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Financial Inclusion in India: Progress and Challenges

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Abstract
Without ambiguity it is accepted that financial inclusion is important for improving the living conditions of every one especially the poor and vulnerable people.Subsequently,almost every country in the world including India has made it an integral part of the over all economic policy.The successive goverments and the Reserve Bank of India has made considerable efforts and in result we achieved many milestones,but still a lot to do.Therefore,this paper critically analyse the steps taken by government and Reserve Bank of India and possible challenges faced by them.This paper also highlights what be the steps that are required to be taken in ever changing technological environment in order to achieve the objectives truly.
Keywords:*Financial inclusion, Finacial literacy, Financial product*

1. Introduction

Financial inclusion is as an effective means for sustainable economic growth, and aims to ensure that every citizen of the country can use its profits as a national financial resource for redeployment in the productive sectors of the economy.Financial inclusion initiatives highlight the concerted efforts undertaken by the financial system or any of its components to bring to its fold those sections of the economy that have been excluded from access to affordable credit and other financial services (Classen,2006). In India the definition of Financial Inclusion came in 2008, when Rangarajan Committee defined it as "the process of guaranteeing access to financial services and timely and adequate credit when necessary for vulnerable groups, such as weaker sections and groups of low income at affordable prices"(Rangarajan,2008).

Financial services are delivered by a range of providers, most of them private, and financially included persons are those who have an account in their name with a full service financial institution. In nutshell, Complete financial inclusion is a state in which all people irrespective of caste, creed, religion, region, ethnicity, gender, disability and economic conditions have access to useful and affordable financial products and services that meet their needs transactions, payments, savings, credit and insurance-delivered in responsible and sustainable way.

2. The beginning of the financial inclusion in India

While it is true that we have started inclusive banking way back in 1969 and 1980,with the nationalization of banks and fixing the credit percentage for specific sectors,but the real momentum on financial inclusion came in 2005 when the Reserve Bank of India (RBI) stressed its importance in its 2005-06 annual policy statement.Based on the Khan Committee report that spoke about how many people in the nation are missing out on benefits of a professional and licensed banking system,laid an emphasis on providing access to essential financial services by helping them to open a bank account that does not come with any frills or complicated elements. All banks were asked to minimize regulations regarding account creation processes for the economically weaker sections of the society. Several banks were asked to work together towards 100% financial inclusion by taking part in campaigns started by the Reserve Bank of India (RBI, 2005). It was chiefly introduced to touch every corner of the country without ignoring any remote area. The concept addressed the absence of a formal financial system and banking system for catering to the monetary requirements of the poor people.

The financial inclusion gets further impetus after the recommendations of the Rangarajan Committee in 2008, when banks realized the importance of connecting with more people for business growth. Realising the experience of microfinance units in India and abroad showing that vulnerable groups that pay usurious interest rates to local lenders can also be valuable creditors of banks and more importantly to remove the poor community from the network of

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exploitative lenders. The span of financial services included the provision of basic savings accounts and access to adequate credit at affordable costs for vulnerable groups such as excluded sections of society and low-income households. But despite this emphasis, the penetration of banking services was initially limited mainly to urban areas and major cities, after which they began to spread to the interior.

3. Shift in the Financial Inclusion Policy

A rapid implementation of the financial inclusion policy is seen only after 2010-11,when financial inclusion became an integral part of the commercial domain of banks, and RBI advised all public and private banks to submit a three-year financial inclusion plan (FIP) plan approved by the board as of April 2010. Keeping in mind that low-income people living in rural and urban areas have very limited access to financial products and services, scheduled commercial banks (SCBs) have been asked by the Reserve Bank of India to design and offer innovative financial products exclusively to the economically weaker sections of the society (RBI,2011). Many of them are only aware of basic financial services such as savings schemes, savings accounts, personal loans, crop loans, microfinance, etc. They do not know anything about credit cards or debit cards.

Accordingly,Commercial banks opened new rural branches, increased village coverage, established ATMs and digital kiosks, deployed BC, opened unadorned accounts and granted credit through KCC and GCC.Customer in semi urban and rural areasoffered General Credit Card facilities with an amount of up to Rs.25,000 at their branches and exclusively Kissan Credit Cards to small farmers who earn very low incomes and who have very limited funds due to which they cannot invest in proper farming tools, fertilizers, pesticides, crop seeds, tractors, land for farming, storage warehouses, etc. Usually, they are forced to rely on other wealthy landlords for getting land to sow crops. These Kissan Credit Cards are intended to help farmers make instant purchases whenever required. Many a time, farmers give up on purchasing things required for their occupation due to lack of funds. The table 3.1 gives a clear idea about the progress made.

Table 3.1 Progress of Financial Inclusion at a glance

Particulars	End-March 2010	End-March 2017	End-March 2018
Banking Outlets in Villages – Branches	33378	50860	50805
Banking Outlets in Villages>2000-BCs	8390	105402	100802
Banking Outlets in Villages<2000- BCs	25784	438070	414515
Total Banking Outlets in Villages – BCs	34174	543472	515317
Banking Outlets in Villages – Other Modes	142	3761	3425
Banking Outlets in Villages –Total	**67694**	**598093**	**569547**
Urban locations covered through BCs	447	102865	142959
BSBDA - Through branches (No. in Million)	60	254	247
BSBDA - Through branches (Amt. in ` Billion)	44	691	731
BSBDA - Through BCs (No. in Million)	13	280	289
BSBDA - Through BCs (Amt. in ` Billion)	11	285	391
BSBDA - Total (No. in Million)	**73**	**533**	**536**
BSBDA - Total (Amt. in ` Billion)	**55**	**977**	**1121**
OD facility availed in BSBDAs (No. in million)	0.2	9	6
OD facility availed in BSBDAs (Amt. in ` Billion)	0.1	17	4
KCC - Total (No. in Million)	24	46	46
KCC - Total (Amt. in ` Billion)	1240	5805	6096
GCC - Total (No. in Million)	1	13	12
GCC - Total (Amt. in ` Billion)	35	2117	1498
ICT-A/Cs-BC-Total Transactions (Number in million)	27	1159	1489
ICT-A/Cs-BC-Total Transactions (Amt. in ` billion)	7	2652	4292

Source: Annual Reports of RBI, 2017-18

4. Major change in financial inclusion

The biggest change came into force with the launch of 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' in August 2014. This yojna has been designed to guarantee accelerated access to various financial services such as basic savings bank accounts, affordable credit based on needs, remittances, and insurance and pension for excluded sections. As we know such deep penetration that too at an affordable

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cost and with greater pace can only be possible with the effective use of technology. Therefore, the banking ecosystem that operates in the central bank mode and NPCI's ability to broaden the problem of debit cards has allowed the effective implementation of PMJDY.As a result, the number of new savings accounts have increased manifold which can be observed from table 4.1

Table 4.1 Progress of PMJDY up to 10th October 2018.

Bank Name / Type	Number of Total Beneficiaries	No Of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts(In Crore)	Number of Rupay Debit Cards issued to beneficiaries (crore)
Public Sector Banks	26.56	13.91	26.56	66811.94	20.05
Regional Rural Banks	5.37	2.95	5.37	17136.94	3.73
Private Sector Banks	1.00	0.53	1.00	2214.90	0.93
Grand Total	**32.94**	**17.39**	**32.94**	**86163.79**	**24.71**

Source: PMJDY Website

Moreover,financial inclusion got a further boost with the launch of India Post Payments Bank (IPPB) that seekstolevearagetheinfrastructure,personnel andreach of India post,and proposes to operatethrough multiple channelssuch as physical branches,mobile apps,micro ATM,SMS and IVR (Ineractive Voice Respose) will remove the impediments of people living in rural and remote areas.It can also free the farmers and other residents of rural India from the clutches of money lenders. Itis expected that the benefit of such massive accumulationtothecustomerbasewillprovideanimmense benefit toconsumers and banks in the coming years.

5. Measurement of financial inclusion

The Progress of the financial inclusion implementation must be measured to decide on the future policy framework. It is believed that when banks embarked on the formal financial inclusion trip, only 40% of Indian adults had savings accounts, and only a small fraction received credit from the banking system.India's first financial inclusion index was launched in 2013 based on four critical dimensions: (i) branch penetration, (ii) deposit penetration, (iii) credit penetration and (iv) insurance penetration (Kudva,2013). The index readings for the fiscal year (FY) 2015-16 (the latest period for which data are available) show that financial inclusion improved significantly, with India's total score rising to 58 in the 2015-16 fiscal year, compared with 50.1 in the fiscal year 2012 -13. The PMJDY and the firm approach of RBI in the unbanked regions have made a big difference.

The initiative of Digital India, the banks of payment and the small financial banks have helped to improve the scope of the formal financial services to sectors economically disadvantaged of the population and the geographically remote regions.As per the Financial Inclusion Insights report 2018,Adults(15+) who have active digital stored value accounts have increased from 22%in 2014 to 54%in 2017,poor adults(15+) who have active digital stored value accounts increased from 17% to 52%between 2014 to 2017,whereas,rural women(15+) who have active digital sored value accounts have risen from 12% in 2014 to 46%in 2017.Moreover,those who actively use digital stored value accounts and have accessed atleast one advanced financial services(beyond basic wallet and p2p) has increased from 20%to34% for adults(15+) and from 11% to 28% for rural women(15+) between 2014 to 2017(Schueth et al,2018).In addition to it the the World Bank that measure the progress of financial inclusive in the countries in its latest report has mentioned India's GFX as 80 in 2017,which was 53 in 2014 and was only 35 in 2011(Demirguc-kunt,et al,2018). This reflects a rapid improvement in financial inclusion, suggesting that the relevant Indian policies in recent years have made decent progress.

6. Challenges to Financial Inclusion

A country like India which is a continent in character, to achieve complete financial inclusion is difficult to achieve. There are many factors that are creating hurdles to achieve a higher rate of financial inclusion such as:

6.1 The Need to Improve Financial Literacy

The issue of financial education is not as simple as it seems. It requires an understanding of the information gap between the consumer segments, banked and unbanked, and developing communication strategies that address the unique needs of specific segments.

By improving the financial literacy rate among these individuals, this will lead to better financial decisions and the selection of the right products that best suits the needs of these individuals. It will also lead to knowing how to better utilize the various channels that are available for their banking needs. A greater degree of knowledge and understanding of banking and financial products is the first step in creating demand and increasing adoption.This is therefore,apart from having various literacy campaign programs and training courses,the governments and the Reserve Bank of India must engage themselves to school boards to introduce these concepts intothe curriculum as a long term and sustainable strategy because the global average age of introduction of financial literacy to children is 11.3 years.

6.2 Consumer Protection

The proliferation of financial services such as mobile money and virtual currencies designed to expand financial inclusion also provide a fertile ground to fraudsters, scamsters and innovative thieves, especially where large number of people is financially illiterate and poor. So, there is genuine lack of trust among consumers as to the security and reliability of these newly established platforms. Thus, in order to promote confidence in these new methods of payment services, authorities must release clear guidelines and regulations that will ensure that the consumers are adequately protected and have access to key product information to allow them make informed decisions.

6.3 The Rural Poor and Gender Inequality

In developing countries, the rural poor and women in general face unique obstacles when trying to access financial services. According to the World Bank, even though women form a larger share of the self-employed category in developing countries, they have a lower chance of securing credit from banks largely due to a lack of collateral or poor credit history. In order to expand financial inclusion among the rural poor and women, stakeholders must come up with ways which will remove the impediments that these two demographics face in trying to gain access to financial services. Although almost 50%of the total account opened under PMJDY is of women but the actual decisions are taken by their male counterparts. Therefore, there is need to have measures that can include more investment into financial awareness programs to help reinforce the ability of the women and the rural poor to make better-informed financial decisions.

6.4 Promoting the Use of the Transaction Account

For a bank account to be relevant in people lives, it must function as a gateway to other financial services which can improve their overall economic welfare. According to the World Bank report, India has the highest share of inactive bank accounts in the world. To help accelerate the use of a bank account, the private sector and governments can play a key role by depositing their workers' wages into the bank accounts rather than paying them in cash. A good initiative in this direction is the program where social benefits and subsidies of the recipients are paid directly to their transaction accounts. Moreover, the recent launch of India Post Payments Bank (IPPB) can also play an important role in removing impediments of remote and rural people and encourage them to use different services for their own benefits.

7. Conclusion

Globally, financial inclusion is considered a critical indicator of the development and well-being of a society.An inherently strong, functionally diverse,efficient,flexible and inclusive financial system is essential for the sustainable and inclusive development of the economy.Since 2010,the issue of financial inclusion has received large importance and became an integral part of the over all policy.The Government and the RBI have been working continuously with the use of innovative and differentiated financial products together with the launch of far reaching schemes such as PMJDY and IPPB so that the regions and the population so far unbanked are integrated into the formal banking system. In the last 8-10 years, banks have expanded their presence, and emerged to provide better access including vulnerable groups to appropriate financial products and services

While improving penetration is essential, the other key component is making India financially aware.Proper knowledge and understanding of banking and financial products is the first step to create demand and to increase adoption.In the future, technology will play a key role in promoting financial inclusion and financial education.Real-time information, product updates and standards, better financial management and investment decision making can be enabled through secure technology platforms.The decisions made by a consumer with financial awareness will help develop products that are relevant and lead to financial innovation. Thus,we need to develop a scalable and multifaceted approach to financial education only then we will be able to achieve the desired objective in true sense.

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