FINANCIAL INCLUSION IN INDIA: PROGRESS AND CHALLENGES

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ABSTRACT

Lacunae in availability, accessibility, affordability, awareness and adequacy to financial services leads to financial exclusion. Financial exclusion considerably maximises the level of poverty as well as social exclusion.Financial inclusion is one of the strategies through which inclusive growth can be achieved in developing countries like India where large sections of population are unable to avail the benefits of financial service and in turn contribute toward the financial system.An efficient financial system which is available to and accessible by its people without any type of discrimination is the core factor leading to the economic growth and sustainability of a country. The present paper tries to analyse the progress of recent initiatives undertaken in India to maximise the degree of financial inclusion in the country and major challenges hindering the achievement of the objective. Being a descriptive study, the paper is based on current literature and data available through reports and publications of concerned regulatory bodies and government. The paper revealed that a remarkable progress has been made in India with respect to extension of the financial inclusion initiatives and in maximizing the degree of financial inclusion. However, there are challenges to be faced in reaching the goal of including all into financial services net. The supply side initiatives are helping in postering financial inclusion but, there are demand side challenges which have tobe addressed.

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1. Introduction:

Financial inclusion has been construed as foundation of financial wellbeing and economic development by policymakers in most of the countries. This emerges fromthe understanding that, financial inclusion helps in reducing poverty, boosting shared prosperity, and promoting sustainable inclusive economic growth and development (World Bank, 2014). Financial inclusion is a strategy to provide basic banking and financial services to everyone irrespective of their demographic features. From individual perspective, financial inclusion is the ability of individuals to access financial products and services at affordable costs in meeting their financial needs. From the view point of policymakers, financial inclusion is the provision of basic financial services to the needy in an accessible and affordable way. The Committee on Financial Inclusion, Government of India, has defined financial inclusion as "the process of ensuring timely access to financial services and adequate credit where needed by the vulnerable groups at an affordable cost."(Rangarajan, 2008).It involves accessibility to safe and secure financial products to save the hard-earned money (i.e., basic bank account), transaction service (like debit card, cheque facility), easy and cheap credit to the needy, facility to transfer of funds, insurance, pension, etc.

2. Why Financial Inclusion?

Financial inclusion by developing a habit of savings among the population broadens the resource base of the financial system and augments the process of economic development. It also reduces the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit (Rakesh Kumar, 2022). Financial inclusion enables the poor, underprivileged and vulnerable people to save; allows them to build their assets; holds the promise of boosting growth and reducing poverty and inequality; provides households and firms with greater access to resources needed to finance consumption and investment and to insure against socio-economic vulnerabilities and thereby improve their living standards. In addition, financial inclusion can foster labour and firm formalization, helping, in turn, boost government revenues and strengthen social safety nets.It is therefore essential to analyse what works and what does not work in financial inclusion. This analysis is significant for both prioritizing allocation of scarce resources and policy formulation.

3. Financial Inclusion in India:

The success of financial inclusion necessitates bringing the financially omitted and unbanked individuals within the scope of official banking system. (Barik & Sharma, 2019). In a diverse country like India, financial inclusion is a crucial aspect for the socio-economic development process. After independence, a host of initiatives and efforts have been undertaken by the consecutive governments, regulatory organisations and the civil society to enlarge the financial-inclusion net in India. Since independence, RBI and the government of India have undertaken a number of courses of action for the betterment of the accessibility of people to inexpensive financial services through (a) financial education, (b) leveraging technology and (c) creating consciousness. (Kaur et al., 2017).Notable initiatives, in the past, include nationalisation of Life Insurance Corporation in 1956, followed by nationalisation of banks in 1969 and 1980 and nationalisation of general insurance companies in 1972. The establishment of National Bank for Agriculture and Rural Development (NABARD) in 1982 is another remarkable step towards inclusive financial growth. Of late, financial inclusion in India began as a movement with microcredit in rural areas and has since broadened in several directions. In recent past, government of India has taken measures to improve financial inclusion position in the form of Pradhan Manthri Jan-Dhan Yojana (PMJDY), appointment of Business Facilitators (BFs) and Business Correspondents (BCs), Branchless Banking, Mobile Banking, Kiosk/ATM based banking, Aadhaar Enabled Payment System (AePS), etc.Now it embraces a variety of financial services offered by financial institutions – both bank and non-bank – as well as new platforms like E-banking, FinTech, e-retailers, and other financial service providers.Co-terminus with the above efforts, RBI also encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels through preparation of Board-approved Financial Inclusion Plans (FIPs). The first two phases of FIPs implemented over 2010-13 and 2013-16 were interspersed with the implementation of PMJDY by the Government of India during 2014-15, whereby the supply side efforts received an adequate impetus. To sustain the momentum of achieving the financial inclusion objectives by setting FIP targets for banks, the third phase of Financial Inclusion Plans for the three years 2016-19 focuses on more granular monitoring of the progress made by banks under FIPs at district level. (RBI, 2020)

Despite comparatively higher rates of economic growth and various financial inclusion measures in recent years, a bad number of the Indian population still remains unbanked. Many of the socially, educationally and economically endangered and marginalised societies have relatively lesser opening to banking and financial facilities.India still has the second-largest unbanked population in the world and according to a recent report by the Reserve Bank of India, on a scale of 100, India's annual Financial Inclusion Index in 2021 stood at 53.9. (Chandani, 2022). According to World Bank's latest Global Findex Data, nearly 22% of the adults (age 15+) have no bank account in India.The financially excluded communities in India encompass tiny and small farmers, landless workers, oral lessees, self-employed and unassociated entrepreneurs, urban slum-dwellers, migrants, racial minorities and socially excluded groups, senior citizens and women to a greater extent. (RBI, Financial Inclusion, 2008). Financial inclusion is a mammoth task and it cannot be achieved without the active collaboration of all stakeholders (Chakrabarty, November 2011). The Reserve Bank is intimately involved in the efforts to ensure both financial inclusion and financial stability in India (Khan, March 2012).

4. Objective:

The present paper is focussed to study and analyse the progress made and the challengeswith respect to accomplishment of financial inclusion goal in recent past.

5. Research Methodology:

The study is descriptive in nature. Available secondary data from reports published by Reserve Bank of India, InternationalMonetary Fund, World Bank were extensively used for the study. Simple statistical tools like tables, charts, average have been used in analysing the data.

6. Recent Progress of Financial Inclusion in India:

The success of financial inclusion necessitates inclusion of financially excluded and unbanked people under the purview of formal banking system (Barik & Sharma, 2019). In India, financial inclusion was first featured in 2005. In April 2005, Y. V. Reddy, the then Governor, Reserve Bank of India used the term for the first time in the Indian context in the Annual Policy Statement (Mustafa et.al. 2017). Indian banking system has exhibited tremendous growth in extending its reach, coverage and delivery of financial products to the masses since decades. RBI and the government of India have taken several measures since independence to improve the access to affordable financial services through (a) financial education, (b) leveraging technology and (c) generating awareness(Kaur et.al. 2017). India has already achieved the $5-trillion mark and to attain the vision of an ‘Aatmanirbhar Bharat’, there should be a recognizable contribution from both rural and urban areas. For this, there is need to create an ecosystem that is equitable and sustainable. Financial inclusion underpins this. It is the single most vital component that can pave the way for an all-inclusive nation (Chandani, 2022).

According to experts from World Bank, International Monetary Fund and evidences from other empirical studies, the extent of financial inclusion is analysed based on important indicators. The strong indicators of financial inclusion include progress in number of bank branches, BSBDAs (Basic Savings Banks Deposit), Automated Teller Machines (ATMs) installed, issuance of debit/credit cards, usage of Mobile Applications and UPIs for transactions, Internet based payment options like NEFT (National Electronic Fund Transfer), RTGS (Real-Time Gross Settlement) DBT (Direct Benefit Transfer), ECS (Electronic Clearing Service) etc., usage and so on. Numbers of these may be construed as availability and the amount transacted can be construed as accessibility (Rajesh & Suresh, 2021).

7. The Progress – Analysis of Major Initiatives:

7.1. Number of Commercial Bank Branches:

To meet the objective of financial inclusion efficiently, commercial banks play spearheading role in providing accessibility to financial services. India, has a strong financial system built on the substructure of commercial banks. The Reserve Bank has been striving to have a more competitive, efficient, scatteredand heterogeneous banking structure so as to meet the various objectives of financial inclusion.In this regard, Financial Inclusion Plans (FIPs) have been considered as yardstick to measure progress in providing accessibility to financial services through bank branches. Number of branches of Public Sector Banks (PSBs) (being dominant in reach and trustworthy among citizens), Private Sector Banks (PVBs) (which ensures early adoption of technology), and Regional Rural Banks (RRBs) are considered here to analyse the progress achieved as part of FIPs.

Table 1: Population Group-wise Number of Functioning Offices of Commercial Banks

Year	Rural	Semi-urban	Urban	Metropolitan	Total
2013-14	41,892	32,533	20,987	22,548	**1,17,960**
Dec-22	53,841	43,262	27,898	28,664	**1,53,665**

Source: dbie.rbi.org.in

Table 1 depicts that there has been a marked increase in commercial bank branches in all the four population groups during the last ten years. There are in total 1,53,665branches as on December 2022 as against 1,17,960 branches on financial year ending 2013-14. It accounts to 14.58 (approximately) and 12.83 per one lakh adults respectively during the said periods (FAS Country Data – IMF). But analysis of Table 2 relating to newly established branches in the same population group-wise data tells a different story.

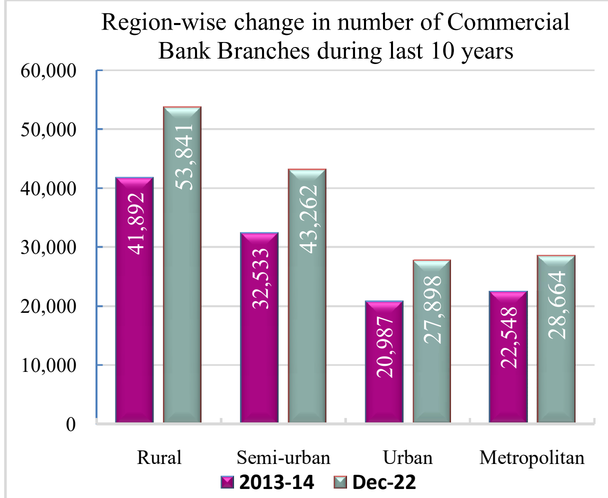
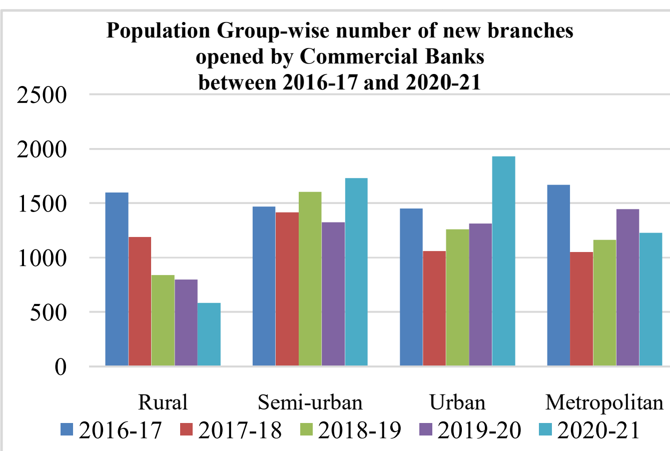


Table 2: Population Group-wise Number of New Branches opened

Year	2016-17	2017-18	2018-19	2019-20	2020-21
Rural	1597	1191	840	798	584
Semi-urban	1470	1414	1602	1325	1729
Urban	1452	1061	1260	1312	1929
Metropolitan	1669	1053	1162	1444	1227
Total	**6188**	**4719**	**4864**	**4879**	**5469**

Source: dbie.rbi.org.in



During last five years ending 2020-21, the marginal number of new commercial branches opened in rural India is drastically declined from 1597 branches to 584 branches. However, commercial banks are interested in establishing more and more branches across other three geographical-region based population groups. Basically, India lives in villages and various researches shows that financial inclusion is very poor in rural India. More focus should be on including the rural, poor, vulnerable and unreachable population into financial services net. It is analysed that focal point for banks in instituting new branches is value of deposits than serving the financially excluded rural population.

7.2. Jan Dhan – Aadhaar – Mobile (JAM):

India has made significant strides in financial evolution. In August 2014, the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) proved to be a historic beginning to deepen financial inclusion. It is a national mission for financial inclusion to ensure access to financial services, namely, a basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account. Through this initiative, the Government of India has made it easy and affordable for the masses to access financial services.

A remarkable step forward for financial inclusion is the JAM trinity (Jan Dhan, Aadhaar and Mobile), the linking of Aadhaar and mobile numbers to Jan Dhan accounts. This has facilitated several Direct Benefit Transfer (DBT) programs and also helped to plug systemic leakages of government subsidies. Today, the JAM trinity's evidence base is noteworthy—there are over 48.36 crore bank accounts with a cumulative of ₹1,95,164.32 CroreunderJan Dhan accounts. It is also important to highlight that 55 per cent of Jan Dhan account holders are women and 67 per cent of the overall account holders reside in rural and semi-urban areas. The JAM trinity played a crucial role in making credit accessible during Covid pandemic, especially to women.
JAM being as the base of financial inclusion, important benefit transfer programs like disbursing loans to Joint Liability Groups (JLGs) and Self-Help Groups (SHGs) have seen a proliferation. Additionally, core banking services, insurance, pension, and access to a credit for the semi-urban and rural Indians are paving the way towards financial inclusion.
The timely financial services through financial inclusive initiatives enabled and intensified rural economic activity, resulting in colossal growth across agriculture, dairy, handlooms, and other sectors. An increasing number of women and the rural population are becoming self-reliant, which is bringing more people into the economic fold.

7.3. Digital Acceleration of Financial Inclusion

As per World Bank Findex report, India still has the second-largest unbanked population in the world and according to a recent report by the Reserve Bank of India, on a scale of 100, India's annual Financial Inclusion Index in 2021 stood at 53.9. Thus, amajority ofthe country's population remains outside the realms of financial inclusion and relies on informal sources of credit. For reaching out the unreachable, financial institutions, especially banks, are relying on digital means like ATMs, Unified Payment Interface (UPI), QR Code for payment, financial technologies (Fin-Techs). Significant strides are being taken to digitize the banking and credit ecosystem. This digital revolution has provided an opportunity to enlarge the scope of financial inclusion.Taking advantage of the India stack, quite a few microfinance institutions, small finance banks, and commercial banks have digitized the process of banking and loan disbursement. The collection process is also being strengthened using digital technologies.
There is a long road ahead to make financial products like credit available to all. However, a key to realizing this is credit reporting, which can support and facilitate access to credit at a large scale. By building individuals' and businesses' reputational collateral using payment history and predictive analytics, credit bureaus can play a vital role in expanding financial services to the unserved and underserved population of our country (Chandani, 2022).The Kisan Credit Card (KCC) an innovative credit delivery mechanism introduced by RBI, to provide adequate and timely bank credit to farmers has now been extended to farmers involved in animal husbandry and fishery to enable them to meet their working capital requirements.

7.3. Business Correspondents:

In January 2006, RBI has permitted banks to use Business Correspondents (BCs) or Business Facilitators (BFs) with the objective of outreaching financial inclusion programs to remote areas. They are allowed to conduct banking business as retail agents, especially appointed in rural areas, of the banks in places other than the bank premises. The scope of activities may include identification of borrowers, collection and preliminary processing of loan applications including verification of primary information/data, creating awareness about savings and other products, education and advice on managing money and debt counselling, processing and submission of applications to banks, promoting, nurturing and monitoring of Self Help Groups (SHG) / Joint Liability Groups (JLG) /Credit Groups/others, post-sanction monitoring, follow-up for recovery, etc.There were only 4,174 BCs as on March 2010 and the number has reached to 18,44,732 at December 2021. This data reveals that there is tremendous increase in BCs in recent years to help maximise financial inclusion.

7.4. Initiatives by RBI:

The Reserve Bank of India extending its efforts in providing ease of access to banking services for all sections of people across the country, and bolstering the credit delivery system to satisfy the requirements of all productive sectors of the economy, particularly agriculture and micro and small enterprises (MSEs). Several initiatives were taken to improve credit delivery and promote financial inclusion. Major progressive initiatives include:

a) Responsive to ease of access, availability and usage of services, and quality of services, the Reserve Bank has constructed a composite Financial Inclusion Index (FI-Index) without any base year to record the degree of financial inclusion in the country. It reflects the cumulative efforts of all stakeholders over the years toward financial inclusion. The annual FI-Index for the period ending March 2021 stood at 53.9 as against 43.4 for the period ending March 2017, apprehending the improvement made in financial inclusion.
b) Relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address
c) The Government of India sets the agricultural credit target every year for Scheduled Commercial Banks (SCBs), regional rural banks (RRBs) and rural co-operative banks. During 2021-22, against the target of ₹16.5 lakh crore, banks achieved 104 per cent of the target (₹17.09 lakh crore) as on March 31, 2022.
d) The assignment of lead bank responsibility to a designated bank in every district is undertaken by the Reserve Bank. As at end March 2022, 12 public sector banks and one private sector bank were assigned lead bank responsibility, covering 734 districts across the country.
e) Providing banking access to every village within a 5 km radius/ hamlet of 500 households in hilly areas is one of the key objectives of the National Strategy for Financial Inclusion (NSFI): 2019-24. The milestone has been fully achieved in 25 states and 7 UTs as on March 31, 2022 and 99.94 per cent of the identified villages/hamlets across the country have been covered. Efforts are on to achieve the target for the remaining villages/ hamlets.
f) Significant progress has been achieved in the area of strengthening digital infrastructure by way of institutionalizing the Payment Infrastructure Development Fund (PIDF), launch of Digital Payment Index (DPI), implementation and scaling up the pilot project on expanding and deepening of digital payments ecosystem and laying of Optical Fibre Cable (OFC) under the Bharat Net project of the Government of India (GoI) to provide broadband connectivity to all 2.5 lakh Gram Panchayats across the country. This effort helped in maximizing the financial inclusion services through digital means (RBI, 2022).

8. Challenges:

In spite of remarkable progress achieved through various initiative with regard to maximising financial inclusion across the country, there are issues which need to be attended.

i) India is a vast and diverse country. As rural areas are remote and scattered, the cost of reaching out the last mile is affecting the effective implementation of formal financial inclusion programs and delivery of financial services.
ii) Despite effective financial inclusion efforts – because of low income, lack of saving habit, keeping the bank account active until the receipt of benefits, financial assistance and then neglecting or closing of such accounts, etc. – the rate of bank accounts becoming dormant is high among the Indian population.
iii) There is still prevailing a general mistrust among population with respect to security and safety of their funds. Financial illiteracy and lack of awareness on the proper usage of

financial products and services and fear of data privacy and financial cybercrimes has led to mistrust resulting in reduced digital promotion and financial inclusion.

iv) Business Correspondents (BCs) appointed in rural areas, under financial inclusion programme, normally belongs to the same area. This in turn psychologically restricts the people from revealing their financial transactions to that BC fearing the data privacy. Further, on the other hand, BCs are finding it difficult to earn enough income, in the form of commission, due to catering of services to low-income group customers with low volume transactions. Therefore, BCs may not intensively participate in financial inclusion efforts.

v) Access to formal credit, especially long-term credit, is still a concern in rural areas. Credit from informal local pawn brokers, small local lenders at higher rates of interest is a common scenario in rural and semi-urban areas. Non-availability of collateral against loans, proper documents and related legal aspects are other reasons impelling the rural people to depend on local lenders instead of formal financial institutions.

9. Conclusion:

The above discussions are indicative that progress of financial inclusion since the launch of financial inclusion plans in India reveals that Government of India and RBI along with other financial institution are striving hard to maximise the extent of financial inclusion in India. There is notable progress in the supply side strategies like opening of banking outlets, deploying BCs, opening of BSBDA, in the forma of PMJDY, linkage of J-A-M., grant of Kisan Credit Cards, establishment of ATMs, and building require infrastructure to facilitate digital financial inclusion.

However, because of its geographical vastness and diversity, digital divide of remote places, financial illiteracy and security and safety fear in the minds of beneficiary population the India is still facing challenges to achieve its financial inclusion objective to a maximum extent. There are demand side challenges in reaching financial inclusion goal.

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