UNIT 1 PLURAL FINANCIAL INCLUSION STRATEGIES

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1.1 INTRODUCTION

Financial inclusion is the availability of financial services at an affordable and accessible way with minimum transaction costs to the sections of the low income segments of the society. Unrestricted access to essential goods and services is the primary requirement for the socio economic development of entire society. It is believed that as banking services are in the nature of public good, it is essential that availability of banking and financial services to the entire population without discrimination is the prime objective of public policy. The term
"financial inclusion" has gained importance since the year 2000. Financial inclusion is now a common objective for many central banks among the developing nations. Before we discuss other issues with regard to financial inclusion, we will look into the concept and rationale for providing financial inclusion. In this Unit we will also look into the scope for financial inclusion in India, status of financial inclusion at global level, factors affecting financial inclusion and the consequences of financial inclusion.

1.2 OBJECTIVES
After studying this Unit, you would be able to

- define financial inclusion;
- discuss plural financial inclusion;
- describe the status of financial services at the Indian level and global level; and
- list the factors affecting the access to financial services to poor.

1.3 CONCEPT OF FINANCIAL INCLUSION

Financial inclusion is defined as the process of ensuring timely access of affordable credit and financial services to the vulnerable groups at an affordable cost. A growing body of research around the world shows that well developed and inclusive financial systems are associated with faster growth and better income distribution. (Beck, demirgü-Kunt and Levine (2004); Honohan (2004)). Finance helps the poor to expand their choices grow economically and it will also help to minimize damages at the personal sphere. It will also help women to empower economically. Through micro finance, ordinary and poor people could able to access the financial services and able to escape from persisting poverty. In the United Nations International year of Microcredit, 2005, the thinking of inclusive financial system for the poor emerged. In India, significance and role of finance in promoting equitable growth was realized from the first five plan onwards. The successive governments planned and formulated different schemes and programme to address poverty and inequality. With the majority of the poor living in rural areas (Percentage of Poor Estimated (Poverty Estimates) by Expert Group by Tendulkar Method using Mixed Reference Period 2011-12 is 25.7% in rural areas. (Planning Commission, 2013), the policies of the inclusive finance aimed at rural areas. The objectives of broad –based financial development allowed the banks to mobilize savings throughout the country and allocate them to agriculture, small industries in the rural areas motivated them to start vast network of rural cooperative banks in the 1950s. Apart from this, intermediary small savings and credit institutions are formed. There
were crisis in banking sector in 1960s affected credit flow. The nationalization of commercial banks was done in the year 1969 by Indira Gandhi with four goals.

1. Preventing few corporations controlling all banks;
2. Mobilizing the savings of the public including rural areas;
3. Limiting the concentration of wealth and economic power by using resources mobilized banks to achieve egalitarian society; and
4. Paying more attention to priority areas like agriculture and small industry.

Between 1969 and 1980, thousands of new bank branches opened up in rural areas of the country. Throughout this period, the strategy for banking was shaped by the goal of ‘serving better’ the needs of the development of the economy in conformity with the national policy and objectives’. (Reserve Bank of India, 1983). Nationalized commercial banks served with the objective of social benefit rather than profit motivation during this period. With this strategy and expanding its operation in more number of rural areas in the 1970s and 1980s loosen the grip of traditional money lenders and banks worked with motivation of targeted, low-priced loans. Government also made banks to concentrate on priority sectors and mandatory for the banks to provide credit to agriculture, small scale sectors and other sectors through credit planning, quantitative credit targets and subsidized credit. A “Service area approach” was adopted to focus 15-20 villages by a branch of a nationalized bank resulted more focus on clients. If other banks want to start a financial service to the already allocated particular service area of the bank, they need to obtain no objection certificate from the bank.

The liberalization of economy in the 1990s brought many challenges to the financial sector. But key features of rural credit were on. Although the deregulation of interest rate in the past decade implemented the lending rates on small loans up to Rs.20000/- are ‘capped at’ prime lending rate (PLR), which a banks are free to set, there is ‘floor’ on short –term deposit rates. Priority sector credit requirements have been eased, but remain high at 40 percent. Debt or interest waiver schemes are used frequently. Even though, trade liberalization brought many private players into the banking sector public sector banks like State Bank of India and other regional banks also continuously dominating in the stiff competitive environment. The public sector banks account for 73 per cent of commercial banks assets and 52.4 per cent of the assets of all financial institutions in the system.

Banks are also known as “Social banking”. But they mandated to provide financial services to farmers and small enterprises as per government regulations. With the introduction of
micro credit programme, banks directly engaged with small loans seekers and they started serving to women.

So far we have traced the evolution of inclusive financial system in banking sectors. The following data will provide us how far Indian banks are following inclusive finance.

**Table 1.1**

**Share of rural household debt by source of credit, All India 1951-91**

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional</th>
<th>Non-Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>banks</td>
<td>cooperatives</td>
</tr>
<tr>
<td>1951</td>
<td>1.1</td>
<td>4.6</td>
</tr>
<tr>
<td>1961</td>
<td>0.3</td>
<td>10.4</td>
</tr>
<tr>
<td>1971</td>
<td>2.4</td>
<td>20.1</td>
</tr>
<tr>
<td>1981</td>
<td>28.6</td>
<td>28.6</td>
</tr>
<tr>
<td>1991</td>
<td>29.0</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Source: All India Rural Credit Survey and All India debt and Investment survey (AIDS).

Note: * Others include non-institutional sources other than friends and relatives and moneylenders. E.g., traders, agriculturist money lenders, landlord etc.

The above table shows that institutions played a significant role to provide credit in rural areas over a period of time. The combined institutional credit increased from 8.8 per cent in 1951 to 53.3 per cent in 1991.

**Box 1.1 The case of Gujnoor**

Gujnoor Tuljapur Taluka has a population of 650 persons. Self Help Groups (SHGs) have existed here for three years. Women’s financial status is greatly improved by taking loans and undertaking small businesses. Although, the women came together with some apprehensions, they started collecting cash and depositing it in the bank, but didn’t know what to do further. Once Madhur tai (pronounced taai) from the organization visited the village and taught them how to keep accounts. After learning the intricacies of accounting system, the group started giving loans among themselves. Suglabai Shivappa Mulge started a grocery shop, since most of the population had shifted to the highland after the earthquake. Three women took loans for goats. Some women took loans to buy fowls and buffaloes and for other small businesses.

So far, 15 women have taken loans from the mahila Saving Group and started businesses. These village women have started visiting other places too and they are learning from other...
SHG women’s experiences. They are learning about ration, gram panchayat work, village development, and so on. They want to join the gram panchayat for village development and public work. Annapurnabai Shivram Vaghmare is the village sarpanch (head of the panchayat). Women have decided to support her and take her help to achieve success. Annapurnabai is also member of the saving group. The gram panchayat is active since the last two years, under her leadership. There is sufficient water but the pipeline needs repair, and Annapurnabai plans to get repaired it soon.

Adopted and adapted from Parthasarathy, Kishore, Soma (2005), Awareness, Access, Agency: Experiences of Swayam Shikshan Prayog in Micro Finance and Women’s Empowerment in Micro-Credit, Poverty and Empowerment Linking the Triad, Burra, Neera, Ranadive, Joy Deshmukh and Murthy, K Ranjani (Eds), New Delhi: Sage Publication.

1.4 PLURAL FINANCIAL INCLUSION IN THE MACRO ECONOMIC SCENARIO

In this section, we will discuss plural financial inclusion status at the macro economic level. Finance has come a long way since the time when it wasn't recognized as a factor for growth and development. It is now attributed as the brain of an economic system and most of the economies strive to make their financial systems more efficient. It also keeps policymakers on their toes as any problem in this sector could freeze the entire economy and even lead to a contagion.

The earlier research focused on how finance could help economy. At present, more research is undergoing on inclusive finance. Also, the new avenue for research in finance is - making financial inclusion workable. Patrick Honohan of Trinity College, Dublin (2012) developed an index to measure the financial accessibility in 160 countries. If the index is put on a world map one can be clearly seen that the economies having higher indices are usually those, which we term as developed/advanced economies. It is not implied that financial inclusion alone has led to the development but it an important factor to accelerate economy and to bring development at all levels.

The policymakers have set up their task force/committees by the many countries like developed countries like United Kingdom to understand how financial inclusion could be achieved to bring inclusive growth and development. India also set up a committee under the chairmanship of Mr. C.Rangarajan to suggest measures to increase financial inclusion and it is called the Rangarajan Committee on Financial Inclusion. International Organization like
The World Bank had organized a conference in March 2007 and has released a report titled "Finance for All" in November 2007.

The first question that comes to our mind is why can't financial inclusion happen on its own? Why do we need to make a policy to increase the same? Like any other services, why can't it find a market on its own? The reasons are given below:

1. **Financial exclusion:** It has been found that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, economically poor regions and also those living in harsh climatic conditions where it is difficult to provide the financial services. The excluded population relied on informal sector (moneylenders) for availing financial services in exorbitant rates. This leads to a vicious cycle. First, high cost of financial services implies that the poor person has to earn much more than someone who has access to financial services with lower cost. Second, the major portion of the earnings is paid to the moneylender if they access financial services from them and it is difficult for them to come out from poverty.

2. **High cost:** It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them. We can look in to this issue from the following examples. The following example gives us, how financial services are varying from country to country. In order to open a Checking account in Cameroon, the minimum amount required to deposit is over 700 dollars, an amount higher than the average GDP per capita of the country, while no minimum amounts are required in South Africa or Swaziland. Annual fees to maintain a checking account exceed 25 percent of GDP per capita in Sierra Leone, while there are no such fees in the Philippines. In Bangladesh, Pakistan, Philippines, to get a small business loan processed requires more than a month, while it can be done in a day in Denmark. The fees for transferring 250 dollars internationally are 50 dollars in the Dominican Republic, but only 30 cents in Belgium.

3. **Non-price barriers:** Access to formal financial services also requires few documents of proof like persons' identity card, income certificate etc. The poor people do not have most of these documents and thus they are excluded from the financial services. They may also subscribe to the services initially but may not use them as actively as
others because of distance between the bank and their residence, poor infrastructure facilities etc.

4. **Behavioural aspects:** Research in behavioural economics has shown that many people are not comfortable in using formal financial services. The reasons are difficulty in understanding language, documentation process and conditions that come with financial services etc.

The above reasons clearly show us that financial inclusion will not happen on its own. Therefore, the onus has come on to the policymakers to provide the same. According to Dr. Vijay Kelkar, Chairman, Finance Commission (2008) “Financial inclusion is a quasi public good; increasingly, access to finance is positioned as a public good in developing countries, which is as important as accessing basic services like safe drinking water and primary education”. The pertinent question to ask here is whether 'Financial Inclusion' can be construed as public good? A good is considered as 'public good' if it meets the conditions of no rivalry in consumption and non-excludability. The degree of 'public good' in 'financial inclusion' maybe different from the stand point of a typical public good like say 'defence', but there is little doubt that financial inclusion meets the above two criteria to a large measure and to that extent it is "quasi public good".

There are a number of positive externalities of financial inclusion. One of the important effects is ‘one is able to reap the advantages of network externality of financial inclusion as the value of the entire national financial system increases’. Yet another reason why financial inclusion is a quasi public good is that the consequent participation by all in the financial system makes monetary policy more effective and thus enhances the prospects of non-inflationary growth.

In this scenario, the government has implemented Micro Finance Services to the poor. Micro Finance services in India are operated through two models. They are SHG-bank linkage model and MFI-bank model. The SHG- bank linkage model are adopted widely in India due to various reasons like the promotions of SHGs by state owned corporations and government and bank linkages. Both government as well as private banks involved in the promotion and sustenance of SHGs. The Study conducted by the NABARD in 1980s revealed that despite implementation of large number of poverty alleviation programmes for more than decades, large percentage of population are still in the poverty and they were not able to access formal financial institutions. The study also proved that existed banking policies, systems, procedures, deposit and loan products not suitable for poor.
1.5 SCOPE OF FINANCIAL INCLUSION IN INDIA

The following section discusses scope of the financial inclusion in India.

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The term financial inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of financial inclusion differs among countries. For example, non-payment of utility bills through banks may be considered as a case of financial exclusion in a developed country, however, the same may not (and need not) be considered as financial exclusion in the developing countries as the financial system is not yet developed to provide sophisticated services. Hence, while making any cross country comparisons due care needs to be taken.

It is now widely acknowledged that financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of own funds to individuals and also leads to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All the above said reasons impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in the country.

The Reserve Bank of India (RBI) has set up a Khan Commission in 2004 to look into strategies for financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report, RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. As we have seen in the earlier section regarding the efforts of the government to provide affordable and accessible loans to poor and marginalized, the financial inclusion in India is first featured in 2005. When it was introduced, that, too, as a pilot project in the Union Territory (UT) of Pondicherry by K C Chakraborty, the then chairman of the Indian Bank in the Mangalam Village in the Union Territory of Pondicherry, it became the first village in India where all households were provided banking facilities. In addition to this,
KYC (Know your Customer) norms were relaxed for people intending to open accounts with an annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them to access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, States and U.Ts like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion for all in all districts.

The outreach of the banking sector is indicated by 'Geographic' and 'Demographic' penetration. Geographic penetration can be measured in terms of number of bank branches per 1000 sq km and number of ATMs per 1000 sq km. India fares better in terms of demographic penetration than geographic penetration in terms of access.

1.6 OVERVIEW OF EFFORTS FOR FINANCIAL INCLUSION

Financial Inclusion includes meeting the small credit needs of the people, giving them access to the payments system and providing remittance facilities. This has led to some notable developments. The developments are given below:

No Frills Accounts: In November 2005, RBI asked banks to offer a basic banking ‘no-frills’ account with low or zero minimum balances and minimum charges to expand the outreach of such accounts to the low income groups

Easier Credit facility: Banks were asked to introduce a General Purpose Credit Card (GCC) facility up to Rs. 25,000.

Simpler KYC Norms: In order to ensure that the people belonging to the low income groups, both in urban and rural areas, do not encounter difficulties in opening bank accounts, the 'Know Your Customer' (KYC) procedure for opening accounts was simplified for those accounts with balances not exceeding Rs 50,000 and credits thereto not exceeding Rs.100,000 in a year.

Use of Information Technology: Banks have been urged to scale up IT initiatives for financial inclusion as quick as possible while ensuring that solutions are highly secure,
amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

**Electronic Benefit Transfer (EBT) through Banks:** To encourage banks to adopt Information and Communication Technology (ICT) solutions for enhancing their outreach, the RBI formulated a scheme to quicken the pace of adoption of the smart card-based Electronic Benefit Transfer (EBT) mechanism by banks and rolled out the EBT system in the States that are ready to adopt the scheme. As per the scheme, the RBI would reimburse the banks a part of the cost of opening accounts with bio-metric access.smart cards at the rate of Rs.50 per account through which payment of social security benefits, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) payments and payments under other Government benefit programmes would be routed to persons belonging to below poverty line (BPL) families. The scheme was implemented in Andhra Pradesh.

**Business Correspondent (BC) Model:** The BC Model ensures a closer relationship between poor people and the organized financial system. Reorganizing this, in 2006, RBI permitted banks to use the services of non-governmental organizations, micro-finance institutions, retired bank employees, ex-servicemen, retired government employees, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services.

**Bank Branch and ATM Expansion Liberalized:** Reserve Bank of India has totally freed the location of ATMs from prior authorization. Further, in the October 2009 RBI took another big step by freeing branch opening in towns and villages with a population below 49,999.

**Expansion of Banks in the North-East:** To improve banking penetration in the North-East, the Reserve Bank asked the State Governments and banks to identify centres where there is a need for setting up either full fledged branches or those offering forex facilities, handling government business or for meeting currency requirements.

**Project Financial Literacy:** Financial literacy is a stepping-stone toward financial inclusion. Moreover, as financial markets are becoming increasingly complex with serious problems of information asymmetry, the need for financial literacy has become even more acute. The Reserve Bank of India has initiated a “Project Financial Literacy” with the objective of disseminating information regarding the central bank and general banking concepts to various target groups. RBI’s ‘Financial Education’ website link offers basics of banking, finance and central banking for children of all ages (http://www.rbi.org.in/FinancialEducation/Home.aspx).

**Financial Literacy and Credit Counselling:** RBI has advised the convener-bank of each State Level Bankers’ Committee (SLBC) to set up a financial literacy-cum-counselling centre
in any one the district on a pilot basis. Based on the experience gained, Banks can extend the facility to other districts in due course.

**Check Your Progress Exercise 1**

**Note:** i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Define Financial Inclusion

2. List down the developments seen in Financial Inclusion

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**1.8 FINANCIAL INCLUSION – GLOBAL STATUS**

The financial structure in a country is influenced and shaped by non-financial developments. Changes in the field of telecommunications, computers, non-financial sector policies, and economic growth itself influence the structure of the financial system. Technological improvements lower the transaction costs.

According to General Kofi Annan former UN Secretary in 29 December, 2003, “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.” (Building Inclusive Financial Sectors for Development, 2006)

According to the United Nations, the main goals of Inclusive Finance are as follows:

1. Accessing range of financial services at a reasonable cost by all households and enterprises asthey are “bankable.” The services include savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
2. Establishing Sound institutions guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market as well as by sound prudential regulation wherever required.

3. Providing sustainable Financial and institutional services as a means of providing access to financial services over time.

4. Creating an environment of multiple financial service providers wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

The United Kingdom was one of the first country to realize the importance of financial inclusion. It published its strategy of financial inclusion in the report entitled “Promoting Financial Inclusion” along with the Pre-Budget Report of 2004. The UK government also set up the Financial Inclusion Fund of £120 m to implement Financial Inclusion. The Financial Inclusion Taskforce was formally launched on 21 February 2005 to monitor progress of financial inclusion and to make suitable recommendations.

**Table 1.2 Access to Banking – India vis-à-vis the World**

**Geographic and Demographic penetration of banking services**

<table>
<thead>
<tr>
<th>Country</th>
<th>Geographic Penetration</th>
<th>Demographic penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of bank branches per 1000 sq km</td>
<td>No of ATMs per 1000 sq km</td>
</tr>
<tr>
<td>Korea</td>
<td>65.02</td>
<td>436.88</td>
</tr>
<tr>
<td>U.K</td>
<td>45.16</td>
<td>104.46</td>
</tr>
<tr>
<td>India</td>
<td>22.57</td>
<td>≠</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10.00</td>
<td>5.73</td>
</tr>
<tr>
<td>USA</td>
<td>9.81</td>
<td>38.43</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.09</td>
<td>8.91</td>
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<tr>
<td>Brazil</td>
<td>3.05</td>
<td>3.72</td>
</tr>
<tr>
<td>China</td>
<td>1.83</td>
<td>5.25</td>
</tr>
<tr>
<td>Russia</td>
<td>0.19</td>
<td>0.53</td>
</tr>
</tbody>
</table>
≠ as per trends and progress of Banking in India, RBI, 2006-07, End of March 2007 there were 27,088 ATMs of scheduled commercial banks in India.

As per the above table (Table 1.3) Bolivia and Namibia have the lowest number of bank branches per area at 0.13 and 0.11 branches per 1000 sq.kms. Respectively (both the countries including Russia are in the bottom 5th percentile of the distribution). On the other hand, countries like Italy having 102.35 bank branches and Malta at 375 branches per 1000 sq.kms respectively, have the highest bank branches per area (both belong to the top 5th percentile). The median number of branches per 1000 sq. km. is 4.80, close to the figure of Mexico. Thus, based on the above, in terms of branch access, India does not fare badly compared to other countries. If we analyse ATM access, Nepal ranks at the bottom with less than 0.26 ATMs per 1000 sq. km, whereas Japan and Malta have 397 and 463 respectively. The figure for median number of ATMs is about 10 per sq.km which again is close to Mexico. Demographic penetration can be measured in terms of per capita measure of bank branches and ATMs or in other words the population served by each branch and ATM in a country.

The per capita measure reflects the average number of people served by each physical outlet. Thus, a higher value connotes fewer clients per branch or ATM and is an indicator of easier access. In the case of per capita population, another measure of demographic penetration is the number of ATMs per lakh persons. In India, the median is around 17 ATMs per lakh persons, which is close to the figure of Mexico (16.33). Bangladesh ranks the lowest with less than 0.06 ATMs per lakh inhabitants while USA with more than 120 ATMs per lakh persons belongs to the top 5th percentile. There are however, limitations (of both area and population ratios) as these indicate uniform distribution of outlets, in terms of both area and population.

1.8 FINANCIAL INCLUSION – INDIAN EXPERIENCE

Reserve Bank of India’s vision for 2020 is to open bank accounts for nearly 600 million new customers’ and service them through a variety of channels by leveraging IT. However, illiteracy and the low income savings and the lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this, there are certain in
current model which is followed. There is inadequate legal and financial structure India. Being an agrarian economy, hardly there are schemes which lend for agriculture purposes in India. Along with microfinance, India also needs to focus on Micro insurance.

- In its platinum jubilee year (1935-2010), the Reserve Bank of India (RBI) wants to connect every Indian in the country through banking system.
- RBI is currently working on a three-year financial inclusion plan and is discussing this with each bank to take this forward. According to KC Chakrabarty, deputy governor, RBI "Nearly forty years after nationalization of banks, 60% of the country’s population does not have bank accounts and nearly 90% do not get loans”.
- Despite heightened focus on financial inclusion, Indian banks still somewhat failed to bring the under- and un-banked into the mainstream banking fold.
- India has currently having the second-highest number of financially excluded households in the world. Approximately, 40% of India’s population have bank accounts, and only about 10% have any kind of life insurance cover, while a meagre 0.6% has non-life insurance cover.
- According to United Nations, "A financial sector that provides accessible credit to all “bankable” people and firms and savings and payments services for everyone are inclusive finance. Inclusive finance does not require every eligible person to use each of the services, but they should be able to choose the service to use them if desired.
- According to the report of the committee on financial inclusion in India headed by C. Rangarajan in 2008 “financial inclusion is the process of ensuring accessible financial services and timely adequate credit wherever needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

1.8.1. Factors Affecting Access to Financial Services

- **Legal identity**: Lack of legal identity like voter id, driving license, birth certificates, employment identity card etc.
- **Limited literacy**: Lack of financial literacy and lack of basic education prevent people to access financial services.
- **Level of income**: Level of income is one of the factors to decide access to financial services. Low income people generally have the attitude of thinking that banks are only for rich.
• **Terms and conditions**: 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.

• **Complicated procedures**: Due to lack of financial literacy and basic education, it is very difficult for those who lack skill to read terms and conditions and account filling forms.

• **Psychological and cultural barriers**: Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

• **Place of living**: As the name suggests that commercial banks operate only in commercially profitable areas and they set up branches and main offices only in commercial areas. People who live in underdeveloped areas find it difficult to access bank from commercial areas.

• **Lack of awareness**: Finally, people who lack basic education do not know the importance of the financial products like Insurance, Finance, Bank Accounts, cheque facility, etc.

**Check Your Progress Exercise 2**

**Note:** i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the main goals of Financial Inclusion

2. What are the factors affecting access to financial services

**19 CONSEQUENCES OF FINANCIAL EXCLUSION**

The following section discusses consequences of Financial Exclusion. It also discusses two major threats:

• **Losing opportunities to grow**: In the absence of finance, people who are not connected with formal financial system lack opportunities to grow.
• **Country's growth will retard:** Due to vast unutilized resources that is in the form of money in the hands of people who lack financial inclusive services.

Other Consequences are given below:

• Business loss to banks;
• Exclusion from mainstream society;
• All transactions cannot be made in cash;
• Loss of opportunities to thrift and borrow;
• Employment barriers;
• Loss due to theft; and
• Other allied financial services.

1.9.1 Benefits of Inclusive Financial Growth

The benefits of inclusive financial growth are as follows

• **Growth with equity:** Inclusive financial growth will provide growth with equity.
• **Get rid of poverty:** formal financial services will provide opportunity to become entrepreneur. It also one of the opportunity to access health and education. This in turn will help vulnerable to come out from poverty.
• **Financial Transactions Made Easy:** Inclusive finance will make banking and financial related transactions easy and speed.
• **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,
• **Inflating National Income:** Boosting up business opportunities will definitely increase GDP and which 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.

1.9.2. Relationship between Financial Inclusion and Development Indicators

• Economic growth follows financial inclusion. In order to achieve the objective of growth with equity, it is imperative that soft infrastructure should be developed with financial inclusion.
Savings and credit accounts are the indicators of financial inclusion.
Per capita income is also one of the indicator of economic development.
Electricity consumption and road length are also other indicators of infrastructure development.

All the above influence economic development which follows adequate financial and credit facilities.

1.9.3. Expectations of Poor People from Financial System

Taking into account their problems like Seasonal Inflow of Income from agricultural operations; migration in search of employment opportunities; seasonal and irregular work availability and Income, the existing financial system needs to be designed to suit their requirements. It should be like

- Security and safety of deposits;
- Low transaction cost;
- Convenient operating time;
- Minimum paper work;
- Frequent deposits;
- Quick and easy access; and
- Product suitable to income and consumption.

1.10 PLURAL MEANS OF FINANCIAL INCLUSION

'Major Three Aspects of Financial Inclusion' make people to access financial markets; access credit markets and learn financial matters (financial education).

Financial Inclusion includes accessing of Financial Products and Services like:

- Savings facility;
- Credit and debit cards access;
- Electronic fund transfer;
- All kinds of commercial loans;
- Overdraft facility;
- Cheque facility;
• Payment and remittance services;
• Low cost financial services;
• Insurance (Medical insurance);
• Financial advice;
• Pension for old age and investment schemes;
• Access to financial markets;
• Micro credit during emergency; and
• Entrepreneurial credit.

The financially excluded sections largely comprise:

• Marginal farmers; Landless labourers; Oral lessees; Self employed and unorganised sector enterprises; Urban slum dwellers; Migrants; Ethnic minorities and socially excluded groups; Senior citizens; Women and the North East, Eastern and Central regions contain most of the financially excluded population.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

   ii. Compare your answer with the one given at the end of this unit

1. Name any five financially excluded people

   ____________________________________________________________

1.11 CHALLENGES IN REACHING THE ULTRA POOR

Indian economic policy emphasises to achieve high growth rates coupled with ensuring poor to able to participate in the market economy. The inclusion agenda has many implications for the field of finance. It involves creating a business environment through which the poor across the country can have easy, secure and affordable access to critical risk management products. The complex financial needs and risks faced by the poor require sophisticated financial solutions and risk management tools. These cannot be scaled down versions of existing products for the rich.

Access to the formal financial system starts with a bank account, and the ability to make secure payments through that account. Once the ability to make payments is available
ubiquitously, other financial products such as credit, insurance, pensions and mutual funds can be delivered using this infrastructure.

Table 1.4 Bank penetration rates among India’s working age paid workforce

<table>
<thead>
<tr>
<th>Workforce category</th>
<th>Total</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>All earners aged 18-59 years</td>
<td>45%</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Shopkeepers</td>
<td>72%</td>
<td>65%</td>
<td>79%</td>
</tr>
<tr>
<td>Dairy farmers</td>
<td>59%</td>
<td>59%</td>
<td>62%</td>
</tr>
<tr>
<td>Traditional farmers</td>
<td>45%</td>
<td>45%</td>
<td>51%</td>
</tr>
<tr>
<td>Street vendors</td>
<td>39%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>Semi and skilled wage labourers</td>
<td>34%</td>
<td>32%</td>
<td>37%</td>
</tr>
<tr>
<td>Artisans and crafts man</td>
<td>26%</td>
<td>22%</td>
<td>37%</td>
</tr>
<tr>
<td>Home-based workers</td>
<td>25%</td>
<td>20%</td>
<td>38%</td>
</tr>
<tr>
<td>Agricultural wage labourers</td>
<td>14%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Other daily wage labourers</td>
<td>18%</td>
<td>15%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Ref: invest India income and saving survey, 2007 (SIII SS 07)

The Post Office Savings Bank (POSB) is the largest bank in the country by number of customers and number of branches. It also handles large volume of government benefits payments and it does not distinguish between rich and poor customers. Commercial banks are leading for financial inclusion now days. They are opening No Frills accounts for low income customers. Central, State and Local governments are increasingly preferring government benefits payments to be routed through banks rather than using money orders. Banks are also increasingly offering remittance products to their customers and installing ATMs in rural areas. Information technology (IT) and Information Technology Enabled Services (IETS) is penetrating in all areas and world is fast becoming electronically connected. In this scenario, India Post needs to be innovative and bring change with the change of times. It must offer products that can be used effortlessly and instantaneously with the use of technology. By playing a dominant role in financial inclusion, India Post can increase its relevance and improve its profits.
Products that use cash implicitly pass on the costs of cash management to the customer. This makes many of financial products not feasible to use by every one. The costs of storage and transportation of cash are very high. It is estimated that 1% of all microfinance loans go towards the cost of cash management today. The poor often pay a large sum for safekeeping of money, either directly or indirectly through occasional theft. A savings account provides safety at low cost, while at the same time bearing interest. Modernising the POSB accounts offering with technology will form a basic building block of India Post's offerings for financial inclusion.

### 1.12 STRATEGIES, WAY FORWARD AND PLANNING

Banks in India have been able to achieve a substantial level of computerization in their operations, however, tremendous scope still exists for them to learn from mobile operators to optimize back-end technologies and leverage volume to significantly reduce the back-end costs. Mobile phones present an ideal platform to increase outreach of financial services to the rural population as their penetration is already large and growing. For a bank to reach its customers as well as to widen its customer base without investments in physical infrastructure like branches, ATMs and mobile banking present a fantastic opportunity to undertake branchless banking. Thus, from the perspective of facilitating financial inclusion, 'mobile banking' offers immense opportunities for banks. Therefore, the key issue now is to ensure that rural credit from institutional sources achieves wider coverage and expands financial inclusion. For achieving the current policy stance of "inclusive growth" the focus on financial inclusion is not only essential but a pre-requisite. And for achieving comprehensive financial inclusion, the first step is to achieve credit inclusion for the disadvantaged and vulnerable sections of our society.

Extensive use of technology is the only realistic way to achieve economies of scale and deliver a range of financial services in a secure environment at a low cost to the poor. At present, IT skills and capacity at India Post are relatively limited although the Department is rapidly incorporating technology into its processes and acquiring new IT skills.

Finally, there is a need for Future Strategies and Demand side Factors to do plural financial inclusion. Involvement of grass root level organizations like farmers’ club and NGOs would lead to inclusion of the disadvantaged as they ensure local participation and help farmers in gaining access to credit and technology. The main advantage in involving such grass root
organization is the large multiplier effects they generate along with the positive ‘demonstration effects’ among the target groups.

**Rural Infrastructure:** Infrastructure development is an essential prerequisite for attaining greater inclusive growth. Adequate rural infrastructure facilities and improvements in terms of availability of electricity, improved connectivity through provision of rural roads and telecommunications, construction of warehouses and market infrastructure are expected to lead to efficient supply chain management in agriculture and hence greater demand for banking activities in rural areas.

**Financial Education:** Lack of knowledge is an important reason for financial exclusion. Financial education is required to ensure that large sections of population in urban and rural areas that do not have access to formal banking and financial services are educated of the advantages of coming into the fold of such services.

**Deceleration in Agricultural Growth:** The yield of most of the agricultural commodities is low leading to less demand and supply of credit. For instance, the cultivation of commercial crops requires. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is critical for achieving inclusive growth in the country.

### 1.13 SUMMING UP

In this Unit, we have discussed the concept of financial inclusion, plural financial inclusion in the macro economic scenario, the reasons for not having financial inclusion, scope for financial inclusion, overview of efforts of financial inclusion by the banks and other financial institutions, status of financial inclusion at the global level, financial inclusion in India, consequences of financial exclusion, meaning of plural financial inclusion, challenges to reach ultra poor and strategies for way forward planning.

### 1.14 GLOSSARY

**AIDIS (All India Debt and Investment Survey):** The All-India Debt and Investment Survey (AIDIS) were carried out as part of the 48th Round of the National Sample Survey Organization (NSSO) during January to December 1992. This was the fifth such survey conducted at the all-India level. At present, the decennially conducted AIDIS is the only nation-wide enquiry providing data on household assets, indebtedness and capital expenditure. The main objective of the AIDIS is to generate reliable estimates on assets, liabilities and capital expenditure of the household sector. The survey provides the details of
household liabilities required for the formulation of credit policy of financial institutions and planning for development.

1.15 ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress Exercise 1

1. **Financial inclusion** is the availability of financial services at an affordable and reachable costs to the sections of low income segments of the society. Unrestricted access to essential goods and services is the primary requirement in an open and efficient society.

2. The benefits of Financial Inclusion are:
   - No Frills Account
   - Easier credit facility
   - Simpler KYC norms
   - Use of Information Technology
   - Electronic Benefit Transfer through banks
   - ATM expansion

Check Your Progress Exercise 2

1. The main goals of financial inclusions are:
   - Financial reach to all the household
   - Financial and institutional sustainability
   - Cost effective reach and multiple financial service providers

2. The factors affecting access to financial services are:
   - Legal Identity
   - Limited literacy
   - Level of income
   - Terms and conditions
   - Complicated procedures
   - Psychological and cultural barrier
   - Place of living
   - Lack of awareness

Check Your Progress Exercise 3
1. The five financially excluded people are:

- Marginal farmers
- Landless labourers
- Oral lessees
- Self employed and unorganised sector enterprises
- Urban slum dwellers

1.16 REFERENCES


1.17 QUESTIONS FOR REFLECTION AND PRACTICE

1. Write an essay on Indian experience of financial inclusion with suitable data.