FINANCIAL INCLUSION IN INDIA

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ABSTRACT: **The present study has been undertaken to know the penetration of banking services in India. The study examines the trends and progress of financial inclusion in India. The study revealed that penetration of banking services in rural area is much lower than that in urban areas. There is wide gap between the availability of bank branches in rural and urban areas. Further, the study revealed that there has been tremendous progress in the number of Business Correspondents (BCs) for providing banking and financial services and issue of Kisan Credit Cards (KCC) to farmers to meet their short-term credit needs. The Self-Help Group Bank Linkage Programme (SBLP) and MFIs are also playing important role in the process of financial inclusion. The problems in financial inclusion can be overcome by implementing the 'Swabhimaan'-a financial inclusion programme effectively with holistic approach.**

I. INTRODUCTION

Financial inclusion, According to Reserve Bank of India is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups who tend to be excluded from the formal financial system. Financial inclusion is not restricted merely to opening of "No Frills Accounts" of the individuals but also include provision of all financial services like credit, micro insurance, mobilizing savings, payments, remittance and overdraft facilities for the rural poor. Financial inclusion mainly focuses on the poor who do not have formal financial support and getting them out of the clutches and exploitation of local money lenders. The role of financial inclusion / inclusive financing in the social and economic development of the economy is acknowledged worldwide. Several countries across the globe now look at financial inclusion as the means to more comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nations progress. Infact, financial inclusion has become a global agenda to make a decisive attack on global poverty and exclusion. In India the term financial inclusion first appeared in 2005, when RBI ,in its annual policy statement of 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, urged banks to review their existing practices to align them with the objectives of financial inclusion.

In India more than 60% population lives in villages and depends directly or indirectly on agriculture. Due to lack of access to formal financial system, the low income Indian households in the informal or subsistence economy often have to borrow from friends, family and usurious moneylenders who not only charge high rates of interest but also exploit them. According to India chronic poverty report over 80% of the poor in the country belong to socially disadvantaged groups like SCs/STs, the most backward castes among OBCs and weaker sections among the Muslims. India has for a long time recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Today, financial inclusion is a major agenda for the RBI as without financial inclusion banks can't reach the unbanked. It is a major step towards increasing savings and achieving balanced growth. Starting with the nationalization of banks (1969 & 1980), priority sector lending requirements for banks(1972), establishment of RRBs (1975) lead bank scheme and service area approach(1969), self-help group bank linkage programmes (1992) etc., multiple steps have been taken by the RBI, over the years to increase access to the poor segments of society.

To achieve greater financial inclusion various measures initiated by RBI include facilitating "No-Frills Accounts", relaxed Know Your Customer (KYC) norms for people intending to open accounts, issue of Kisan Credit Cards (KCC) and General Credit Cards (GCC) to the poor and the disadvantaged with a view to help them access to easy credit, and making use of the services of NGOs, SHGs, MFIs and other Civil Society Organizations (CSOs) engaging them as business correspondents. Despite all these efforts financial inclusion remains one of the biggest challenges before our country as a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from the most basic opportunities and services provided by the financial sector.

II. LITERATURE REVIEW

Mathew (2007) argued that having a bank account or insurance cover, *ipso facto* does not mean an enhancement in the economic position or well being of a person. Financial inclusion should help in some way the process of economic development and also lead a change in the pattern of income distribution. It was suggested that developing countries need to develop mechanism which ensures that poverty is not exacerbated by lack of access to financial services.

Kochhar (2009) stated that significant driver of future growth and development will be the extension of the growth process to the masses. The increased access to financial services is a key requirement for lifting the economic status of rural household in which the banking system has to play a significant role.

Roy (2011) pointed out that cost of operating a bank account and cost of transaction for banking services is high not only for the consumers but for the banks also. It leads to little penetration and reduced delivery of services in order to bring the large number of potential unbanked and under banked population under the mainstream banking system.

III. OBJECTIVES OF THE STUDY

1) To know the penetration of banking services in India.
2) To examine the trends and progress in financial inclusion in India.
3) To know the problems in financial inclusion.

IV. RESEARCH METHODOLOGY

The present study is undertaken to examine the progress and trends in financial inclusion in India covering the recent period. The study is based on secondary data which has been collected and compiled from the Annual Reports of NABARD, Report on Trend and Progress of Banking in India and publications of RBI. The statistical tools for analysis are adopted in accordance with the requirement viz; percentage and growth rates etc.

V.ANALYSIS AND RESULTS

A. *Distribution of Bank Branches*

The average population per bank branch acts as a basic indicator of the penetration of banking services. The penetration of banking services has been on a consistent increase in India in recent years. However, the rate of increase in the penetration of banking services in rural areas was much lower than that in urban areas There is a wide gap between the population per bank branch in rural and urban areas as evident from the following table-I.

Table – I
Population per Bank Branch (No. of persons in '000)

Years	**Rural Area**	**Urban Area**	**Total**
2007	17.8	12.7	16.0
2008	17.0	11.7	15.1
2009	16.6	11.0	14.5
2010	16.1	10.4	14.0

B. *Comparison of India with Other Countries*

There are wide differences in the average population served by a bank in India and other countries of the world. The number of branches per one lakh people in India is 6.6 Compared to the OECD benchmark of 10-69. The following table-II shows the number of commercial bank branch per one lakh of population in some advanced and developing countries.

Table – II
No. of Commercial Bank Branch per One Lack of Population

Country	No. of Commercial Bank
U.S.A.	30.86
U.K.	18.35
Switzerland	37.99
Mexico	7.63
India	**6.60**
Singapore	9.13
Malaysia	9.60
Thailand	7.18
Sri Lanka	6.87
Pakistan	4.73

Above table shows that number of commercial bank branch per one lakh of population is high not only in advanced countries but in developing countries also except Pakistan. It is a matter of great concern that coverage of banking services in the world's second fastest growing major economy is very low, compared with developed countries.

C. *Credit flow under priority sector*

RBI has mandated that 40% and 32% of net bank credit for domestic and foreign banks respectively should be directed to the priority sector which includes, agriculture, small scale industries, tiny and villages industries, artisans, and retail traders, professional and self-employed persons, state sponsored organization for SCs/STs and Govt. sponsored credit linked programmes for greater financial inclusion. As more than 70% of our population depends directly or indirectly on agriculture, so agriculture still being backbone of the country need more support through finance. The following table shows that credit growth to agriculture decelerated to 10.6% during 2010-11 from 22.9% in the previous years. Similarly credit support to priority sector decelerated to 15.2% from 17.1% over the corresponding period.

Table – III
Credit Flow to Priority Sector (Rs. in crore)

				Variation (Y-o-Y)	
	FY 2009	FY 2010	FY 2011	FY 2009-	FY 2010-

				10	11
Priority Sector	932459	1092179	1258386	17.1	15.2
Agriculture & Allied Activities	338656	416133	460333	22.9	10.6
Micro & Small Enterprises	309195	373530	454995	20.8	21.8
Manufacturing	168997	206401	229101	22.1	11.0
Services	140198	167130	225894	19.2	35.2
Housing	197110	217877	230686	10.5	5.9
Micro-Credit	16529	21799	26895	31.9	23.4
Education Loans	27861	36247	43026	30.1	18.7
State-Sponsored Orgs. for SC/ST	2451	2749	2048	12.2	-25.5
Weaker Sections	139422	176957	204332	26.9	15.5
Export Credit	25961	28866	31821	11.2	10.2

D. Kisan Credit Cards

Kisan Credit Cards (KCC) scheme introduced in 1998 as a pioneering credit delivery innovation aims at providing adequate, timely, hassle free and cost effective credit support to farmers by commercial banks, RRBs and Cooperative Banks. KCC has become the main source of short-term credit for the farmers. Progress regarding KCC is presented in the following table–IV.

Table – IV
Agency-wise, Year-wise Kisan Credit Cards Issued (No. in million)

Year	Co-operative Banks	Regional Rural Banks	Commercial Banks	Total
2005-06	2.60	1.25	4.16	8.01
2006-07	2.30	1.41	4.81	8.51
2007-08	2.09	1.77	4.61	8.47
2008-09	1.34	1.41	5.83	8.59
2009-10*	1.61	1.61	2.75	5.97
Cumulative#	**37.76**	**13.08**	**39.80**	**90.64**

Above table shows that during 2009-10, 5.97 million KCC were issued by banks with sanctioned credit limit of Rs. 34,982 crore. Of the total 90.64 million credit cards issued as at end February 2010, 39.80 million cards (43.9 %) were issued by commercial banks, followed by 37.76 million cards (41 %) by co-operative banks and 13.08 million cards (14.4 %) by regional rural banks.

E. Findings of the Study

1) The penetration of banking services in rural areas is much lower than that in urban areas. There is a wide gap between population per bank branch in rural and urban areas.A wide gap has been found in the availability of bank branches in rural and urban areas. The growth rate in bank branches in urban areas is much higher than rural areas.

1) It has also been found that coverage of banking services in India is low not only compare to advanced countries but developing countries also.

2) Credit flow to priority sector and agriculture sector has decelerated in 2010-11 as compare to PY.

3) A significant increase has been found in the number of Business Correspondents (BCs) for providing financial banking services and in the issue of KCC to meet short-term requirements of farmers.

V. CONCLUSION

From the above analysis it is clear that financial inclusion is central to poverty alleviation and reducing the huge urban-rural differentiation that exists in our country. Today, financial inclusion is a major agenda for the RBI as without financial inclusion banks can't reach the unbanked. It is a major step towards increasing savings and achieving balanced growth. Due to low penetration and reduced delivery of banking and financial services especially in rural areas there is a vast potential in India to bring the large section of the society under the mainstream banking system. The problems in financial inclusion can be overcome by implementing the Swabhiman campaign with holistic approach. Swabhimaan, "a nationwide programme on financial inclusion which promises to bring basic banking services to 73000 unbanked village with a population of 2000 and above by March 2012 using BC model has to be implemented effectively. Bank should prepare comprehensive plans to cover all the village and speed up enrolment of customers and opening of UID-enabled bank accounts. Apart from providing a full range of financial services banks need to provide low cost, reliable, easy to use and secure technology in the Twelfth Five-Year plan period.

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