

## Reality of Financial Inclusion: India

Anjali S. Trivedi

Research Scholar

S. P. University, V. V. Nagar,  
Anand, Gujarat.

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### ABSTRACT

*Financial inclusion is very known term in the modern twenty first century. The financial inclusion campaign has emerged under the eleventh five-year plan (2007-12), underneath the inclusive growth theme. What is actually financial inclusion? Simply, it means adding up the disadvantaged population into advantaged one population under formal financial services. The main objectives of this research study are to throw light on the matter that actually financial inclusion is a myth or reality and to find out the current scenario of financial inclusion in India. The data is collected through primary and secondary sources. The findings of this research study are to make effective government policy and formal financial institution coverage up to large extent by solving the gender basis constraint.*

**Key words:** *Financial Inclusion, Gender basis constraint.*

### Introduction

As it is known that with cloth, shelter and food, now the financial support is also a necessity for a common person of the country. Financial inclusion is very known term in the modern twenty first century. Banking sector is very much concerned about financial inclusion. The financial inclusion campaign has emerged under the eleventh five-year plan (2007-12), underneath the inclusive growth theme. According to Planning commission of India (2007), "Inclusive growth is a growth process which yields broad based benefits and ensures equality of opportunity for all." Now, the first question is: what is actually financial inclusion? Simply, it means adding up the disadvantaged population into advantaged one population under formal financial services. According to the Committee on Financial Inclusion under the chairmanship of Dr. C. Rangarajan (2008), "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

### Objective of the Study

The main objectives of this research study are

- To throw light on the matter that actually financial inclusion is a myth or reality,
- To find out the current scenario of financial inclusion in India.

### Methodology of the Study

This research study is based on primary as well as secondary data. The primary data is collected through the interview of Nationalized bank managers. Secondary data is collected through published past research papers, articles, blogs, thesis, reports, magazines etc.

### Financial Inclusion: Is a Myth or Reality?

Now one question arises that if the disadvantageous groups are begun to be included from the eleventh five year plan onwards, then till this plan, what was the task of formal financial institutions? The answer is that even before introduction of eleventh plan or financial inclusion campaign; the formal financial institutions were working on the same ground under the title of various governmental schemes. This answer is reached after interviewing such nationalized bank managers, about the financial inclusion campaign. Then, what is the significance

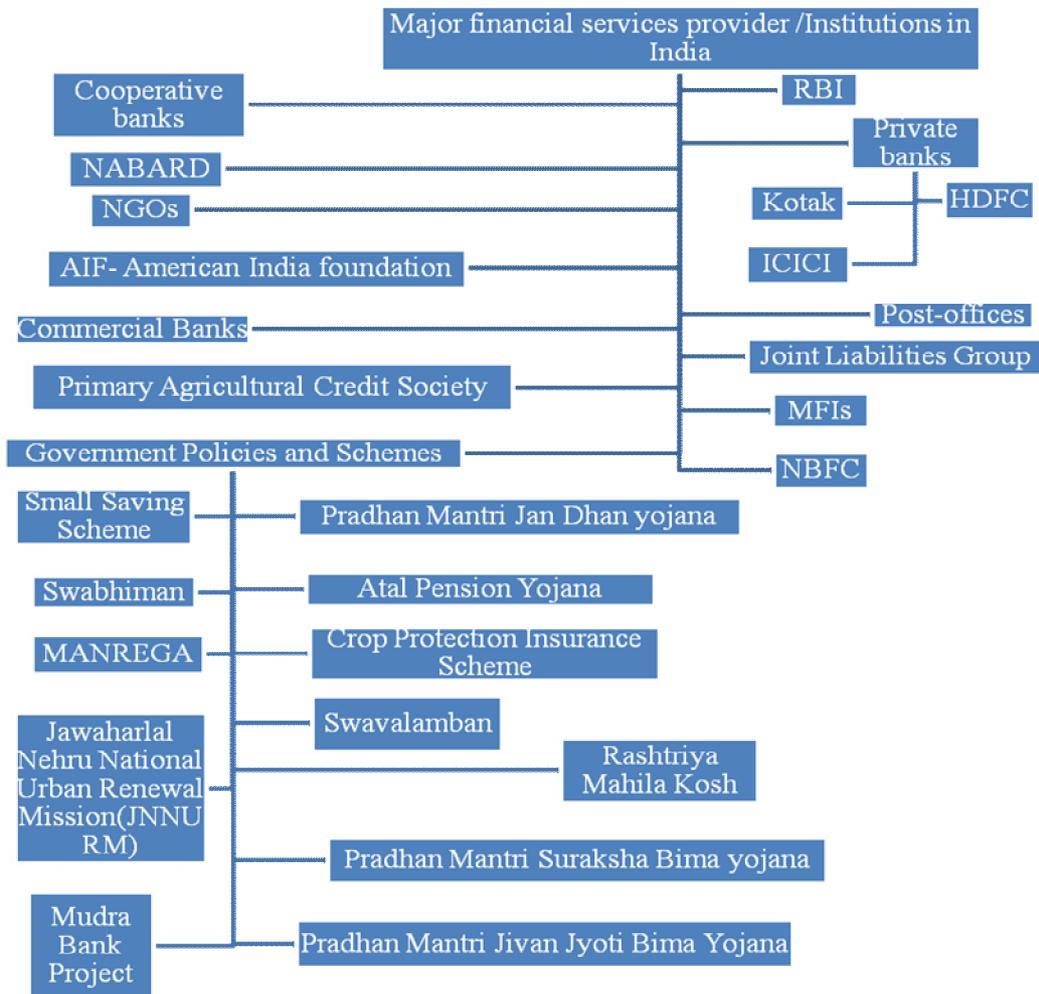
of introducing the new term financial inclusion in such a developing country like India. The answer is that where financial assistance and formal financial services are not reached; provide the disadvantaged population formal financial services, to extend the coverage of advantageous population, to make people more aware and accurate about managing their money through

formal financial institutions till now. Thus, financial inclusion is a reality, not a myth. Formal financial institutions and Government are working very hard and trying to be effective as soon as possible. Up to certain extent the disadvantaged population is covered under the beneficiary group.

**Current Scenario of Financial Inclusion in India**

Various formal financial institutions are working to provide and ensure formal financial services in India, which are NABARD, Regional Rural Banks, Nationalized banks, Co-operative banks, Non-banking finance company, Self help groups, Non-governmental organization, Private banks, Micro finance Institutions and many government schemes – projects. It can be observed through the following diagram:

**Diagram No. 1: Major financial services provider /Institutions in India**



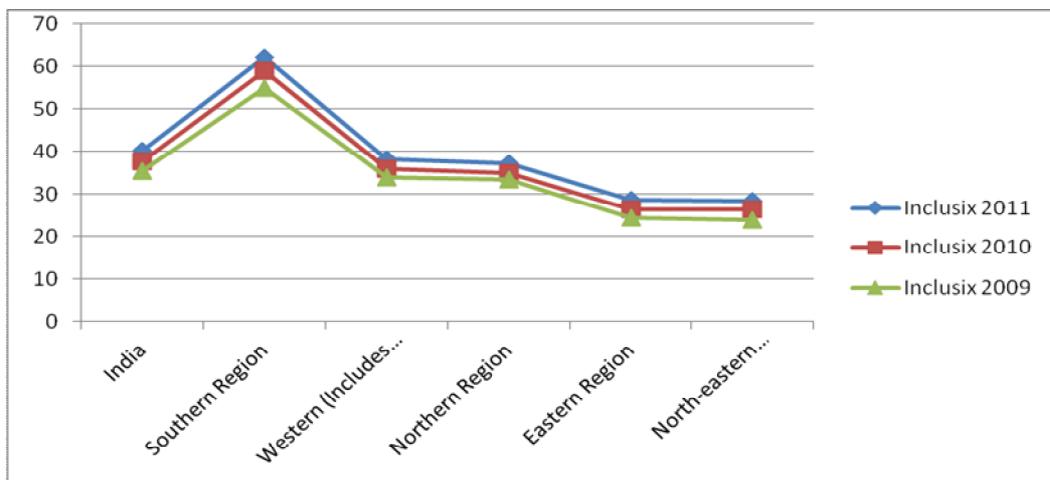
As it can be observed from the above diagram that there are various sources of finance in a formal way. Some of the key achievements of financial inclusion indicators achieved through these formal financial providers are given as follows:

**Table No.1: CRISIL Inclusix of India by Region.**

Sr. No.	Region	Inclusix 2011	Inclusix 2010	Inclusix 2009
1	India	40.1	37.6	35.4
2	Southern Region	62.2	58.8	54.9
3	Western Region (Includes Gujarat)	38.2	35.8	33.9
4	Northern Region	37.1	34.8	33.3
5	Eastern Region	28.6	26.3	24.3
6	North-eastern Region	28.5	26.5	23.8

Source: CRISIL Inclusix (2013)

**Chart No.1: CRISIL Inclusix of India by Region**



Here, it can be observed from above data that the CRISIL Inclusix has increased in all different regions of India, but less in comparison of southern region. For measuring level of financial inclusion, mainly three dimensions can be considered at the regional level, which are given as follows:

**Table No.2: Score across all three dimensions at a regional level in India**

Sr. No.	Region	Branch Penetration		Credit Penetration		Deposit Penetration	
		2009	2011	2009	2011	2009	2011
1	Southern Region	49.6	54.4	68.8	77.1	55.1	66.0
2	Western Region (Includes Gujarat)	39.4	43.7	26.9	28.2	40.4	47.7
3	Northern Region	36.9	40.9	26.2	27.4	40.7	49.1
4	Eastern Region	27.4	29.9	20.1	23.7	26.5	34.0
5	North-eastern Region	27.7	29.9	17.9	21.6	27.7	36.5
6	India(Total)	37.3	41.0	33.5	36.8	39.7	48.3

Source: CRISIL Inclusix (2013)

From the above table, the observations are that, the credit penetration score of Southern region is nearly three times that of Credit penetration score of other regions. This difference is perhaps the outcome of the high level of liter and human development in the region, supported by greater access to formal banking channels. Both the western and northern regions are increasingly lagging the Southern region because of weaker performance in credit penetration. In fact, both these regions show the least improvement in credit penetration amongst all other regions. In the case of Eastern and North-Eastern regions, it is the slower improvement in overall score (CRISIL Inclusix, 2013).

In India, some of the selected indicators are needed to specify, through which an idea of accessing formal financial services by population can be known. Following facts in table will present the financial inclusion indicators of India:

**Table No. 3: Selected Indicators of Financial Inclusion in India- 2011**

Sr.No.	Indicators	Per	Data
1	Number of Bank branches	Per 1000 KM	30.43
2	Number of ATMs		25.43
3	Number of Bank branches	Per 0.1 Million	10.64
4	Number of ATMs		8.9
5	Bank Deposits	As a % of GDP	68.43
6	Bank Credits		51.75

Source: RBI (2013)

From the above table no.3, it can be observed that number of bank branches and ATMs are less in a comparison of the proportion of population for accessing banking facilities. This shows that the number of bank branches and ATMs needed to be increase with rise in the population. Due to rapid Urbanization process, the population in urban areas is increasing, which increases the demand for formal financial services. Thus, government of India is now focusing more on access of formal financial services by excluded people.

Chattopadhyay (2011) classified Indian states into three categories, i.e., states having high, low and medium extent of financial exclusion using the Index of Financial Inclusion which is based on three basic dimensions—(i) banking penetration, referring to the size of the banking population having a bank account as a percentage of the overall population in a geographical area; (ii) availability of the banking services, measured by the number of bank outlets per thousand population; and (iii) usage of the banking system with the volume of outstanding deposit and credit as a proportion of net domestic district product as the criteria. Chattopadhyay have classified Indian states into categories by the degree of financial exclusion, which is given as follows:

**Table No.4: Index of Financial Inclusion in 2011**

1.	2.	3.
Sr.No.	Degree of financial exclusion	States
1	High ( $0.5 < IFI \leq 1$ )	Kerala, Maharashtra, Karnataka
2	Medium ( $0.3 \leq IFI < 0.5$ )	Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh, Haryana

3	Low ( $0 \leq \text{IFI} < 0.3$ )	West Bengal, Uttar Pradesh, Gujarat, Tripura, Bihar, Assam, Nagaland, Manipur, Mizoram, Madhya Pradesh, Arunachal Pradesh, Orissa Rajasthan
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Source: Chattopadhyay (2011)

From the above table, it can be observed that the index of financial inclusion of Gujarat state is lower in comparison of many different states of India. Gujarat is lagging behind many developing states of India like Sikkim, Himachal Pradesh, Tamil Nadu, Karnataka, Kerala, Maharashtra and so on. Now, following table is presenting the statistical data on gender basis:

**Table No. 5: Financial Inclusion data on Gender basis in India**

1	2	3	4
Sr. No.	Financial Inclusion details	Female (in % of total female population)	Male (in % of total male population)
1	Account at a financial institutions (age 15+)	43	62
2	Saved at a financial institution (age 15+)	14	18

Source: World Bank (2014)

From the above table, we can observe that females are using less formal financial services than males. So, it is necessary to focus on female as well to provide formal financial services as females are now actively participating in economic activities in the country.

### Conclusion

Thus, from the above statistical data, it can be observed that the progress of formal financial institutions and government is considerably increased up to some extent in reality. But, still there is a gap between the number of beneficiaries and non-beneficiaries of formal financial services. In India, many states are developed one, but they are lagging back in providing formal financial services to disadvantageous population at an affordable cost. Especial concentration has to be given to less and under developed states. It is not necessary that financial inclusion is needed to be done at only rural area, but same thing has to be done at urban areas also, as the population of our Indian economy is increasing day by day. And one of the most important facts is that there is a gender based gap in accessing formal financial services, which is represented through world-bank data. Thus, Formal financial institutions and government have to focus on both rural and urban areas as well with an emphasis on gender basis, to

make effective and success the financial inclusion campaign in India.

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**A man of courage is also full of faith.**

**~ Marcus Tullius Cicero**