Financial Inclusion: Current Status in India

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Abstract:

For any nation finance is an essential part of an economy for development of the society as well as economy of nation. For, the development of a nation, strong financial system is required in not only in under-developed countries and developing countries but also developed countries for sustainable growth. In India majority of the rural population still does not have acess to the organised financial system. The concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact of these did not yield satisfactory results. This study focuses on policies and procedures adopted by RBI and Government of India towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses progress and achievements.

Key words: Financial inclusion, Financial Exclusion, Inclusive Growth, Bank, RBI.

1.0 Introduction

Globally most of the nations today are focussing on inclusive growth for economic development and raise standard of living by implementing financial inclusion policies. Financial inclusion stands for making the oraganised fiancial system accessible to weaker sections people who are ecluded hitherto. Thios would ensure equitable opportunities to all sections of the society and helps raise the living standards of poor and rural masses. Though many policies and procedures were implemented by Reserve Bank of India and Government of India, still there is low access of financial services among small / marginal farmers and weaker sections of the society in India.

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking.

2.0 Objectives of the study:

This research paper has two main objectives:

1. To know the approaches adopted by banks, Policies taken by the regulatory bodies and government to achieve financial inclusion.

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2. To analyze the present status of financial inclusion in India.

3.0 Financial Inclusion:

Concept and Definition of Financial Inclusion:

Financial Inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast sections of disadvantaged and low income groups. Financial inclusion frequently has seen as socio-economic development tool that should be subsidized by the majority of the developing countries governments. However, the Indian government requires that all the banks have to dedicate a certain proportion of their lending to “priority” sectors such as agriculture, social sector, and marginal sector for their socio-economic development. For example, the Chinese banks continue to play an important role in providing financing to agriculture sector, small & medium enterprises. Moreover, this makes the financial inclusion process much more effective and also improves the overall efficiency of the financial system.

According to committee on Financial inclusion headed by Dr. C. Rangarajan defined financial inclusion as *“The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”*

4.0 Various approaches to achieve financial inclusion:

In India, various measures taken by banks, GOI and RBI for financial inclusion plan.

4.1 Swavalamban

A co-contributory pension scheme launched on September 26, 2010 for workers of unorganised sector. It is applicable to all citizens in the unorganised sector who join the National Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority (PFRDA) Act, 2013.

4.2 Swabhiman

In a way to achieve financial inclusion programme, the central government launched ‘Swabhiman scheme’ on February 10, 2011. It aims to bring banking services to large rural areas in the country. This campaign is operated by the Ministry of Finance, Government of India and the Indian Banks' Association (IBA) to bring banking within the reach of the masses of the Indian population.

4.3 Opening of bank branches

Government had issued detailed strategy and guidelines on financial inclusion in October, 2011. According to the framed strategy, banks were advised to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts.

4.4 No-frills account

In the mid-term review of the policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking ‘no frills’ account either with ‘NIL’ or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

4.5 Simplification of know your customer (KYC) norms

In order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the KYC procedure for opening accounts has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts.

4.6 Aadhaar - Unique identification authority of India (UIDAI)

The Government of India has embarked an initiative to provide an individual identification number to every citizen of India and in 2009, it established the UIDAI to issue these cards on behalf of the GOI. This number provided by UIDAI serves as a proof of identity and address anywhere in India. The Aadhaar number also enable people to have access to services such as banking, mobile phone connections and other government and non-government services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrolment with Aadhaar without going to a bank. The individual will be able to access such
bank accounts through a micro-ATM network with large geographic reach.

4.7 Ensuring reasonableness of bank charges

Reserve bank receives several representations from public about unreasonable service charges being levied by banks. The existing institutional mechanism in this regard is not adequate and is a basic reason for people reluctance to opening accounts. Accordingly, to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue updating their offices/branches and their websites regarding various service charges in a prescribed format.

4.8 Business correspondent model

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI 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 engaged by banks for providing banking services at locations other than a bank branch/ATM. They represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable.

4.9 Setting up of ultra-small branches (UBSs)

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 under financial inclusion.

4.10 Expansion of ATM network

In close consultation with the Department of Financial Services, the Public Sector Banks (PSBs) worked on a model of area based deployment of ATMs/Cash dispensers, taking benefit of the power of aggregation, with all PSBs/RRBs clubbing their requirement and one of the PSB issuing a common RFP on behalf of all these banks for a geographical cluster. At present, PSBs have installed around 60,000 ATMs.

4.11 General credit card

With a view to help the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general-purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

4.12 Pradhan mantri jandhan yojana (PMJDY)

It is a national mission for financial inclusion to ensure access to financial services namely, banking savings & deposit accounts, remittances, credit, insurance and pension in an affordable manner. It focuses on coverage of households as against the earlier plan which focussed on coverage of villages. It focuses on rural as well as on urban areas. Earlier plan targeted only villages above 2,000 population while under PMJDY whole country is to be covered by extending banking facilities in each sub-service area consisting 1,000-1,500 households such that facilities are available to all within a reasonable distance.

5.0 Credit Delivery and Financial Inclusion

The Reserve Bank has made sustained efforts during the year to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate flow of credit to all productive sectors of the economy. Some of the new initiatives during the year include setting up of an expert committee/working group to examine the issues relating to credit flow to MSMEs and agriculture sectors, and allowing SCBs to co-originate loans with non-deposit taking systemically important NBFCs for credit delivery to the priority sector. Further, the National Strategy for Financial Inclusion 2019-24 was prepared, besides ongoing measures to strengthen financial literacy and inclusion in the country.

5.1 The Reserve Bank continued its focus on strengthening the credit delivery mechanisms to ensure adequate and timely flow of credit to all productive sectors of the economy, especially agriculture and micro, small and medium enterprises (MSMEs), and also ensuring the availability of banking services to all sections of people in the country. In order to review the credit flow to these sectors, an Expert Committee on MSMEs as well as an Internal Working Group to review agricultural credit was constituted. Further, the Reserve Bank has prepared the National Strategy for Financial Inclusion (NSFI) 2019-24 under the aegis of the Financial Inclusion Advisory Committee (FIAC), to ensure access to financial services to all the citizens in a safe and transparent manner. The primary objective is to enable the financially excluded to have an access to financial services from the financial institutions.

5.2 Several innovative measures were undertaken to facilitate the creation of a conducive environment and increase the level of penetration of the banking system to serve the unserved and underserved population for achieving the objective of sustainable and inclusive economic growth. The co-origination model was rolled out which enables the scheduled commercial banks (SCBs) to co-originate loans with non-deposit taking systemically important NBFCs (NBFCs- ND-SI) for credit delivery to the priority sector. As financial literacy precedes financial inclusion, a two-tier ‘Train the Trainers’ programme was designed to build the capacity and skills of business correspondents (BCs) for effectively delivering financial services at the grass-root level. Similarly, to build capacity and skills, and sensitise the Counsellors of Financial Literacy Centres (FLCs) and rural banks’ branch managers for delivering basic financial literacy at the ground level, a two-tier programme on financial literacy was designed. Further, the National Centre for Financial Education (NCFE) has been set up under Section 8 of the Companies Act 2013 to focus on promoting financial education across the country for all sections of the population as per the National Strategy for Financial Education (NSFE). In this context, the Financial Inclusion and Development Department (FIDD) of the Reserve Bank is the nodal department for formulating and implementing policies for promoting financial inclusion in the country.

Agenda for 2018-19 - Implementation Status

5.3 In order to strengthen the BC model, “Train the Trainers” programme for the capacity building of BCs was rolled out in March 2019 in co-ordination with College of Agricultural Banking (CAB), Pune. The banks’ training faculty who participated in Tier-I of this programme have been advised to initiate the Tier-II leg of the programme for rural branch managers in their respective jurisdictions. These branch managers, in turn, are expected to sensitise and handhold the BCs attached to their branches. The baseline survey forming part of the impact assessment of the pilot Centres for Financial Literacy (CFL) project has been completed. Similarly, the desired process to get the Financial Inclusion Plans (FIPs) integrated with Automated Data Extraction Project (ADEPT) has been initiated. The preparation of the framework for credit delivery to tenant farmers has been subsumed in the Internal Working Group set up to review agricultural credit.

CREDIT DELIVERY

Priority Sector

5.4 The overarching principle of priority sector lending (PSL) is to enhance credit flow to those vulnerable sections of the society which despite being credit worthy may not get timely and adequate credit in the absence of a special dispensation. Priority sector loans include small value loans to farmers for agriculture and allied activities, MSMEs, housing, education, and other low-income groups and weaker sections. Social infrastructure and renewable energy have also been brought under the ambit of PSL. The performance in achievement of priority sector lending targets by SCBs is given in Table 1

Table 1: Performance in Achievement of Priority Sector Lending Targets

(₹ Billion)

End-March	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2018	20,723	8,046	1,402
	(39.9)	(40.8)	(38.3)
2019	23,060	10,190	1,543
	(42.55)	(42.49)	(43.41)

Note: Figures in brackets are percentages to adjusted net bank credit (ANBC) or credit equivalent of Off-Balance Sheet exposures (CEOBE), whichever are higher, in the respective groups.
Source: Priority Sector Returns submitted by SCBs.

5.5 The Priority Sector Lending Certificates (PSLCs) scheme was introduced in April 2016 as a mechanism to incentivise banks which surpass their targets in lending to different categories under the priority sector. PSLCs allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks. A platform to enable trading in the certificates has been provided by the Reserve Bank through its Core Banking Solution (CBS) portal (e-Kuber).

5.6 The PSLC platform saw active participation from all the eligible entities including Urban Co-operative Banks (UCBs) and Small Finance Banks (SFBs) during 2018-19. The total trading volume of PSLCs grew by around 78 per cent to ₹3,274.3 billion as on March 31,

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2019 as against ₹1,843.3 billion in the same period of last year. Among the four PSLC categories, highest trading was recorded in the case of PSLC-General and PSLC-small and marginal farmer, with the transaction volumes at ₹1,324.8 billion and ₹1,125.0 billion, respectively.

Review of Priority Sector Guidelines

5.7 Since 2015-16, SCBs have been directed to ensure that the overall lending to non-corporate farmers does not fall below the system-wide average of the last three years. SCBs were also directed to reach the level of 13.50 per cent direct lending to beneficiaries that constituted the erstwhile direct lending to agriculture. For 2018-19, the applicable system-wide average target was 11.99 per cent.

5.8 SCBs (excluding regional rural banks and SFBs) were allowed to co-originate loans with non-deposit taking systemically important NBFCs (NBFCs-ND-SI) for the creation of eligible priority sector assets in order to provide a competitive environment for credit delivery to the priority sector. The arrangement entails joint contribution of credit by both lenders at the facility level and sharing of risks and rewards within an appropriate alignment of respective business objectives as per mutually decided agreement between the bank and the NBFC. In this regard, guidelines were issued to banks and NBFCs in September 2018.

Flow of Credit to Agriculture

5.9 The Government of India has been fixing the target for agricultural credit every year. During 2018-19, the Government of India set the target of ₹11,000 billion for agricultural credit. As on March 31, 2019, commercial banks achieved 119.9 per cent of their target whereas co-operative banks and regional rural banks (RRBs) achieved 93.26 per cent and 105.78 per cent, respectively (Table 2). The target for 2019-20 is ₹13,500 billion.

Table 2: Targets and Achievements for Agricultural Credit

(₹ Billion)

Year	Commercial Bank		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2017-18	7,040	8,711	1,560	1,503	1,400	1,412	10,000	11,626
2018-19*	7,920	9,496	1,650	1,539	1,430	1,513	11,000	12,548

*Provisional.

Source: National Bank for Agriculture and Rural Development (NABARD).

Table 3 : Kisan Credit Card (KCC) Scheme

(Number in Million, Amount in ₹ Billion)

Year	Number of Operative KCCs	Outstanding Crop Loan	Outstanding Term Loan
1	2	3	4
2017-18	23.52	3,906.02	407.20

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2018-19*	23.63	4,136.70	414.09
*:			Provisional.
Source: Public Sector Banks and Private Sector Banks.			

5.10 The Kisan Credit Card (KCC) has emerged as an innovative credit delivery mechanism to provide adequate and timely bank credit to farmers under a single window for their cultivation and other needs, including consumption, investment and insurance. The KCC Scheme has now been extended to farmers involved in animal husbandry and fishery to enable them to meet their working capital requirements. The performance of the scheme for the last two years is presented in Table 3.

Table 4: Relief Measures for Natural Calamities

(Number in Million; Amount in ₹ Billion)

Year	Loans restructured/rescheduled		Fresh finance/Relending provided	
	No. of accounts	Amount	No. of accounts	Amount
1	2	3	4	5
2017-18	0.36	26.38	1.04	36.01
2018-19*	0.39	103.49	0.55	109.83
*:				Provisional.
Source: State Level Bankers Committees (SLBCs).				

Relief Measures for Natural Calamities

5.11 Currently, the National Disaster Management Framework of the Government of India covers 12 types of natural calamities under its ambit, viz., cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave/frost. Accordingly, the Reserve Bank has mandated banks to provide relief measures, where the crop loss assessed was 33 per cent or more, in the areas affected by natural calamities. The relief measures by banks, inter alia, include restructuring/ rescheduling existing loans and sanctioning fresh loans as per the emerging requirement of the borrowers. During 2018-19, natural calamity was declared by seven states, viz., Rajasthan, Andhra Pradesh, Kerala, Maharashtra, Karnataka, Tamil Nadu and Gujarat. The extent of relief measures provided by banks at the time of natural calamities during 2018-19 is given in Table 4.

Table 5: Credit Flow to MSEs

Year	Number of Accounts (million)	Amount Outstanding (₹ billion)	MSE Credit as Per Cent of ANBC
1	2	3	4
2017-18	25.9	11,493.5	14.6
2018-19	31.8	13,132.3	15.05
Source: Priority Sector Returns submitted by SCBs.			

Credit Flow to the MSME Sector

5.12 The measures taken by the Reserve Bank for facilitating flow of credit to MSMEs and other steps taken by the government over the last few years have resulted in an increase in credit flow to MSEs (Table 5).

5.13 The MSME sector plays a crucial role in the economy both in terms of its employment generation and reducing regional social economic imbalances. However, access to finance and cost of credit have been a concern for the sector. To address this issue, the Government of India, on November 2, 2018, announced 2 per cent interest subvention for the MSME sector, applicable for 2018-19 and 2019-20. All fresh or incremental amount of working capital or new term loan to the extent of only ₹10 million in the sector would be eligible for interest subvention during the period of the scheme. All MSMEs which have a valid Udyog Aadhaar Number (UAN) and GSTN Number are eligible under the scheme. Further, the loan accounts of the eligible beneficiaries under the scheme, on the date of filing claim, should not have been declared as NPA as per the extant guidelines in this regard. No interest subvention shall be admissible to the eligible beneficiaries for any period during which their loan accounts remain under NPA category. Small Industries Development Bank of India (SIDBI) is the nodal national level implementing agency for the scheme. Regarding implementation of the scheme, the Reserve Bank has issued the operational guidelines to SCBs in February 2019.

FINANCIAL INCLUSION

5.14 The Reserve Bank continued its efforts towards fulfilling the financial inclusion agenda during the year to help realise the intended economic and social objectives. In this direction, several new initiatives were undertaken during 2018-19.

Revamping of Lead Bank Scheme (LBS)

5.15 A Committee of Executive Directors of the Reserve Bank was constituted to study the efficacy of the Lead Bank Scheme (LBS) and suggest measures for its improvement. Based on the Committee's recommendations, on April 6, 2018, guidelines on the revamping of LBS were issued to all State Level Bankers Committee (SLBC) Convenor Banks/Lead Banks, as also separately to all Lead Banks on enhancing the effectiveness of Lead District Managers (LDMs) along with certain action points. As per the action points suggested in the guidelines, a Steering Sub-committee of SLBC / UT Level Bankers Committee (UTLBC) has been constituted in all the states/UTs and a revised agenda has also been adopted for all SLBC/UTLBC meetings. Action points pertaining to alignment of corporate business targets for branches, blocks, districts and states with an Annual Credit Plan (ACP), standardisation of information/data, and management of data flow under the LBS are under various stages of implementation.

Assignment of Lead Bank Responsibility

5.16 Under the LBS, one bank in each district is assigned the leadership role and acts as a consortium leader to co-ordinate the efforts of the banks in that district, particularly in matters such as branch expansion and credit planning to meet the credit needs of the district. The assignment of lead bank responsibility to a designated bank in every district is done by the Reserve Bank. As of June 2019, 18 public sector banks and one private sector bank have been assigned lead bank responsibility in 717 districts across the country.

Financial Inclusion Plans (FIPs)

5.17 In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs). These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts. The progress made by banks on such parameters under FIPs is given in Table 5.6.

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Table 5.6: Financial Inclusion Plan: A Progress Report

Particulars	End-March 2010	End- March 2018	End-March 2019*
1	2	3	4
Banking Outlets in Villages - Branches	33,378	50,805	52,489
Banking Outlets in Villages > 2000-BCs	8,390	100,802	130,687
Banking Outlets in Villages < 2000- BCs	25,784	414,515	410,442
Total Banking Outlets in Villages – BCs	34,174	515,317	541,129
Banking Outlets in Villages- Other Modes	142	3,425	3,537
Banking Outlets in Villages - Total	67,694	569,547	597,155
Urban locations covered through BCs[$]	447	142,959	447,170
BSBDA - Through branches (No. in Million)	60	247	255
BSBDA - Through branches (Amt. in ₹ Billion)	44	731	878
BSBDA - Through BCs (No. in Million)	13	289	319
BSBDA - Through BCs (Amt. in ₹ Billion)	11	391	532
BSBDA - Total (No. in Million)	73	536	574
BSBDA - Total (Amt. in ₹ Billion)	55	1,121	1,410
OD facility availed in BSBDAs (No. in million)	0.2	6	6
OD facility availed in BSBDAs (Amt. in ₹ Billion)	0.1	4	4
KCC - Total (No. in Million)	24	46	49
KCC - Total (Amt. in ₹ Billion)	1,240	6,096	6,680
GCC - Total (No. in Million)	1	12	12
GCC - Total (Amt. in ₹ Billion)	35	1,498	1,745
ICT-A/Cs-BC-Total transactions (Number in million)[#]	27	1,489	2,084
ICT-A/Cs-BC-Total Transaction (Amount in ₹ billion)[#]	7	4,292	5,884

*: Provisional.
[$]: Out of 447,170 outlets, It is reported that 388,868 outlets provide limited services like only remittances or sourcing of loans, etc.
[#]: Transactions during the financial year.
Source: As reported by banks.

National Strategy for Financial Inclusion

5.18 In order to systematically accelerate the level of financial inclusion in the country in a sustainable manner, the National Strategy for Financial Inclusion has been prepared under the aegis of the FIAC and is based on the inputs and suggestions from the Government of India and other financial sector regulators

Penetration of Banking Services

5.19 The Reserve Bank has taken several steps to provide banking facilities in the unbanked villages in the country. The use of information technology (IT) and intermediaries has made it possible to increase outreach, scale and depth of banking services at an affordable cost. SLBC convenor banks were advised that while opening new banking outlets in Unbanked Rural Centres (URCs) in tier 5 and 6 centres, banks should give priority to URCs having population above 5,000 (i.e., tier-5 centres). Further, SLBC convenor banks were advised to consider opening of a CBS enabled banking outlet or a part time banking outlet in the villages with population less than 2,000 that still remain unbanked. To facilitate banks (including SFBs) in opening their outlets, SLBCs were also advised to compile and maintain an updated list of all URCs in the state and review the progress in SLBC meetings. As on September 30, 2018, 6,054 (75.51 per cent) out of 8,018 identified villages across the country having a population of more than 5,000 were provided with banking services. Also, 481,303 (97.85 per cent) out of 491,879 identified villages across the country having a population of less than 2,000 have been provided with banking services (September 30, 2018).

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Agenda for 2019-20

5.20 Going forward, the Reserve Bank would undertake the following measures towards enhancing credit delivery and financial inclusion: (a) the CFL project has been extended to 20 tribal blocks of Rajasthan, Jharkhand and Madhya Pradesh, and will run for a period of two years; (b) the various recommendations made by the Expert Committee on MSME (Chairman: Shri U. K. Sinha) will be examined for implementation; and (c) the Reserve Bank has constituted an Internal Working Group in January 2019 to review agricultural credit (Chairman: Shri M. K. Jain, Deputy Governor). The Working Group is likely to examine the issues of regional disparity in agricultural credit disbursement and arrive at workable solutions and policy initiatives for addressing skewed distribution of credit for agriculture including allied activities and augmentation of capital formation.

6.0 Conclusion:

Even though enough efforts are being made by all stake holders viz Regulator, Government, Financial Institutions and others, the efforts are not yielding the kind of result expected. The regulator has to create a suitable regulatory environment that would keep the interest of all the stakeholders.

The concern of banks about profitability is to be addressed by the regulator as the entire process of financial inclusion would be a kind of social work in the first few years. The concerns of the government about the reach, feasibility and implementation of government policies to the last mile needs to be addressed. The easy availability of financial services to the last mile user, the people in tier 3 to tier 6 in entirety needs to be addressed.

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