

Facilitating Financial Inclusion

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...commercial banks, especially public sector banks, have played an important role in extending financial inclusion in the country, especially rural and semi-urban areas. The successful expansion of banks is now being used to leverage the infrastructure for other financial products like insurance schemes and pension funds

Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players (GOI, 2008). The objective of financial inclusion is to transform the lives of vulnerable people, mainly poor, by providing them access to banking finance and enabling them to generate stable income (Reddy, 2017).

In fact, contrary to general belief, historically, India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to the cooperative movement in India (Roy, 2011).¹ The objective of cooperative banks was to extend banking facilities, mainly availability of credit, on easy terms compared to the money lender. In India, the financial inclusion exercise, explicitly started with nationalization of State Bank of India in 1955. In 1967, there emerged a debate on social banking and consequently 14 private sector banks were nationalised in 1969 to serve the unbanked. The concept of priority sector lending became important by 1974 which implied

directed lending to unbanked areas, and in 1980, eight more private banks were nationalised to extend banking in rural areas and for vulnerable sections of society. Since then, there was considerable reorientation of bank lending to accelerate the process of development, especially of the priority sector of the economy which had not previously received sufficient attention.

The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) have also been making concerted efforts in extending banking across the country under which schemes of microfinance initiatives, and business correspondents (BCs) were launched. Other initiatives included establishing Regional Rural Banks (1975), adopting service area approach (1989), and Self-Help Group-Bank linkage programme (1989, 1990).

In more recent years, especially since November 2005, special efforts were made to ensure financial inclusion, by the RBI by simplifying norms on know-your-customer requirements, and introducing 'no-frills' account. RBI's cautious policy on financial inclusion has been to ensure a balance between equity and efficiency as well as ensuring

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financial health of banks, considering their lending capacities. RBI adopted a bank-led approach and encouraged technological innovations, like hand-held devices, to be used by banks in remote locations.

Reach of Banking

The reach of banking was limited despite different initiatives of financial inclusion contributing in changing the economic landscape in India. There were still important factors such as poverty, low income levels, and distance from bank branches that were restricting vulnerable groups from getting access to the formal banking system. According to Census 2011, only 58.7 percent of total households in India and only 54.4

percent households in rural areas had access to formal banking services (Table 1).

Expansion of Banking and Role of Money Lender

The efforts made by the government and the RBI resulted in branch expansion but the money lender continued to play an important role. The number of banking offices in India on the eve of establishment of the RBI in 1935 were 946. In March 1969, when banks were nationalized there were only 1,833 rural and 3,342 semi urban bank offices out of total



8,262 offices. Of these, there were 160 branches of Imperial Bank, 98 of exchange banks and 688 of Indian joint stock banks. This implied one bank branch for 3 lakhs of population. In such a situation money lenders were doing substantial business and continued to play an important role in

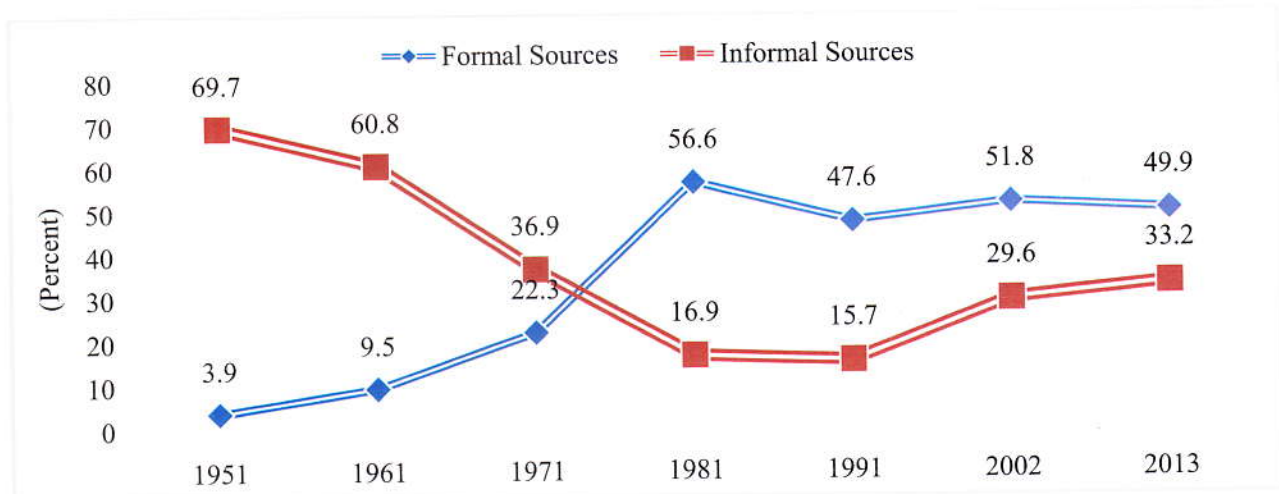
Table 1: Percentage of Households availing Banking Services

(Households in Crore)

House holds	As per Census 2001			As per Census 2011		
	Total number of households	Number of households availing banking services	Percent	Total Number of households	Number of households availing banking services	Percent
Rural	13.8	4.2	30.1	16.8	9.1	54.4
Urban	5.4	2.7	49.5	7.9	5.3	67.8
Total	19.2	6.8	35.5	24.7	14.5	58.7

Source: GOI.

Chart 1: Institutional and Non-Institutional Rural Credit



Note: Informal Sources: Consists of Money Lenders, Formal Sources: Consists only of Co-op. Society/bank and Commercial bank incl. RRBs.
Source: All India Debt and Investment Survey, Various Issues, NSSO.

rural areas, even after nationalisation, because bank branches were few, and located far away. The spread of branch networks was extensive but despite government's efforts to expand banking penetration and extend credit, share of professional moneylenders in rural credit started increasing after 1991 (Chart 1).

Government Initiatives

To ensure a banking account in every household, the Prime Minister, on assuming office, in the maiden speech from the Red Fort on August 15, 2014 announced the need for concerted efforts. Pradhan Mantri Jan Dhan Yojana (PMJDY), which envisages universal access to banking facilities with at least one basic banking account for every household, consolidates government's effort to increase number of households availing banking services. As of December 06, 2017 a total of 30.7 crore accounts had been opened under the scheme of which 18.1 crore are in rural areas and 12.7 crore in urban

areas. The number of RuPay cards have also increased to 23.1 crore. The progress has been impressive, considering that total amount of bank deposits with commercial banks was Rs. 69,841.2 crore as on December 06, 2017 (Table 2).

The size of branch network increased rapidly in rural areas though growth rate was higher in urban and metropolitan areas (Table 3). In 2015, the presence of nationalized banks, and SBI and its Associates was highest in rural areas (Table 4).

The public sector banks, traditionally involved in social banking, continue to play an important role in extending banking services to unbanked areas but share of private banks, both in number of accounts and amount outstanding is increasing significantly in the last decade (Table 5). Some of the banks benefited from institutional memory as they earlier operated Pigmy, Honey deposit or Jeevannidhi Schemes, which migrated to no-frill or basic saving accounts in recent years.

The commercial banks have played a significant role in extending credit in northern region, especially in rural and semi-urban areas (Table 6). There has also been a significant increase in credit in urban areas in Eastern and North-Eastern region.

In extending credit to agriculture sector, commercial banks have been more successful than RRBs or Cooperative Banks (Table 7).

Innovation in Extending Credit

To extend banking services to unbanked population, commercial banks began exploring alternatives to brick and mortar branch like mobile vans, banking kiosks and BCs. A large number of the unbanked customers are those who have never entered a bank branch and the BC channel introduced them to a process of inculcating banking culture. Banking with BCs provided not just convenience of banking in a place that is in close proximity to their

**Table 2: Status of Pradhan Mantri Jan Dhan Yojana
(As on December 6, 2017)**

(in Crore)

Bank Name / Type	Number of Beneficiaries			Deposits in Accounts (Rs. Crore)	Number of Rupay Debit Cards issued to beneficiaries
	Rural	Urban	Total		
Public Sector Banks	13.3	11.5	24.8	55646.6	18.6
Regional Rural Banks	4.2	0.8	4.9	12033.9	3.6
Private Sector Banks	0.6	0.4	1.0	2160.6	0.9
Grand Total	18.1	12.7	30.7	69841.2	23.1

Source: GoI - <https://pmjdy.gov.in/account>

Table 3: Number of Bank Branches by Population Group

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
1969	1833	3342	1584	1503	8262
1979	13337	7889	5037	3939	30202
1989	33014	11166	7524	5995	57699
1999	32857	14168	9898	8016	64939
2009	30943	19282	15356	14288	79869
2017	48806	38201	24574	26478	138059

Note: Data exclude 'administrative Offices'.

Source: RBI, Handbook of Statistics on Indian Economy.

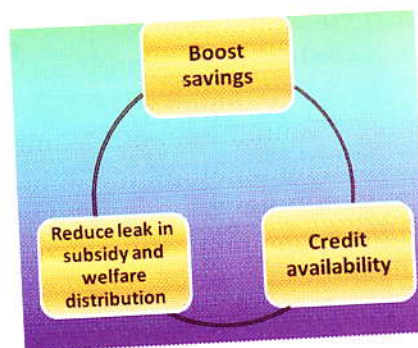
business or residence but offered substantial savings on transacting banking business. The customers save cost of transportation and time/wages lost to visit a branch to complete a transaction. In case of rural areas savings are often substantial since the cost of visiting a branch to complete a transaction requires about 2-6 hours which implies absence from regular activity. The banking outlets, with BCs have now been established in remote areas or amidst slums, places where banking penetration was low or non-existent. Accordingly, commercial banks have been successful in extending banking services to nearly 6 lakh villages, mainly through BCs. The progress of financial inclusion has been extensive with banking outlets increasing from 33,378 in March 2010 to 50,860 in March 2017 while those with BCs, increased rapidly from 34,316 to 5,47,233. The business transacted as well as number of accounts have increased manifold during the last seven years (Table 8). The amount deposited in basic savings account

through BCs increased nearly 26 times while that through branches recorded an increase of 15 times over the period. The amount transacted through use of information technology recorded highest growth over the period. Finally, encouraging results of PMJDY are apparent - amount in basic savings account and transactions through use of technology show a substantial increase after 2014.

Select Issues and Suggestions

There is a need to examine some emerging gaps to achieve financial inclusion. First, there is need to extend financial inclusion to the disabled, including those elderly where locomotor activity, vision and hearing is impaired. RBI directives to banks to be accessible to all kind of disabled have not recorded notable progress with very few ATMs and bank branches being disabled-friendly.

There is potential for more expansion of financial inclusion but for technological issues like frequent machine breakdowns and lack of



connectivity which negatively impacts confidence of customers towards informal banking. The problems with hand-held devices continue to deter financial inclusion. There is a need for facilities like biometric-enabled and multi-lingual hand-held devices which can provide confidence in rural masses. Technological innovations like integrated machines that have functionality of cash withdrawals and deposits; facility of scanning documents to facilitate new account opening and loan disbursements; and voice commands and narration for available facilities could help increase banking penetration.

Table 4: Number of Bank Branches by Bank Group - 2015

Type of Banks	Rural	Semi-urban	Urban	Metropolitan	Total
SBI and Associates	8029	6593	4304	3622	22548
Nationalized Banks	21605	16956	13083	11703	63347
Regional Rural Banks	14613	3748	1071	228	19660
Private Sector Banks	4302	6457	4521	4698	19978
Foreign Banks	8	12	57	247	324
All-India	48557	33766	23036	20498	125857

Source: GOI.

Table 5: Bank Group-wise Outstanding Credit of Scheduled Commercial Banks
(Accounts in Million and Amount in Rs. Billion)

	1996 March		2016 March	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
SBI and its Associates	14.2	742	26.8	16113
Nationalised Bank	25.7	1300	56.4	35146
RRBs	13.1	73	23.4	2068
Private Sector Banks*	2.4	202	50.3	18129
Foreign Banks	1.2	229	5.5	3770
All Banks	56.7	2547	162.4	75226

*In 1996: Other Scheduled Commercial Banks.

Source: RBI, *Basic Statistical Returns of Scheduled Commercial Banks (SCBs) in India*.

Table 6: Outstanding Credit of Commercial Banks

(Rs. Billion)

	1996				2016			
	Rural	Semi-Urban	Urban	Metro-politan	Rural	Semi-Urban	Urban	Metro-politan
Northern Region	77	53	85	261	1774	1990	2964	10502
North-Eastern Region	12	8	8	-	181	252	220	-
Eastern Region	59	37	46	116	866	714	1351	2837
Central Region	66	58	71	47	1352	1226	2231	1708
Western Region	64	57	60	646	913	1368	1414	20703
Southern Region	109	155	172	278	2270	3813	4784	9789
All- India	386	369	444	1348	7358	9363	12966	45540

Source: RBI, *Basic Statistical Returns of Scheduled Commercial Banks (SCBs) in India*.

Table 7: Targets and Achievements for Agricultural Credit

(Rs. Billion)

Year	Commercial Banks		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
2013-14	4,750	5,090	1,250	1,199	1,000	827	7,000	7,116
2016-17*	6,250	7,998	1,500	1,428	1,250	1,232	9,000	10,658

*: Provisional.

Source: *RBI Annual Report*.

**Table 8: Progress on Financial Inclusion by Banks
(Year ending March)**

Year	Amount					(Rs. Billion)
	BSBDA		OD	KCCs	GCCs	ICT
	Branches	BCs				
2010	44	11	0.1	1,240	35	7
2014	273	39	16	3,684	1,097	524
2017	691	285	17	5,805	2,117	2,652
Year	Volume					(Million)
	BSBDA		OD	KCCs	GCCs	ICT
	Branches	BCs				
2010	60	13	0.2	24	1	27
2014	126	117	6	40	7	329
2017	254	280	9	46	13	1,159

Note: BSBDA - Basic Savings Bank Deposit Account, OD - Overdraft, KCC - Kisan Credit Card, GCC - General Credit Card, BC - Business Correspondents, ICT - Information and Communication Technology.

Source: *RBI*.

The instruments offered under financial inclusion also need consideration. There is significant difference in the socio-economic background of people living in rural India and therefore there is a need for flexibility in financial schemes designed for different segments of unbanked population. Illustratively, standard instruments that are offered by commercial banks are designed for salaried segments of society like

recurring deposit schemes which would need to differ in rural areas depending on pattern of income based on cycle of agriculture production.

To monitor developments regarding financial inclusion there is a need to assign responsibility to a dedicated financial institution. National Bank for Agriculture and Rural Development, probably, is the most appropriate institution to be made accountable

for furthering progress of financial inclusion in rural areas given their domain knowledge.

Financial literacy is a constant challenge and therefore, bankers have been adopting different strategies to reach larger segments of the society, mainly in villages. It is important to build a relationship with customers, especially villagers, before they part with their money. To enhance financial literacy some banks have

taken several initiatives such as conducting quiz at college level, preparing comic books, organizing magic shows. etc. There is need to standardize literature/material to extend financial literacy amongst the unbanked.

Conclusion

To conclude, commercial banks, especially public sector banks, have played an important role in extending financial inclusion in the country, especially rural and semi-urban areas. The successful expansion of banks

is now being used to leverage the infrastructure for other financial products like insurance schemes and pension funds.

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Cabinet Approves Setting Up of National Nutrition Mission

The Union Cabinet chaired by Prime Minister has approved setting up of National Nutrition Mission (NNM) with a three year budget of Rs.9046.17 crore commencing from 2017-18.

The NNM, as an apex body, will monitor, supervise, fix targets and guide the nutrition related interventions across the Ministries. The proposal consists of • mapping of various schemes contributing towards addressing malnutrition • introducing a very robust convergence mechanism • ICT based Real Time Monitoring system • incentivizing States/UTs for meeting the targets • incentivizing Anganwadi Workers (AWWs) for using IT based tools • eliminating registers used by AWWs • introducing measurement of height of children at the Anganwadi Centres (AWCs) • Social Audits • setting-up Nutrition Resource Centres, involving masses through Jan Andolan for their participation on nutrition through various activities, among others.



The programme will strive to reduce the level of stunting, under-nutrition, anemia and low birth weight babies. It will create synergy, ensure better monitoring, issue alerts for timely action, and encourage States/UTs to perform, guide and supervise the line Ministries and States/UTs to achieve the targeted goals.

More than 10 crore people will be benefitted by this programme. All the States and districts will be covered in a phased manner i.e. 315 districts in 2017-18, 235 districts in 2018-19 and remaining districts in 2019-20.

An amount of Rs. 9046.17 crore will be expended for three years commencing from 2017-18. This will be funded by Government Budgetary Support (50 per cent) and 50 per cent by IBRD or other MDB. Government budgetary support would be 60:40 between Centre and States/UTs, 90:10 for NER and Himalayan States and 100 per cent for UTs without legislature. Total Government of India share over a period of three years would be Rs. 2849.54 crore.

Implementation strategy would be based on intense monitoring and Convergence Action Plan right upto the grass root level. NNM will be rolled out in three phases from 2017-18 to 2019-20. NNM targets to reduce stunting, under-nutrition, anemia (among young children, women and adolescent girls) and reduce low birth weight by 2 per cent, 2 per cent, 3 per cent and 2 per cent per annum respectively. Although the target to reduce Stunting is atleast 2 per cent p.a., Mission would strive to achieve reduction in Stunting from 38.4 per cent (NFHS-4) to 25 per cent by 2022 (Mission 25 by 2022).

There are a number of schemes directly/indirectly affecting the nutritional status of children (0-6 years age) and pregnant women and lactating mothers. In spite of these, level of malnutrition and related problems in the country is high. There is no dearth of schemes but lack of creating synergy and linking the schemes with each other to achieve common goal. NNM through robust convergence mechanism and other components would strive to create the synergy.