

FINANCIAL INCLUSION IN INDIA: RETROSPECT AND PROSPECTS

Rituranjan¹

Financial inclusion has always remained a cherished objective of the planners and policymakers in India but with the launching of Pradhan Mantri Jan Dhan Yojana in August 2014, it has once again come to the centre-stage. The main area of concern in this context is that despite the realisation of the significance of 'financial inclusion' for economic development and social welfare and initiation of active steps in this direction in the form of bank nationalisation, establishment of Regional Rural Banks, launching of Lead Bank Scheme, promotion of Co-operative Banking and Self-Help Groups in the provision of finance etc., the actual progress achieved on the front of 'financial inclusion' remained far from satisfactory in India. In view of this, the monetary authority in recent years has done a thorough reappraisal of its past policies concerning financial inclusion and has identified some major defects and serious lacunae in this respect. By bridging these lacunae and correcting for past policy defects, the Government and Reserve Bank of India have of late come out with a renewed strategy that considers financial inclusion as a commercially viable option and relies more on information technology and envisages a better co-ordination among all stakeholders ranging from monetary authority and other regulators to Non-Government Organisations, Civil Society Institutions and the public at large. This new well-thought out, measured, balanced and focussed policy approach can be reasonably expected to bring about 'financial inclusion in India' in the real sense of the term in the foreseeable future.

INTRODUCTION

With the launching of Pradhan Mantri Jan Dhan Yojana on 28 August 2014, the issue of 'financial inclusion' has yet again come to the fore in the Indian economy. The idea of financial inclusion, however, is not so new at least in the Indian context wherein the planners and policymakers had realised well in time that with a view to establishing a *welfare state*, banking and other financial services must be made accessible to the ordinary public and common people especially those belonging to the poor and downtrodden sections of the society.

¹ Associate Professor, Department of Economics, Shri Ram College of Commerce, Delhi University.

Accordingly, 'financial inclusion' in some form or the other has always remained a priority area on the part of monetary authority in India. Whether it was the nationalisation of 14 and subsequently 6 major scheduled commercial banks in 1969 and 1980 respectively, the setting up of Regional Rural Banks (RRBs), the launching of Lead Bank Scheme & Service Area Approach, the promotion of Co-operative Banking, Micro-Finance and Self-Help Groups in the provision of finance, or simply the "cross-subsidisation" of poor by the rich under the so-called "priority sector advancing", all of them reflected on the commitment of the State towards ensuring financial inclusion in the Indian economy.

In this connection, Khan (2013) observes that Financial inclusion as a concept, process and business proposition is not new for the banking sector of India and, in fact, it dates back to the phase of nationalisation of banks and even beyond that when the Imperial Bank was nationalised to become the State Bank of India in 1955 and its subsidiaries were formed following the recommendations of the All India Rural Credit Survey Committee (AIRCS) in 1954.

Yet, it has been empirically observed that in actual practice, very little progress could actually be achieved on the front of 'financial inclusion' till recently in India as a large part of rural and economically weaker segments of the population practically remained 'excluded' *i.e.* deprived of the services offered by formal banking channels and regulated & organised financial markets in India.

Against this backdrop the present article tries to trace the developments on the front of 'financial inclusion' in India with a view to identifying as to what went wrong in the past and how learning from its past mistakes, the monetary authority has, of late, geared up to achieve 'financial inclusion' in every possible sense of the term in India.

Towards this end, the next section takes a closer look at the very concept as also significance of 'financial inclusion' with special reference to the Indian economy. This is followed by a detailed discussion of the potential benefits that are likely to accrue from the attainment of financial inclusion especially in the case of a developing economy like India. In the light of the significance and likely benefits of financial inclusion, what active steps have been undertaken by the State and Reserve Bank of India in the direction of its attainment forms the point of discussion of the subsequent section. The current state of financial inclusion in the Indian economy is briefly analysed in the next section. How the monetary authority, deriving lessons from the past failures, is trying its best to

correct for the sorry state of affairs in this respect so as to achieve 'financial inclusion' in the real sense of the term in India is discussed in detail in the next section. And finally, the concluding section records the main findings and conclusions following from our analysis.

Concept and Significance of Financial Inclusion

One of the primary guiding principle of economic planning and policy-making in India is "Inclusive Growth". What this essentially implies is that the benefits of economic growth shall percolate down to the economically weaker and deprived sections of the society who shall also be made to participate in and contribute to the process of planning and policy making. This is very much in line with our long-cherished objective of 'people-oriented planning' and uplift of the downtrodden sections of the society with a view to ultimately establishing a *welfare state*.

Owing to the inter-linkages between economic development and financial development, however, it directly follows that the process of 'inclusive growth' cannot reach its logical conclusion till its domain is widened and extended from the real sector to cover even the financial sector in its ambit. This is what led to the increasing realisation of the significance and importance of 'financial inclusion' on the part of planners and policy makers in India. For, financial inclusion is nothing but the counterpart of inclusive growth in the context of the overall financial system and delivery of financial services in the economy.

Thus construed, financial inclusion may be defined as the process of making the poor and economically weaker sections of the society an active participant in the functioning of the financial system so that the benefits of financial services could reach out to the masses rather than a selected few, *i.e.* rich people in the society. Towards this end, it is imperative for the State and monetary authority to play a pro-active role in ensuring the provision of timely and affordable financial services to the deprived, downtrodden and economically worse-off sections of the society. This reasoning is quite analogous to the State being called upon to directly play a pro-active role in ensuring a fairer distribution of the fruits of growth so as to achieve 'inclusive growth' in the strict sense of the term in view of various *institutional rigidities and infrastructural bottlenecks* due to which we can no longer rely on the so-called "GNP Trickle-Down Hypothesis."

It is against this backdrop that according to the Deputy Governor, Reserve Bank of India,

Chakrabarty (2013b), 'financial inclusion' is defined as the "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players".

Benefits of Financial Inclusion

It is widely acknowledged in economic literature that an efficiently functioning financial system is very crucial for ensuring economic growth and development. For, the financial sector essentially acts as a link between savers and investors in the economy thereby promoting savings, investment and growth. Thus when more and more economically weaker and poorer sections of the society are brought under the purview of the financial sector through the process of 'financial inclusion', it is but natural that the process of economic growth would get a major boost. The fact of the matter is that apart from a purely welfare-oriented measure, financial inclusion shall also be viewed as a 'prime mover' behind growth and economic development. The rationale underlying this contention is the plethora of positive external economies that are likely to generate through the process of financial inclusion.

First and foremost, when masses are enabled to avail banking facilities and other services offered by the financial system, it tends to promote savings of public. For, with the availability of a wide variety of financial assets offering different combinations of liquidity, convenience, safety and yield suiting preference pattern of different asset holders, the saving behaviour of common public can be reasonably expected to get encouraged. Moreover, when public keeps its saving in the form of financial assets, the huge financial resources so mobilised can be directly channelized into socially productive activities in the form of institutional credit provided to productive deficit spenders and investors by financial institutions in the organised sector.

The provision of timely and concessional credit to deserving but economically poor potential entrepreneurs as a part of the 'financial inclusion' process could itself be instrumental in raising the level of investment and hence economic growth. For, several budding talents especially from rural areas as also hitherto backward regions having the *skill, capacity and temperament* for active investment would thereby be in a position to overcome their financial constraint and give a concrete shape to their productive projects and investment plans. In this context, the organised financial institutions committed to

the objective of 'financial inclusion' could be particularly helpful by 'cross-subsiding' the poor by charging a higher interest rate on loans from the richer and well-off segments of the society and in turn providing loans at concessional interest rates to the under-privileged and deprived sections of the society.

In this connection, Mundra (2014) observes that "Financial Inclusion helps build domestic savings, bolster household, domestic and financial sector resilience and stimulate business and entrepreneurial activity, while exclusion leads to increasing inequality, impediments to growth and development".

Side-by-side, the credit facilities being made available to common people by financial intermediaries belonging to the organised sector under an era of 'financial inclusion' can quite conceivably be expected to go a long way in liberating poor masses from the clutches of exploitative moneylenders and indigenous bankers. These dubious elements belonging to the unregulated and unorganised credit markets are essentially governed by their *whims and fancies* rather than set or well-defined and unbiased ways of working. Further, the moneylenders are notorious for indulging in the practice of 'usury' and are known to charge exorbitant interest rates from needy and helpless people thereby pushing them into a vicious cycle of 'debt trap'. Evidently, by loosening the grip of unorganised credit markets, the financial inclusion process will establish a greater 'transparency and accountability' in the financial system.

In this context, Bhaskar (2014) expresses the view that by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

In recent years, the focus of policy-makers has specially shifted towards 'financial inclusion' as it is being perceived as an effective means or mechanism for plugging leakages of the public delivery system and social welfare programmes officially sponsored and financed by the Government. More specifically, it is believed that directly depositing the financial assistance of these social welfare programmes in the personal bank account of each of the targeted beneficiaries, would put a check on the leakages and corruption that was so prevalent in the absence of financial inclusion. Towards this end, a massive drive for opening bank accounts of poor and downtrodden masses is very much a part and parcel of the overall process of financial inclusion in the Indian economy.

In addition, through 'financial inclusion', even the ordinary masses will get an opportunity to transfer funds from one place to another with utmost efficiency and at the least possible cost utilising the services of formal banking institutions that they remained deprived of till recently in as much as they were largely excluded from the potential gains and benefits of the organised financial sector so far.

It is thus clear from the foregoing discussion that 'financial inclusion' is instrumental in promoting growth and economic development by encouraging *saving* as well as *investment* along with raising the well-being of the masses in the economy.

Steps undertaken by the Monetary Authority with a view to attaining Financial Inclusion in India

In recent years, recognising the significance of 'financial inclusion' for the growth and development of India economy, the Government coupled with the Central Bank *viz.* the Reserve Bank of India (RBI) has taken several active steps with a view to achieving financial inclusion in India. The initiation of 'Pradhan Mantri Jan Dhan Yojana' on 28 August 2014 is merely a reflection of the commitment of the Government towards the attainment of 'financial inclusion' in the Indian economy and signifies an intensification of the efforts on the part of State in this direction. On the inaugural day itself, 1.5 Crore bank accounts were opened under this ambitious scheme and it is likely to cover 7.5 Crore people by 26 January 2015.

The rationale underlying such well-planned and comprehensively conceptualised schemes of the monetary authority is that opening up an account with a commercial bank is the first step in the direction of 'financial inclusion'. For, owing to their vast network across the length and breadth of the country that covers even rural areas and backward regions, the commercial banks can quite conceivably be banked upon to effectively reach out to the poor, underprivileged, vulnerable and downtrodden sections of the society in the provision of financial services. Towards this end, the procedures for opening a bank account are gradually being simplified especially for poorer sections of the society wherein even the Know-Your-Customer *i.e.* KYC norms are themselves being relaxed. For instance, instead of insisting on the requirement of 'introduction' in the case of small accounts, just Aadhaar Card would suffice as a proof of identity and address of common people.

In view of the economically weaker condition of the common masses, however, there is

always a provision of opening 'no-frills', 'BSBD *i.e.* Basic Savings Bank Deposit' or 'zero-balance' accounts in all such officially sponsored schemes aimed at financial inclusion in India. In fact, once a bank account of a poor person is opened in this manner, it can be directly transferred financial assistance by the State under its numerous welfare programmes through the Direct Benefit Transfer (DBT) Scheme in the most expeditious and judicious manner. Apart from cutting down on the *red-tape* and *administrative delays*, such a policy proposition can be reasonably expected to go a long way in altogether rooting out or at least mitigating the corruption and leakages that prevailed before the advent of such schemes. This way, the State would be in a better position to ensure that the financial assistance provided by it under its various social welfare schemes and developmental programmes reaches out to their targeted beneficiaries which in turn is likely to prove an added advantage of 'Aadhaar Card-linked bank accounts' and 'financial inclusion' in the Indian economy.

Side-by-side, a number of campaigns & schemes have been launched and various other policy initiatives have been undertaken from time-to-time with the ultimate aim of bringing about financial inclusion in India. For example, the 'Swavalamban pension scheme' and 'Swabhimaan Campaign' launched since 2010 and 2011 respectively are nothing but active steps in the direction of 'financial inclusion' in the Indian economy. Likewise the massive expansion of branches of commercial banks in hitherto unbanked areas, setting up of intermediate brick and mortar as also Ultra Small Branches (USBs), deployment of Business Facilitators (BFs) and Business Correspondents (BCs) to provide banking services, unprecedented expansion of Automated Teller Machines (ATMs) and permission granted to even non-bank entities to establish, own and operate an ATM in the form of 'White Label ATMs' and the like as observed in recent years also represent vigorous attempts on the part of planners and policy makers to strive for financial inclusion in India.

Of late, owing to the pioneering contribution of the National Payments Corporation of India (NPCI), even the modern-day information technology has been extensively employed so as to extend banking facilities to the masses in an expeditious yet cost-effective manner *via* Unstructured Supplementary Service Data (USSD) based mobile banking. As opposed to the prevalent Interbank Mobile Payment Systems (IMPS) based Mobile Banking, the main advantage of USSD based Mobile Banking is that it does not require the downloading of any special 'application' for availing of basic banking facilities like balance enquiries, bill payments, money transfer etc. on a simple GSM

based Mobile phone. The introduction of USSD based mobile banking would no doubt go a long way in facilitating the masses to avail banking services through their mobile phones and thus can be reasonably considered to be a significant step or rather a 'big leap forward' in the direction of attaining 'financial inclusion' in the Indian economy.

Current State of Financial Inclusion in India

According to a survey conducted by World Bank Findex in 2012, only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government.

In this context, Chakrabarty (2013a) points out that the data released from the recent census of India indicates that only 58.7% of households in India avail of banking services with the figure being 54.4% for rural areas and 67.8% for urban areas. That this is happening despite the introduction of various inclusive banking initiatives in the country over the years ranging from cooperative movement to the nationalization of banks and the setting-up of Regional Rural Banks, clearly suggests in the opinion of Chakrabarty (2013b) that the number of people with access to the products and services offered by the banking system continues to be very limited.

In view of this, Chakrabarty (2013b) notes with concern that it is regrettable that the entire debate surrounding financial inclusion has generated significant heat and sound, but little light.

Financial Inclusion in India: Looking Ahead by Learning Lessons from the Past Experience

There is no denying the fact that despite the realisation and acknowledgement of the significance of 'financial inclusion' by planners and policy makers rather early, the actual progress achieved on this front in India has remained far from satisfactory in the past. On closer examination, we find that the reasons behind this tardy progress of financial inclusion in the Indian economy could in turn be located in the *faulty formulation* and *ineffective implementation* of the policy pursued by the monetary authority in this respect. In this context, Mundra (2014) observes that "there has never been a concerted effort on the part of the banking system to identify specific business opportunities ... and to develop viable business models to realize them."

The fact of the matter is that with a view to achieving financial inclusion, the model of 'social banking' that was followed in the past ever since the inception of planned economic development way back in the early 1950s, inherently treated it as a *commercially non-viable proposition* essentially based on subsidisation by the State. Thus upon the onset of economic and financial reforms with thrust on commercial profitability and economic efficiency in the early 1990s, the agenda for social & inclusive banking was practically given a go by and was relegated to the backseat as it was thought to be incompatible with an increasingly market-driven competitive system being put in place. This was the primary reason behind the debacle of the State policy for financial inclusion in India in the past.

Another lacuna that could in part explain the failure of past policies aimed at financial inclusion in India was observed at the stage of implementation wherein appropriate technical support to the programme was largely lacking either because of a lack of awareness in this behalf or because of suitable information technology not being available on account of extreme scarcity of financial resources at the disposal of relevant authorities to finance the same. It must further be realised that in some cases, the requisite technology for the success of 'financial inclusion' had not even been developed across the globe at that time!

In fact, typically the success of any such welfare-oriented programme of the Government and macro-level policy of the State crucially hinges on how focussed the approach of the policy-maker is and it is regrettable to note that a clear-cut 'focus' was primarily missing in the approach of the monetary authority in the past at least as far as the broader objective of 'financial inclusion' in India is concerned.

Learning from past mistakes, however, the monetary authority in recent years has chalked out a new and effective strategy to embark on an era of financial inclusion in India. Towards this end, first and foremost priority was to define the policy objective of 'financial inclusion' in a concrete and unequivocal manner in India. The Reserve Bank of India has not only accomplished this now but rather has gone much beyond by issuing clear-cut guidelines to all individual commercial banks to prepare their branch-wise financial inclusion plans. Further, due emphasis has been laid on the utilisation of 'enabling technology' to meet the same end.

A distinguishing feature of the renewed approach of the monetary authority in this respect is that instead of being treated as a compulsion, 'financial inclusion' is now being

treated as a profit-making and commercially viable option based on 'economies of scale' and 'economies of scope' argument. Accordingly, the commercial banks entrusted with the task of bringing about financial inclusion in the Indian economy have been advised to develop a wide variety of financial assets specially in line with the preference pattern of rural masses and offer a wide variety of financial services to the hitherto untapped and unbanked poor masses so that average costs of banking fall down to such an extent as to justify 'financial inclusion' as a strategy making business sense too.

Further, the present approach of the monetary authority as regards financial inclusion actively involves all the stakeholders in this process ranging from Government, Reserve Bank of India (RBI) and other regulatory bodies to commercial banks, other financial institutions, Non-Government Organisations (NGOs), Civil Society Institutions, Information Technology (IT) professionals, Media personnel as also the public at large who are supposed to jointly achieve the collective endeavour of 'financial inclusion' for the common good of the society.

Another major advancement in the strategy evolved by Government and RBI at present is that it relies on a 'holistic' perspective wherein financial inclusion on the supply side is to be largely achieved through the initiative and active efforts of commercial banks which on the demand side are supplemented by the promotion of 'financial education' among the masses so as to generate awareness and motivation among the proposed beneficiaries belonging to the poor and economically worse-off sections of the society. In this connection, Joshi (2013) is of the view that financial inclusion and financial literacy need to go hand in hand to enable the common man to understand the need and benefits of the products and services offered by formal financial institutions.

As the present policies of Government and RBI have sincerely tried to bridge all visible gaps and lacunae of past policies on financial inclusion by following a well thought-out, measured, balanced and focussed approach in this regard that develops it as a commercially-viable option and relies more on relevant technology and co-ordination among all stakeholders with an ever higher level of transparency and accountability, we can reasonably look forward to having 'financial inclusion' in the strict sense of the term in the Indian economy in the near future.

Conclusion

Financial inclusion in one form or the other has always remained a cherished objective

of planners and policymakers in India. For, the monetary authority had realised the importance of spreading financial services among public at large particularly the poor, underprivileged, economically weaker, vulnerable and downtrodden sections of the society well in time. The nationalisation of major scheduled commercial banks in 1969 and subsequently in 1980, the establishment of Regional Rural Banks (RRBs), the initiation of Lead Bank Scheme, Service Area Approach, the provision of priority sector advancing involving "cross-subsidisation" of the poor by charging concession interest rates from them and higher interest rates from the rich borrowers and the promotion of Co-operative Banking, Micro-Finance and Self-Help Groups in the provision of finance are some of the active steps taken up by the monetary authority in the direction of attaining 'financial inclusion' in the Indian economy.

Despite some apparent achievements and breakthroughs, however, all such officially sponsored schemes and programmes of the State could not succeed to the extent contemplated at least in the attainment of financial inclusion in India. Owing to the significance of broad-based financial system in promoting saving, investment and thereby economic growth as also the power of 'financial inclusion' in liberating poorer sections from the clutches of exploitative moneylenders and informal credit markets, the monetary authority in India had to take a fresh look at the entire issue in recent years as it was also increasingly being realised that even the long-cherished aim of "inclusive growth" cannot be achieved without bringing about inclusion in the financial sector.

Accordingly, of late, the monetary authority identified the major reasons behind the failure of past strategies in terms of the lack of focus, loopholes, inadequacy of enabling technology and other such lacunae and tried to bridge them. The renewed approach of Government and RBI as regards financial inclusion is more pragmatic and relies on a bank-led support on the supply side coupled with the promotion of 'financial education' on the demand side. Instead of considering it as a compulsion or charity, the new approach treats 'financial inclusion' as an opportunity to make commercial profitability by fully reaping all possible 'economies of scale' as well as 'economies of scope' arising in the entire process of expanding and diversifying banking business to hitherto untapped, uncovered and unbanked areas and backward regions having an extremely large number of potential customers. Towards this end, the present strategy of the monetary authority is comprehensive enough to employ the requisite information technology and actively involve all the stakeholders in pursuing the collective endeavour of financial inclusion.

In the light of the foregoing discussion, it can be reasonably concluded that the present approach of the monetary authority as regards financial inclusion in India, which is based on correcting for the past policy errors and represents a sincere effort at bridging the lacunae of past policies, can be reasonably expected to bring about financial inclusion in India in the real sense of the term in the foreseeable future.

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