, RBI took an initiative and has made it compulsory for all the banks to provide no frills savings account without a minimum balance requirement. This initiative of RBI has proved to be very effective and the banking system has opened 182 million no frills accounts at the end of March 2013 under FIP. In order to ensure that all the financial needs of the customers are met, all the banks have been advised to offer a minimum of four basic products, viz.

- A savings cum overdraft account
- A pure savings account, ideally a recurring or variable recurring deposit

- A remittance product to facilitate EBT and other remittances, and
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC)

(ix) Direct Benefit Transfer (DBT) : The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes in 43 districts. From 1st July, 2013 it had been extended to the entire country in a phased manner. The recent introduction of Direct Benefit Transfer through the Aadhaar cards would help in facilitating delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries.

(x) Financial Literacy Initiatives : In order to ensure financial inclusion, various initiatives have been taken by Reserve Bank officials that visit villages across the country. They encourage banks, financial institutions and local government to boost economic activities by involving rural masses in particular. During the outreach visits, messages on advantages of being linked to formal banking sector and functions and working of the Reserve Bank of India are disseminated through lectures, skits, posters, short films, pamphlets, distribution of comic books on financial literacy (Raju and the Money Tree, Money Kumar etc.), quiz competitions and essay competitions for school children, kiosk at the venue where besides providing information, notes and coins are exchanged. The target-groups included students, Self-Help Group (SHG) members, villagers, farmers, NGOs, bankers, government employees, senior citizens, housewives, panchayat members, daily wage earners and defense personnel. Through these 718 FLCs set up by the year ending March 2013, 2.2 million people have been educated through various awareness camps, choupals, goshtis, seminars and lectures in a one year period from 2012 to 2013. RBI has advised all FLCs and rural branches of commercial banks to conduct a minimum of one outdoor camp every month.

For further strengthening of the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) has recently taken few measures in Dr. Nachiket Mor committee.

FUTURE APPROACH

To turn the dreams of financial inclusion into reality, then going forward, following issues need a special attention :

(a) Increasing Reach

- Branches should be opened up in all the unbanked villages in next 3 years
- Emphasis should be on increasing the branches in rural areas
- Bank accounts should be opened for all eligible individuals

(b) Increasing Transactions

- Leveraging on DBT
- More credit products through BCs
- Hassle free emergency credit (In-built OD)

(c) HR Structure

- Banks to review HR policy in view of FI requirements
- Examining appointing of a separate cadre of staff for cost optimization

(d) Fine-tuning the BC Model

- Stabilizing the BC delivery model
- Encouraging innovations in remittances model
- Review of Cash Management for BC operations

(e) Spreading Financial Literacy

- Implementing National Strategy for Financial Education
- Creating Dedicated Website- Inclusion in School Curriculum
- Organizing Financial Literacy Camps

FINDINGS OF THE STUDY

The study concluded that though there has been an improvement in position of households availing banking services, but still 41.3 per cent of households are not covered by banking services in India. State-wise results show that there are only 11 States / U.Ts out of 35 where households availing banking services are more than 70 per cent, 8 States are moderately inclusive and the remaining 16 states/ U.Ts (Jharkhand, Andhra Pradesh, Arunachal Pradesh etc.) are less inclusive. The study found that the branches in rural and semi-urban areas accounted 63.68 per cent of the total no. of branches but still rural people are outside the ambit of banking services in India. The study found that significant progress has been made under Financial Inclusion Plan. Various initiatives such as expansion of branches in rural areas, business correspondent model, setting up of ultra small branches, linking SHGs with banks etc. have resulted into a step towards inclusive banking.

CONCLUSION

Though commercial banks play a significant role in ensuring financial inclusion and promoting financial literacy, the banks alone would not be able to achieve this ambitious goal, and that other stakeholder groups also need to contribute their mite towards this cause. Though we are on the right trajectory to achieve 100 per cent financial inclusion targets, but we have still miles to go and for that RBI, NABARD, and various agencies will have to put more efforts together.

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