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A Comparative Appraisal of Financial Inclusion in India

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Abstract

Access to banking and financial services by all sections of the society will ensure inclusive growth. Financial inclusion is an essential component in reducing poverty and achieving inclusive economic growth. Financial inclusion is considered as a catalyst for sustainable inclusive growth. This paper is directed towards making a comparative appraisal of financial inclusion in India. This paper looks in to a cross-country comparison of financial inclusion indicators of India and selected countries and found that India does not compare very favorably with regard to some financial inclusion indicators. This paper also examines the regional financial inclusion situation in India. The CRISIL Inclusix point out that there is an overall improvement in the financial inclusion among the states of India. There are state wise variations in financial inclusion within the country. All India Inclusix score has improved from 35.4 in 2009 to 58 in 2016 out of 100, it also reveal that a large part of India's population still do not have access to formal financial services. Indian policymakers must take efficient ways and means to ensure greater financial inclusion by providing access of financial services to the financially excluded segments of society.

Keywords: Financial Inclusion; Inclusive Growth; Inclusix; Digital Payments; Inactive Accounts.

Introduction

Finance plays a dominant role in economic development. Access to finance, especially for the underprivileged and vulnerable sections, lead to inclusive growth. Financial inclusion is a vital element in achieving inclusive economic growth and reducing poverty. Financial inclusion refers to the delivery of financial services at affordable costs to all sections, including underprivileged and low-income groups. Access to banking and financial services by all sections of the society will ensure inclusive growth. A committee on financial inclusion chaired by Dr. C Rangarajan in 2008 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." Dr. Raghuram Rajan's committee on financial sector reforms defined financial inclusion as, "Expanding access to financial services such as payment services, savings products, insurance products and inflation-protected pensions." CRISIL defines financial inclusion as: "The extent of access by all sections of society to formal financial services such as credit, deposit, insurance and pension services."

For achieving inclusive growth and development the spreading out of financial services to all sections of society is of supreme significance. Financial inclusion is considered as catalyst for sustainable inclusive growth. Having recognized early the social and economic imperatives of broader financial inclusion, both Government and the Reserve Bank have pursued this goal over the last several decades. This paper is directed towards making a comparative appraisal of financial inclusion in India. This paper looks in to a cross-country comparison of financial inclusion indicators of India and selected countries and also examines the regional financial inclusion situation in India.

Benefits of Financial Inclusion

Financial inclusion is beneficial for the nation as whole . The important benefits of financial inclusion from different angles are given below:

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- *Growth with Equity:* Growth is inclusive when it creates economic opportunities along with ensuring equal access to all sections of the society. Financial inclusion is a necessary condition for sustaining equitable growth.
- *Poverty Eradication:* Access to financial services provides poor people the motivation and platform to build their savings, make investments and avail various credit facilities. Financial inclusion provides economic opportunities to vulnerable sections and thus helps to reduce poverty.
- *Financial transactions made easy:* Inclusive finance will provide banking related financial transactions in an easy and speedy way.
- *Safe savings along with financial services:* People will have safe savings along with other allied services like insurance cover, entrepreneurial loans, payment and settlement facility etc.
- *Increasing effectiveness of Government Welfare programmes:* It will make possible for the governments to make payments under the social security schemes like National Rural Employment Guarantee Programme (NREGA) through bank accounts of the beneficiaries, by Electronic transfers. This will minimize transaction costs and leakages of money before reaching the hands of the beneficiaries.
- *Inflating National Income:* Boosting up business opportunities will definitely increase GDP and this will be reflected in our national income growth.
- *Becoming Global player:* Financial access will attract global market players to our country-that will result in increasing employment and business opportunities.
- *Viable business opportunity for banks:* The large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposits and help them to better manage both liquidity risks and asset-liability mismatches.
- *More productive investment:* It provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channels them into investment.
- *Money lender free India:* Reduced reliance on informal sector protects the poor people from the clutches of usurious money lenders.
- *Efficient and effective intermediation and allocation of financial resources:* Access to financial services by all sections of the society ensures efficient and effective intermediation and allocation of financial resources.

Barriers to access financial services

Following are the important barriers to access financial services by vulnerable sections :

1. Lack of legal identity
2. Low Level of income
3. Various Terms and Conditions
4. Structural/procedural formalities
5. Lack of Financial Literacy
6. Geographical Remoteness
7. Psychological and cultural barriers
8. Gender Issues
9. Refusal by banks
10. Level of bank charges

Financial Inclusion Initiatives of Government of India and RBI

Providing access to financial services to all sections of the society especially low-income households is one of the major aim for India. Major attempts made by Government of India and RBI to provide financial access to the population have been summarised below:

- Nationalisation of 14 Scheduled Commercial Banks (1969).
- Lead Bank Scheme (1970).
- Regional Rural Banks (1975-76).
- Nationalisation of 6 Scheduled Commercial Banks (1980).
- Creation of National Bank for Agriculture and Rural Development NABARD (1982).
- Service Area Approach (SAA) was initiated (1989).
- NABARD's Self Help Group (SHG)- Bank Linkage Policy (1992).
- Kisan Credit Card (1998-99).
- Khan Committee (2004).
- No frills account.
- General Credit Card (GCC).
- Simplification of Know Your Customer norms
- Policy initiative for Business Correspondents (BCs)/ Business Facilitators(BFs) (2006).
- Committee on Financial Inclusion (C Rangarajan) 2008.

- Formalisation of the Unique Identification Number –Aadhaar (2009).
- Swabhiman (2011).
- Direct Benefit Transfer Scheme (2013).
- Nachiket Mor Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (2014).
- Pradhan Mantri Jan Dhan Yojana (2014).
- MUDRA Bank (2015).
- Payment Banks (August 19, 2015).
- Niche banks-Small Finance banks (September 16,2015).
- Committee on Medium Term Path for Financial Inclusion chaired by Deepak Mohanty 2015.

Cross-Country Comparison of Financial Inclusion

Globally, 69 percent of adults (3.8 billion people) have an account according to 2017 Global Findex database . Globally the percentage of adults with an account rose from 51 percent in 2011 to 62 percent in2014 and then to 69 percent in 2017. In India the percentage of adults with an account rose from 35.2 percent (2011) to 53.1 percent(2014) and then to 79.9 percent (2017). Following table shows percentage of people who have account in select countries according to Findex 2011,2014 and 2017. Higher percentages of adults in China, France,Kenya,US and UK have an account in 2017 than India. In most of the select countries percentage of people who have account increased from 2011 to 2017.

Table 1. Percentage of people who have account in select countries.

SL No	Country	Account at a financial institution (%)		
		2011	2014	2017
1	Brazil	55.9	68.1	70.0
2	Russian Federation	48.2	67.4	75.8
3	**India**	**35.2**	**53.1**	**79.9**
4	China	63.8	78.9	80.2
5	South Africa	53.6	70.3	69.2
6	Indonesia	19.6	36.1	48.9
7	Kenya	42.3	74.7	81.6
8	Srilanka	68.5	82.7	73.6
9	United Kingdom	97.2	98.9	96.4
10	United States	88.0	93.6	93.1
11	France	97.0	96.6	94.0
12	World	51	62	69

Source: Global findex database 2017, World Bank

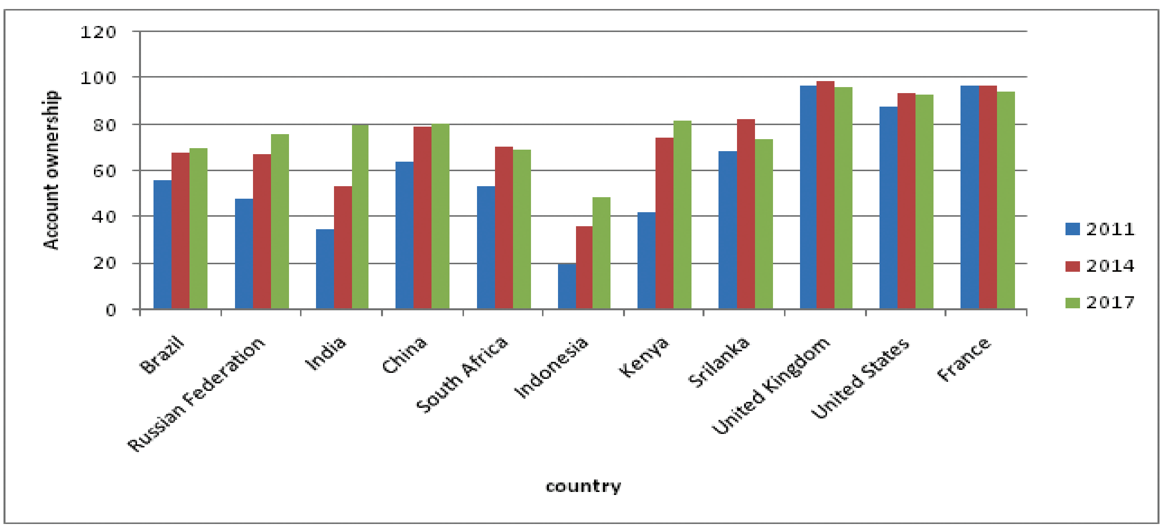

Chart 1. Percentage of people who have Account in select countries.

Source: Global findex database 2017, World Bank.

Indicators of Financial Inclusion for select countries

This section makes a cross-country comparison of financial inclusion indicators of Global Findex 2017 of select countries. India does not compare very favorably with regard to some of the financial inclusion indicators like digital payments in the past year, inactive accounts, saved at a financial institution, borrowed from a financial institution or used a credit card with some peer emerging market economies and developed countries.

Account at a financial Institution

Account ownership provides people an important financial tool. Account ownership is regarded as an indication of financial inclusion by the World Bank and others. Globally, 69 percent of adults have an account in 2017.Account ownership is nearly universal in high-income economies (94 percent) and in developing economies 63 percent of adults have an account. In 2017, around 80 per cent of Indian adults held an account with a financial institution, compared higher percentages of adults in the US , UK, China, France and Kenya.

Digital Payments

Globally 52.3 percent adults made or received digital payments Only 28.7 percent people made digital payments in the past year (made or received digital payments) in 2017.

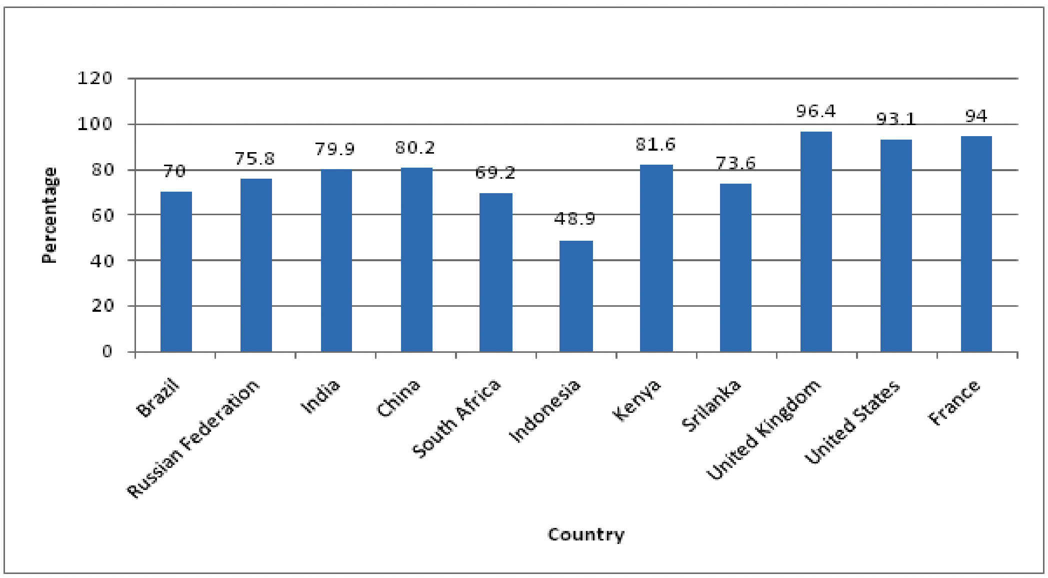

Chart 2. Account at a financial institution.

Source: The Little Data Book on Financial Inclusion 2018 (Global Findex Database 2017, World Bank).

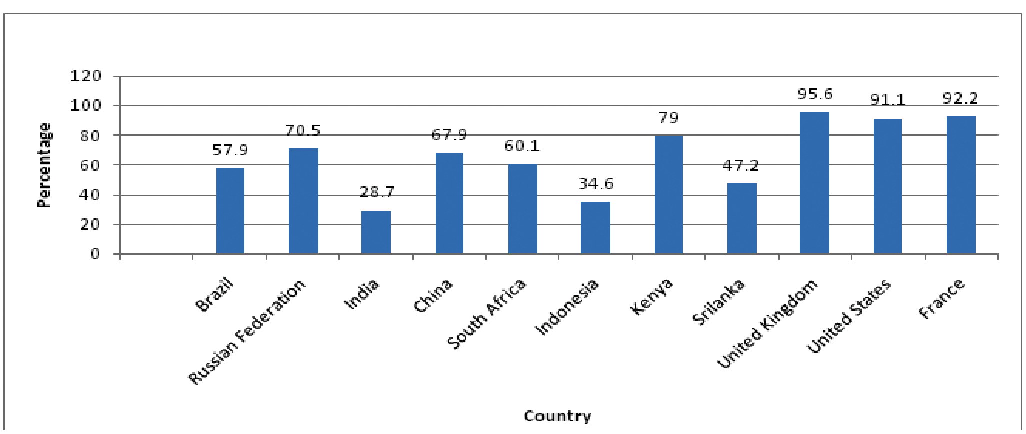

Chart 3. Digital payments.

Source: Global Findex 2017.

Inactive Accounts

Inactive accounts means people did not make deposit and withdrawal from their accounts in the past year. Globally 13.4 percent accounts are inactive. The low use of accounts in India is proved from the fact that in 2017 38.5 per cent of accounts were inactive .Usage of account in India is very low compared to other emerging economies and developed countries.

Saving in the Past Year

According to Global Findex database 2017, 48 percent of adults in the world saved or set aside money in the past 12 months. 71 percent of adults saved in high-income economies and 43 percent adults saved in developing economies .Only, 19.6 per cent of Indian adults had saved in a formal financial institution in the past 12 months. It is very low compared with most of the select countries.

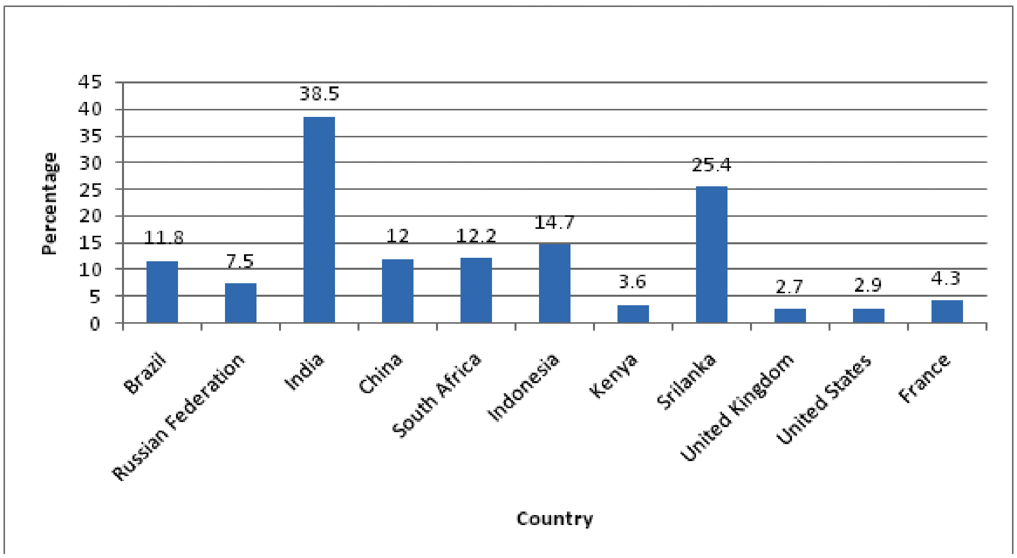

Chart 4. Inactive accounts.

Source: Global Findex 2017.

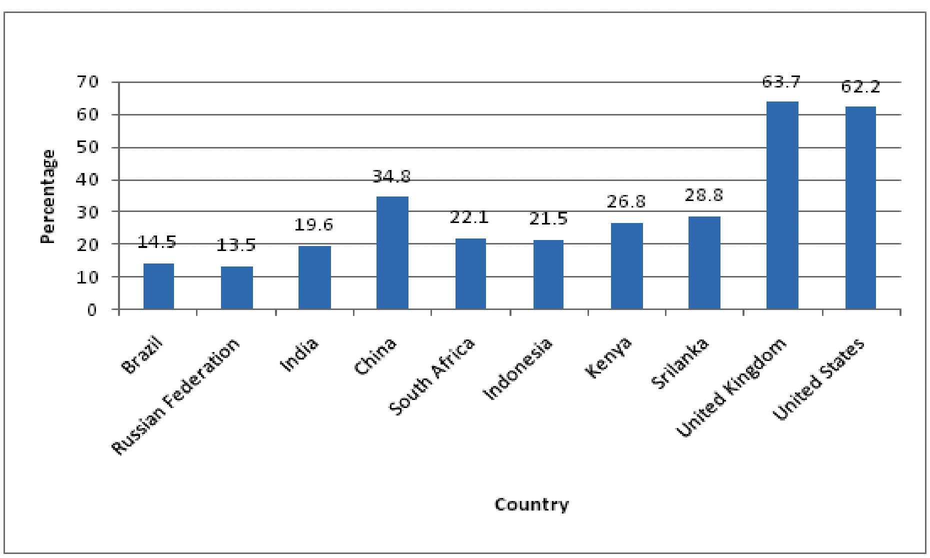

Chart 5. Saving in the past Year.

Source: Global Fidex 2017.

Credit in the Past Year

According to Global Findex database 2017, 47 percent of adults borrowed money or used credit card in the past 12 months. It is 64 percent in high-income economies and 44 percent in developing economies. Only 8.1 per cent of Indian adults had borrowed from a formal financial institution or used a credit card in the past 12 months.

CRISIL Inclusix

CRISIL inclusix(Financial Inclusion Index) is an index to measure India's progress on financial inclusion.CRISIL Inclusix is based on three dimensions Branch penetration (BP), Credit penetration (CP) and Deposit penetration (DP) . MFI data included from fiscal year 2013 onwards. 2016 Inclusix included one more dimension which is Insurance penetration (IP). CRISIL Inclusix, thus, weighs three service providers (banks, insurers and microfinance institutions) on four dimensions (branch, credit, deposit and insurance) now. All India level CRISIL inclusix increased from 35.4 in 2009 to 58 in 2016.The score would have been higher at 62.2 in 2016 if we exclude the effect of insurance dimension.

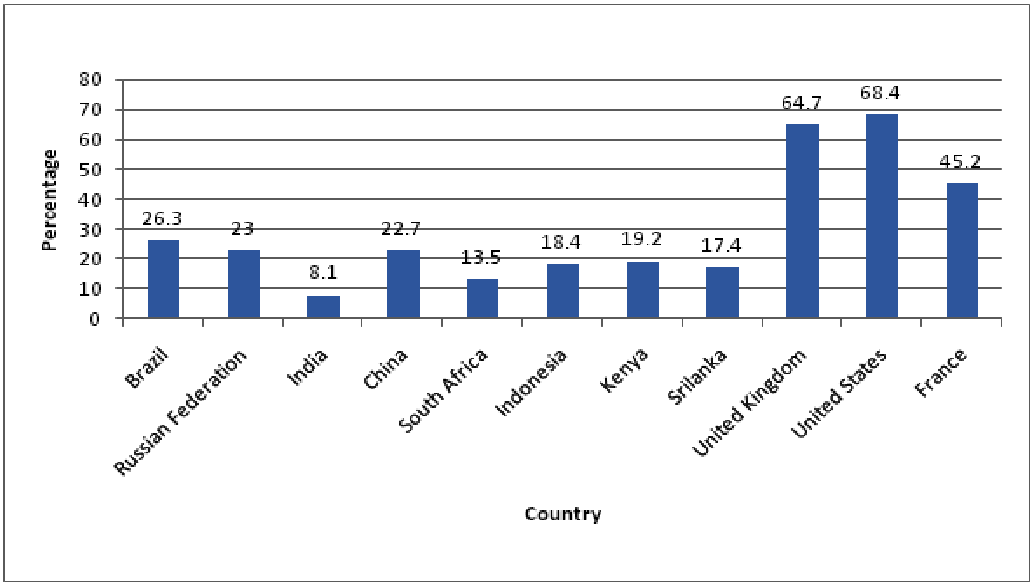

Chart 6. Credit in the past Year.
Source: Global Fidex 2017.

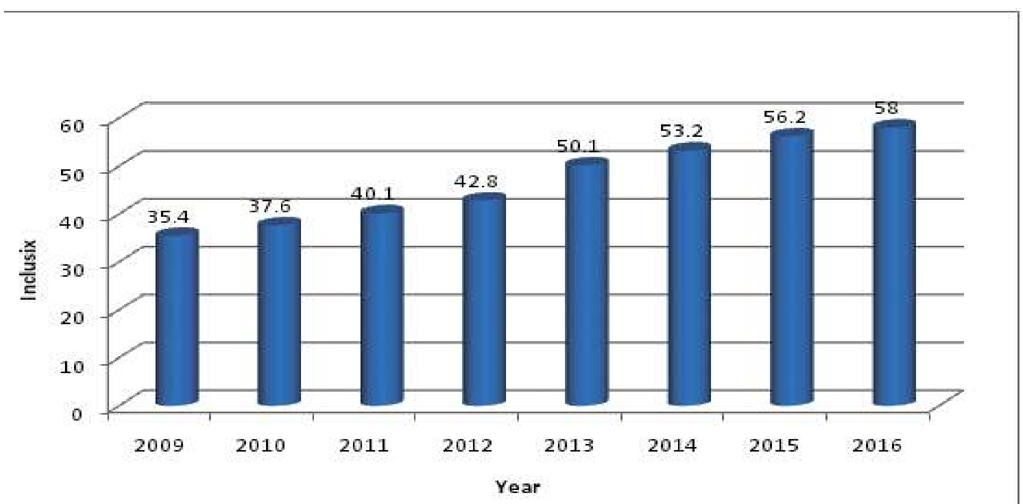

Chart 7. All India Inclusix.
Source: CRISIL Inclusix February 2018 , Volume 4.

Regional Comparison of Financial Inclusion in India

Statewise CRISIL Inclusix (2016) indicate that there is an overall improvement in the financial inclusion among the states of India. Kerala, Goa and Puducherry scored the highest and Arunachal Pradesh, Meghalaya, Nagaland and Manipur scored low Inclusix value. 12 states and 2 union territories scored high inclusix. 6 states 4 union territories scored above average. 8 states scored below average scores.4 states scored low inclusix scores.

Table 2: State wise CRISIL Inclusix 2016

SL NO	State	Level of Financial Inclusion
		High (Above 65)
1	Kerala	90.9
2	Goa	88.9
3	Puducherry	87.7
4	Chandigarh	86.7
5	Delhi	86.1
6	Karnataka	82.1
7	Andhra Pradesh	78.4
8	Tamil Nadu	77.2
9	Telangana	72.8
10	Himachal Pradesh	72.3
11	Punjab	70.9
12	Uttarakhand	69.0
13	Haryana	67.7
14	Tripura	66.2
Above Average (50.1 to 65)		
15	Andaman and Nicobar	63.9
16	Islands	63.0
17	Odisha	62.7
18	Maharashtra	62.4
19	Gujarat	60.2
20	Sikkim	60.2
21	Dadra and Nagar Haveli	60.7
22	Daman and Diu	53.7
23	West Bengal	51.3
24	Lakshadweep	50.9
	Rajasthan	
Below Average (35 to 50)		
25	Madhya Pradesh	48.7
26	Jharkhand	48.2
27	Assam	47.9
28	Jammu and Kashmir	47.8
29	Chhattisgarh	45.7
30	Uttar Pradesh	44.1
31	Mizoram	43.2
32	Bihar	38.5
Low (below 35)		
33	Arunachal Pradesh	34.7
34	Meghalaya	34.6
35	Nagaland	32.4
36	Manipur	32.0

Source: CRISIL inclusixfebruary 2018 , volume 4.

Conclusion

Financial inclusion is inevitable for the economic development of a nation. All sections of the society should be included in the financial system for having inclusive growth. Financial inclusion is considered as a catalyst for sustainable inclusive growth. Globally, 31 percent of adults are unbanked according to Global Findex database 2017. Although India made much progress in financial inclusion, India claims a large share of the global unbanked population, after China. In India 190 million adults are unbanked. Indian policymakers must take efficient ways and means to ensure greater financial inclusion by providing access of financial services to the financially excluded segments of society. Then only can India achieve faster and inclusive growth.

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