

# FINANCIAL INCLUSION: A STEP TOWARDS EQUALITY OF OPPORTUNITIES TO ACCESS FINANCIAL SERVICES

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## INTRODUCTION

Financial services refer to services provided by the finance industry. The finance industry encompasses a broad range of organizations that deal with the management of money. Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises. The firms providing these financial services, study the needs of their customers in detail before deciding their financial strategy, giving due regard to costs, liquidity and maturity considerations. Financial services firms continuously remain in touch with their customers, so that they can design products which can cater to the specific needs of their customers. The providers of financial services constantly carry out market surveys, so they can offer new products much ahead of need and impending legislation. Newer technologies are being used to introduce innovative, customer friendly products and services which clearly indicate that the concentration of the providers of financial services is on generating firm/customer specific services.

**BANKING THE UNBANKED**

### Why Financial Inclusion

**“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”**

Kofi Annan  
Former UN Secretary-General  
29 December 2003

Narendra K. Saini

Sukrut

According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Financial inclusion covers various services such as

savings, credit, insurance, payments and remittance facilities, etc. by the formal financial system to those who tend to be excluded.

**The groups most likely to experience some form of financial exclusion are:**

- The long-term unemployed.
- Old age pensioners, particularly those aged over 70.
- Those excluded from earning through sickness or disability.
- Female single parents.
- Lack of access to a bank or building society account.
- Lack of access to necessary financial services and credit, such as appropriate lending facilities or mortgages.
- Lack of savings or protection against risk, such as insurance and pensions.
- Limited access to services which could improve an individual's financial situation, such as advice or education.
- Absence of the 'skills or circumstances' required to making an economic contribution to the community.

Therefore, financial inclusion is a big necessity for our country as a large chunk of the world's poor resides here. Financial Inclusion is the delivery of financial services at an affordable cost to hitherto unbanked environments, especially the low-income and underprivileged. The Government of India and Reserve bank of India have taken initiatives to spread banking services such as expanding the number of rural bank branches, allowing the banking correspondent model and adoption of CBS technology.

## **CONCEPT OF FINANCIAL INCLUSION**

The concept of Financial Inclusion is not a new one. It has become a catchphrase now and has attracted the global attention in the recent past. Lack of accessible, affordable and appropriate financial services has always been a global problem. It is estimated that about 2.9 billion people around the world do not have access to formal sources of banking and financial services. India is said to live in its villages, a convincing statement, considering that nearly 72% of our population lives there.

However, a significant proportion of our villages do not have a single bank branch to boast of, leaving swathes of the rural population in financial exclusion. Financially excluded people, consistently, depend on money lenders even for their day to day needs, borrowing at excessive rates to finally get caught in a debt trap. In addition, people in far-off villages are completely unaware of financial products like insurance, which could protect them in adverse situation.

A Committee was constituted for Financial Inclusion under the chairmanship of Dr C. Rangrajan in 2008 which defined Financial Inclusion as *“the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups, at an affordable cost, in a fair and transparent manner by mainstream institutional players”*.



Financial inclusion is important for the poor as it provides them opportunities to build savings, avail credit, make investments and equips them to meet emergencies. The development process so far has not brought balanced economic growth across the country.

The Reserve Bank's broad approach to financial inclusion aims at integrating the financial inclusion plans of banks with their business plans and the overarching aim of policymakers is to make *financial inclusion a business opportunity rather than an obligation*. On the back of a favourable regulatory framework the past four years have witnessed a significant build-up of momentum in the financial inclusion space. During this period banks have been experimenting with various models to effectively deliver on their financial inclusion plans.

### **OBJECTIVES OF THE STUDY**

1. To analyse the major factors affecting the individuals for access financial services.
2. To analyse the major initiatives taken by RBI and Government for the development in the area of financial inclusion.
3. To analyse current scenario of financial inclusion in India.

### **RESEARCH METHODOLOGY**

This study is Exploratory cum Descriptive in nature. The data used for the study is secondary in nature and has been collected from annual reports of RBI, RBI Bulletins and Ministry of Finance, Report on trend and progress of banking in India, journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

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### **FACTORS AFFECTING THE INDIVIDUALS FOR ACCESS FINANCIAL SERVICES**

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**Some of the major factors affecting access to financial services are:-**

**High transaction costs-** Operating in Rural Areas comes at a very high cost for financial service providers. Lack of infrastructure, information technology and communication play a major role in restricting the institutions from venturing into this sector. Adding the

remoteness of these areas and very thinly spread clientele to the list of the problems makes it simply not worthwhile for financial institutions to make investments in rural areas.

**Psychological and cultural barriers** - Many people willingly excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs which is the most convenient form of banking today.

**Higher risks** - Incomes in rural households are volatile as they mostly depend on seasonal agricultural production which is highly risk prone to weather fluctuations, diseases or pests. All this results in higher credit risk for borrowers as well as rural financial institutions. Increasingly, lot of variation has been observed in prices of rural commodities. Historically, rural households have depended on only one or two sources of income thereby increasing the risk of credit default. This has been changing of late, but still the change is not very substantial. Financial institutions usually have no means of securing their credits in case of default as many households either entirely lack collateral or do not have a legal title to their house or land.

**Legal identity-** Lack of legal identity like voter Id driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

**Level of income** – Low income people generally have the attitude of thinking that banks are only for the rich people.

**Various terms and conditions-** Since banks are profit making organizations they discourage the non-profitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

**Structural procedural formalities-** It is very difficult for people to read terms and conditions and account-filling forms due to lack of basic education.

**Limited literacy-** Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non-Profit Organizations), MFIs and Business Correspondents etc. People do not know the importance of various financial products like insurance, finance bank accounts, cheque facility etc.

**Place of living-** Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in underdeveloped areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

**Social security payments-** In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

**Types of occupation-** Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

**Attractiveness of the product-** Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

**Higher rates of illiteracy** - Illiteracy rates are very high in developing countries like India and even more so in rural areas. People who are not well read face an extra challenge in accessing financial services: it is difficult for them to analyse credit risks and the profitability of a loan or savings scheme, to provide all documents and information (such as a business plan) required to apply for a loan, and to understand conditions and contracts. Some institutions fail to communicate interest rates and commissions in a transparent manner, and small prints in contracts can contain additional costs for borrowers.

On the other hand, financial institutions those want to expand into rural areas experience difficulties in finding, hiring and keeping well trained staffs that are willing to work in a rural region. Lack of experienced staff, in turn, leads to poor institutional capacity among rural financial institutions.

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## **MAJOR INITIATIVES TAKEN BY RESERVE BANK OF INDIA AND GOVERNMENT FOR DEVELOPMENT IN AREA OF FINANCIAL INCLUSION**

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**Reserve Bank of India and Government of India is providing platform for the development in the area of financial Inclusion by liberalise policies and supervision. To remove the barriers in the way of financial inclusion RBI and GoI has taken a lot of initiatives and policy measures. Some of these are:**

### **NO-FRILLS ACCOUNTS**

Zero Balance Savings Accounts were introduced as “No-Frill” basic accounts by the Reserve Bank of India in 2005. The main objective of the scheme was to achieve a greater financial inclusion by offering a special savings account scheme with zero or low minimum balance as well as charges. So that, a vast section of population can access the basic banking facilities. The nature and number of transaction were restricted, but the scheme quite successful in providing banking services especially to the low-income group including students and nominal wage earners.

People in the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed. Conventionally, a savings bank account requires you to maintain a certain amount of balance over a specific period of time, failing which you are liable to pay the penalty for non-maintenance of minimum balance. As the name suggests, a Zero Balance

Savings Account is where no minimum balance amount is set. You can keep zero balance in it without getting penalized by the bank.

### **OVERDRAFT FACILITIES IN SAVING ACCOUNT**

Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. Banks have been advised and directed to provide small OD in such accounts.

### **OVERCOMING LANGUAGE BARRIER**

Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening disclosure etc. in the regional language as well.

### **SIMPLIFICATION OF KNOW YOUR CUSTOMER (KYC) NORMS AND GUIDELINES**

As per RBI guidelines, to open a Regular Account, a customer has to provide documents on

- (a) Proof of identity, and
- (b) Proof of address

But customers face difficulties in providing the requisite documentation for opening regular bank accounts. Also, most rural inhabitants do not have any of the identity documents that are required for account opening and compliance with Know Your Customer (KYC) norms.

Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms. In addition to this, a Sub-Group of senior officers of some public sector banks (PSBs), constituted by Department of financial services, has suggested uniform KYC guidelines and a common list of documents, for guidance and adoption by the PSBs.

### **SIMPLIFICATION OF SAVINGS BANK ACCOUNT OPENING FORM**

To ease the opening of bank account by the migratory labour, street hawkers and other poorer sections of the society, "Simplified Account Opening Form" has been designed. Banks have been requested to put in place a system to enable the customer to fill the account opening form on an „online“ mode. This form contains sections for Small Accounts, Accounts with Introduction and Basic Saving Bank Deposit Account.

### **FINANCIAL LITERACY PROGRAM**

Financial Literacy Programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by banks and financial institutions. RBI provides support to **Financial Literacy and Credit Counselling Centres (FLCCs)**. The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling.

### **SIMPLIFIED BRANCH AUTHORIZATION**

With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI centres with population less than 50,000 under general permission consent. On the other hand, banks can open branches in any centre-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

### **GENERAL CREDIT CARDS (GCCs)**

Banks have been advised to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs.25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated.

### **KISAN CREDIT CARDS (KCCs)**

Kisan Credit Cards to small time farmers have been issued by banks. As on March 2012, the total number of KCCs issued has been reported as 46 million with a total amount outstanding to the tune of Rs.5,805 billion (figures are as on March, 2017).

### **BUSINESS CORRESPONDENTS (BCs) AND BUSINESS FACILITATORS (BFs) MODEL**

The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem. With effect from September 2010, profit companies have also been allowed to be engaged in BCs.

### **SHG BANK-LINKAGE PROGRAMME**

The credit linkage of **Self Help Groups (SHG) and Joint Liability Groups (JLG)** by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of group and dispense small loans for meeting the individual requirements of members.

### **OPENING OF BRANCHES IN UNBANKED RURAL LOCATIONS**

To target excluded section of society in rural locations attention was given to expansion and opening of bank branches in those centres. Consequently, banks have been mandated in the Monetary Policy Statement to target at least 25 per cent of the total number of branches to be opened during a year.

### **USE AND PROMOTION OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) IN BANKING**

Financial inclusion approach basically focuses on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The Government and the RBI supporting and promoting commercial and cooperatives banks to offer banking facilities to the society by using modern technology i.e. ATM, micro-ATMs,

mobile banking and business correspondents, E-banking, smart cards, Aadhaar Enabled Payment Systems (AEPs), etc.

### **RURAL INFRASTRUCTURE DEVELOPMENT**

Under Rural Infrastructure Development Fund (RIDF), NABARD grant loans to State Governments for the creation of rural infrastructure, broadly under agriculture and related sectors, rural connectivity and social sector.

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## **CURRENT STATUS OF FINANCIAL INCLUSION IN INDIA**

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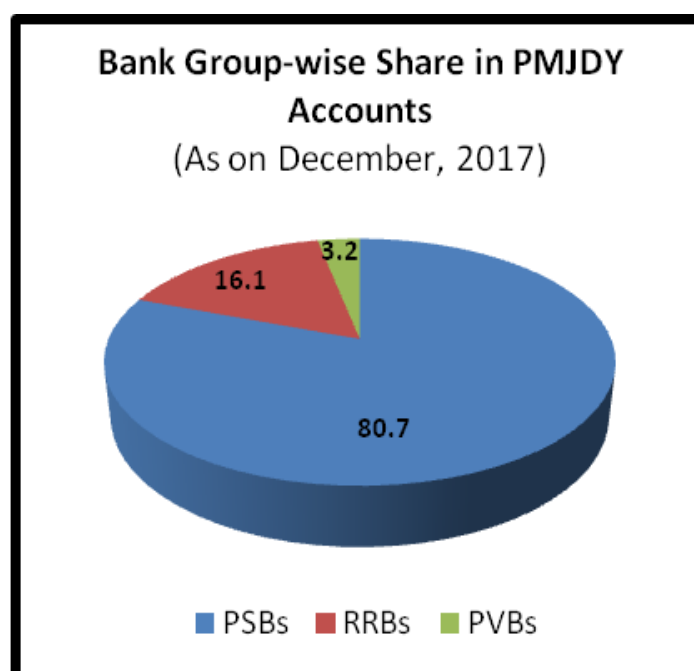
Under the advice of the Reserve Bank, SCBs have been devising three-year **financial inclusion plans (FIP)** congruent with their business strategies and comparative advantages as an integral part of their corporate plans. FIP include self-set targets to expand their outreach in terms of outlets and customer base as well as to offer a range of products suited for the purpose. They include specific goals for coverage of unbanked villages, opening of accounts and other specific products aimed at financially excluded segments.

Two phases of the financial inclusion plans, *i.e.*, Phase-I (2010-13) and Phase-II (2013-16) have already been completed. Considerable progress was made through these financial inclusion plans towards achieving universal financial inclusion.

Currently, **the third phase of FIP (2016-19)** is being implemented under which granular monitoring is done at the district level to assess the progress in financial inclusion. FIPs have also been extended to cover the small finance banks and they have been advised to report on the progress made under various financial inclusion parameters as prescribed by the Reserve Bank.

### **PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)**

The period since August 2014 is co-terminus with the implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY) of the Government of India, which has given a big push to financial inclusion from the supply side. During this period of a little more than three years, more than 300 million PMJDY accounts have been opened and about 231 million Rupay debit cards have been issued. In this drive, more than 96 per cent of these accounts were opened with PSBs and RRBs. A steady increase in the usage of these accounts across bank-groups has also been observed. Following demonetisation, there was a sharp increase in the average balances in these accounts. Although the average balance per account has come down subsequently, they still remain at a level higher than in the pre-demonetisation period. Given the increased focus on supply side measures so far, there is also a need to focus on enhancing capabilities so that the individual is in a position to avail the offered services and demand preferred products and services suitable to her need/choice.



Source: website of PMJDY

### GROWTH IN ATMs

The coverage of ATMs increased as the total number of ATMs installed crossed 0.2 million as at end March 2017. However, saturation is observed in the growth of ATMs in view of steady deceleration in the number of ATMs across various bank groups in recent years, which may be attributable to electronic transactions, disincentivising the number of cash withdrawals and increasing use of credit/debit cards for retail payments. Further, the cost of transactions at ATMs is higher than interchange recovered by the acquirer. Hence, banks are reluctant to set up new ATMs.

### ATMs of Scheduled Commercial Banks (As at end-March 2017)

Bank Group		On-site	Off-site	Total Number
No.		ATMs	ATMs	of ATMs
1	2	3	4	5
I	Public Sector Banks	86,545	62,010	148,555
II	Private Sector Banks	23,045	35,788	58,833
III	Foreign Banks	219	747	966
IV	All SCBs	<b>109,809</b>	<b>98,545</b>	<b>208,354</b>

Source: RBI Bulletin and Progress Report, 2016-17

### OFF-SITE ATMs

The share of off-site ATMs in total ATMs for all SCBs remained less than 50 per cent. In the case of PSBs, however, which account for 71 per cent of the total ATMs, the share of off-site ATMs was merely 41.7 per cent as against 60.8 per cent and 77.3 per cent in case of PVBs and FBs, respectively (as per report of RBI, 2016-17)

## DEBIT AND CREDIT CARDS

Both debit and credit cards issued by SCBs recorded growth of more than 16 per cent during 2016-17 though debit cards witnessed further deceleration in growth. **Rupay cards issued** under the Pradhan Mantri Jan Dhan Yojana (PMJDY) were a major driver of increase in number of debit cards. PSBs (82.9 per cent) and PVBs (62.4 per cent) continued to maintain a strong lead in debit and credit cards, respectively.

### Credit and Debit Cards Issued by Scheduled Commercial Banks (As at end-March 2017) (in million)

Sr No.	Bank Group	Outstanding Number of Credit Cards		Outstanding Number of Debit Cards	
		2016	2017	2016	2017
1	2	3	4	5	6
I	Public Sector Banks	5.0	6.1	548.5	639.5
II	Private Sector Banks	14.7	18.6	110.3	128.2
III	Foreign Banks	4.7	5.1	3.0	4.0
IV	All SCBs	24.5	29.8	661.8	771.6

Source: RBI Bulletin and Progress Report, 2016-17

## UNIFIED PAYMENTS INTERFACE

The unified payments interface (UPI) was introduced in 2016-17 to provide an alternative and convenient means of electronic payments. In this regard, National Payments Corporation of India (NPCI) was accorded approval to introduce unstructured supplementary service data (USSD) 2.0 mobile banking facility (\*99# which can be used on any handset and does not require internet connection by the customers), which is integrated with UPI. The UPI allows money transfers between any two bank accounts by using a smartphone as well as feature phone (USSD 2.0). It also allows a customer to pay directly from a bank account to different merchants, both online and offline on the basis of virtual address instead of bank account details. During the year, 17.9 million transactions worth ₹69.5 billion occurred through UPI.

## CUSTOMER SERVICE

Consumer protection and awareness has assumed a critical role for the Reserve Bank in view of the increasing customer base of banks, predominantly from vulnerable sections of society, and the introduction of technology based banking products. In this direction, the Reserve Bank set up five more Banking Ombudsman (BO) offices in addition to the existing 15 BO offices to ensure fair treatment of customers. During 2016-17, the total number of complaints increased by 27.3 per cent, up from 20.9 per cent in the previous year. Except for a few BO offices in Tier II cities, most of the Tier I and Tier II cities recorded a significant increase in the number of complaints.

## MICROFINANCE PROGRAMME

Steady progress has been made in the delivery of microfinance through self-help groups (SHGs) and joint liability groups (JLGs). SHG-bank linkage continued to be the dominant mode of microfinance with about 1.9 million SHGs credit linked with bank financing of `388 billion during 2016-17. Although the numbers of micro finance institutions (MFIs) financed by banks increased significantly, the amount of loans disbursed declined.

### Progress of Microfinance Programmes (As at end-March, 2017)

Self-Help Groups								
	Number (in Million)				Amount ( billion)			
Item	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
Loans Disbursed by Banks	1.4	1.6	1.8	1.9	240	276	373	388
	(0.2)	(0.7)	(0.9)	(1.0)	(35)	(114)	(194)	(200)
Loans Outstanding with Banks	4.2	4.5	4.7	4.8	429	515	572	616
	(1.3)	(2.2)	(2.5)	(2.8)	(102)	(232)	(306)	(341)
Savings with Banks	7.4	7.7	7.9	8.6	99	111	137	161
	(2.3)	(3.4)	(3.9)	(4.3)	(25)	(55)	(73)	(87)
Microfinance Institutions								
	Number				Amount (in Billion)			
Loans Disbursed by Banks	545	597	647	2,314	103	147	208	193
Loans Outstanding with Banks	2,422	4,660	2,020	5,357	165	219	256	292
Joint Liability Groups								
	Number (in Million)				Amount ( billion)			
Loans Disbursed by Banks	0.21	0.46	0.57	0.70	22	44	62	95

**Notes: 1.** Figures in brackets give the details of SHGs covered under the National Rural Livelihoods Mission (NRLM) and the National Urban Livelihoods Mission (NULM) for 2014-15, 2015-16 and 2016-17, respectively. Earlier year data in brackets cover only NRLM / Swarnajayanti Gram Swarajgar Yojana (SGSY) groups.

**2.** Actual number of MFIs availing loans from banks would be less than the number of accounts, as most of MFIs avail loans several times from the same bank and also from more than one bank.

**Source:** NABARD.

## **SMALL FINANCE BANKS**

Small finance banks (SFBs) were given licenses in 2016 with the objective of furthering financial inclusion by primarily undertaking the basic banking activities of acceptance of deposits and lending to unserved and underserved sections such as small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations. In this context, SFBs are required to:

- (i) have 25 per cent of their branches in unbanked rural centres within one year from the date of commencement of operations,
- (ii) have at least 50 per cent of their loan portfolios of up to `2.5 million,
- (iii) not undertake any para-banking activity, except that is allowed as per the licensing guidelines, and
- (iv) extend 75 per cent of their ANBC to the sectors eligible for classification as priority sector lending by the Reserve Bank.

Moreover, SFBs need to comply with prudential norms and regulations of the Reserve Bank as applicable to existing commercial banks, including the requirements of maintenance of cash reserve ratio (CRR) and the SLR. No forbearance has, however, been provided for complying with the statutory provisions. The minimum capital requirement for SFBs has been set as 15 per cent of the risk weighted assets as against 10.25 per cent in case of SCBs as at end-March 2017, although CCB is not applicable to SFBs. In total, 10 SFBs have been given licenses and six SFBs have started operations by end-March 2017. It is interesting to note that eight out of the 10 licensed SFBs were operating as NBFCs in the microfinance sector. As at end-March 2017, there were 397 functioning offices of SFBs. To promote financial inclusion, SFBs have been allowed three years from the date of their commencement to align their banking networks with the new branch authorisation policy of the Reserve Bank. During this time, their existing structure as MFIs/NBFCs may continue and existing branches will be treated as banking outlets subject to the condition that at least 25 per cent of them are converted from existing MFIs must be opened in unbanked rural centres during a financial year.

## OVERALL PROGRESS UNDER FINANCIAL INCLUSION PLANS

### Progress under Financial Inclusion Plans, All SCBs including RRBs

Sr. No.	Particulars	Mar-10	Mar-16	Mar-17	Percentage Change (Mar-2016 – Mar-17)
1	Banking Outlets in Villages – Branches	33,378	51,830	50860	-1.9
2	Banking Outlets in Rural Location – Branchless Mode	34,316	5,34,477	5,47,233	2.4
<b>3</b>	<b>Banking Outlets in Villages – Total</b>	<b>67,694</b>	<b>5,86,307</b>	<b>5,98,093</b>	<b>2</b>
4	Urban Locations Covered through BCs	447	1,02,552	1,02,865	0.3
5	BSBDA – Through Branches (No. in million)	60	238	254	6.7
6	BSBDA – Through Branches( Amt. in ` billion)	44	474	691	45.8
7	BSBDA – Through BCs (No. in million)	13	231	280	21.2
8	BSBDA – Through BCs (Amt. in ` billion)	11	164	285	73.8
<b>9</b>	<b>BSBDA – Total (No. in million)</b>	<b>73</b>	<b>469</b>	<b>533</b>	<b>13.6</b>
<b>10</b>	<b>BSBDA – Total (Amt. in ` billion)</b>	<b>55</b>	<b>638</b>	<b>977</b>	<b>53.1</b>
11	OD Facility Aailed in BSBDA's (No. in million)	0.2	9	9	0
12	OD Facility Aailed in BSBDA's (Amt. in ` billion)	0.1	29	17	-41.4
13	KCCs – Total (No. in million)	24	47	46	-2.1
<b>14</b>	<b>KCCs – Total (Amt. in ` billion)</b>	<b>1,240</b>	<b>5,131</b>	<b>5,805</b>	<b>13.1</b>
15	GCC – Total (No. in million)	1	11	13	18.2
<b>16</b>	<b>GCC – Total (Amt. in ` billion)</b>	<b>35</b>	<b>1,493</b>	<b>2,117</b>	<b>41.8</b>
17	ICT A/Cs-BC – Total Transactions (No. in million)	27	827	1,159	40.1
18	ICT A/Cs-BC – Total Transactions (Amt. in ` billion)	7	1,687	2,652	57.2

Notes: 1. Absolute and percentage variation could be slightly different as numbers have been rounded off to million / billion.

2. \*: Data excludes 8 RRBs.

Source: Reserve Bank of India.

- During 2016-17, the number of brick and mortar branches in rural areas declined marginally. With an increasing number of villages being covered through business correspondents (BCs) and other modes, the total number of banking outlets in villages showed a marginal uptick.
- The dominance of BCs in banking services in rural areas can be gauged from the fact that in March 2017, about 91 per cent of the banking outlets in villages were BCs as against 50.5 per cent in March 2010. This underscores the increasing importance of technology in the provision of banking services. Further, given that BCs which provide banking services over a minimum of 4 hours per day and for at least 5 days a week have been recognised as banking outlets, their importance is set to increase further.

## CROSS-COUNTRY EXPERIENCE IN FINANCIAL INCLUSION

Due to various efforts made by the Government and the Reserve Bank, the overall score for financial inclusion as brought out by The Economist Intelligence Unit's Global **Microscope** improved to 78 out of 100 in 2016 from 61 in 2014.

### Financial Inclusion in BRICS and Other Emerging Economies, 2016

	Overall Score	Government Support for Financial Inclusion	Regulatory and Supervisory Capacity for Financial Inclusion	Prudential Regulation	Regulation and Supervision of Credit Portfolios	Regulation of Electronic Payments	Grievance Redress and Dispute Resolution Mechanisms
Colombia	89	100	58	100	100	75	100
<b>India</b>	<b>78</b>	<b>83</b>	<b>58</b>	<b>75</b>	<b>89</b>	<b>100</b>	<b>83</b>
Kenya	61	78	58	88	64	100	25
Mexico	60	78	58	92	50	50	50
Indonesia	55	44	83	46	83	50	83
Brazil	51	78	42	46	19	75	42
South Africa	51	39	42	63	33	50	58
Russia	49	61	58	21	69	50	17
Turkey	46	22	58	67	47	50	33
China	44	44	17	46	50	75	42

Note: Normalised score 0-100 where 100 = best.

Source: Global Microscope 2016 – The Enabling Environment for Financial Inclusion, The Economist Intelligence Unit.

The overall score assesses the regulatory ecosystem for financial inclusion by evaluating 12 indicators across a range of emerging and developing economies covering 55 countries. India occupied the third position in terms of overall ranking, much ahead of its BRICS peers and other emerging economies. India had an impeccable score in terms of regulation of electronic payments. This underscores the widespread positive action taken to create a regulatory environment which is conducive to digital economic activity. A pan-India survey conducted by the Reserve Bank showed that the average score in various financial literacy indicators was below the minimum required threshold suggested by the OECD/INFE (International Network on Financial Education) Toolkit. This suggests the need to integrate financial literacy in the agenda of financial inclusion for promoting inclusive growth.

## CONCLUSION

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With the ongoing third phase of the financial inclusion plan and the fillip provided by the PMJDY, further progress was made towards the goal of universal financial inclusion. With the latest branch authorisation policy that recognises BCs, which provide banking services for a minimum of 4 hours per day and for at least 5 days a week, as a banking outlet, the importance of technology in banking services is going to increase further.

Operationalisation of SFBs and payments banks is expected to further expand the geographical penetration of banking services at low cost in an affordable manner, providing further impetus to the financial inclusion agenda. For digital payments and their facilitation through various incentives by the Government is also expected to provide a boost to the objective of a 'less-cash' society. At the same time, to ensure that Bank further strengthened the Banking Ombudsman Scheme.

Looking ahead, it is expected that through new institutional mechanisms such as the IBC, the Government and the Reserve Bank's resolve to collectively address the problem of stressed assets and banks' own efforts toward improving efficiency, credit monitoring, risk management and internal accruals, they will be able to overcome the strains on lending capacity and efficiently perform their role as financial intermediaries. In this direction, the Government's initiative in the form of an 'Alternative Mechanism' for consolidation of PSBs will help create strong and efficient banks. Nonetheless, banks will have to adapt and adjust to the rapidly evolving financial environment brought about by the entry of niche players and emerging financial technologies.

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