The Last Quarter Century: Evolution of Financial Inclusion in India

Background

Financial inclusion in India has come a long way since the liberalization movement in 1991. With the Reserve Bank of India (RBI) and the Government of India playing key roles, financial inclusion today is a multi-faceted and multi-pronged approach. Moreover, promoting inclusion of the most vulnerable groups including women, senior citizens, migrants, marginal farmers, urban slum dwellers and landless laborers has been one of the key drivers behind India's financial inclusion programs. This consideration continues due to the fact that about 66.9% of the country's population is still rural (World Bank, 2016). Irregular work and seasonal financial inflows makes financial stability a challenge for the poor. According to the Financial Inclusion Action Plan - 2010 (G20 partnership), universal financial inclusion initiative, 2.5 billion people globally are financially excluded, a significant share of which reside in India (Box 1).

Box 1: Financial Exclusion – India's scenario

- 24.67 Crore households in India – 14.48 Crore (58.70%) had access to banking services (Census 2011)
- 16.78 Crore rural households – only 9.14 crore (54.46%) availed banking services (Census 2011)
- 35% Indian adults had access to formal banking services (World Bank Findex Survey, 2012)
- Only 8% borrowed formally over one year (World Bank Findex Survey, 2012)

The whole premise of financial inclusion centers around a holistic approach to finance at the household level, and the need to discourage borrowing from informal sources and give vulnerable populations the opportunity to evade falling into debt traps. Financial inclusion measures of the RBI gained full momentum from 2005 with the launch of the no-frills account. Post 2010, the non-frills account was replaced by the Basic Savings Bank Deposit Account (BSBDA) offered by commercial banks. About six lakh rural households benefited from the Financial Inclusion Plan in 2010. At the same time, Microfinance Institutions (MFIs) have played an important role in furthering inclusion at the ground level. Continuous strides are being taken in the direction of complete financial inclusion with support from the Central government – such as the launch of the Jan Dhan, Aadhaar and Mobile (JAM) framework under the Pradhan Mantri Jan Dhan Yojana (PMJDY). In addition, the digital payment revolution is gradually pushing financial inclusion towards a centralized, regulated and formal system.

Financial inclusion in post-liberalized India – RBI's role[1]

Key measures/programs	Description
Basic Savings Bank Deposit Account (BSBDA)	Common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/credit of money through electronic payment channels, facility of providing ATM card
Simplified bank authorization policy	To address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers under general permission, subject to reporting.
Opening of intermediate brick and mortar structure	For effective cash management, documentation, re-dressal of customer grievances and close supervision of Business Correspondents (BC) operations, banks are advised to open intermediate simple loww cost structures between the present base branch and BC locations.
Relaxed and simplified KYC norms	To facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000, and aggregate credit not exceeding Rs. one lakh a year.
Key measures/programs	**Description**

[1] RBI, Financial Inclusion in India – An Assessment, 2014-2015. DOI: https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/MFI101213FS.pdf

Financial Literacy Centers (FLCs)	FLCs and all the rural branches of scheduled commercial banks conduct outdoor Financial Literacy Camps to facilitate financial inclusion through provision of two essentials - 'Financial Literacy' and easy 'Financial Access'.
Licensing new banks	Licensing new banks are essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license (Dr. D Subbarao).
Adoption of BCs	BCs were allowed to provide banking services in rural areas.
Promotion of technology-based instruments for spreading banking services	To provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide Information and Communications Technology (ICT) based banking services – through BCs. These ICT enabled banking services have Core Banking Solutions (CBS) connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions
Kisan Credit Cards (KCC) and General Credit Cards (GCC)	Kisan Credit Cards were issued to small farmers to get hassle free credit from banks. Under GCC, banks have been asked to introduce general purpose credit card facility up to Rs 25,000 at their rural and semi-urban branches for low-income people.
Bank-SHG linkage programme	The model helps in bringing more people under sustainable development in a cost effective manner within a short span of time.
Direct Benefit Transfer (DBT)	The launch of direct benefit transfers through the support of Aadhaar and Bank Account is one of the biggest developments that have helped activate accounts and facilitate usage of newly opened accounts.
Unified Payments Interface	UPI is a payment mechanism built by the NPCI to promote online money transactions. It is aimed to facilitate retail payments for ecommerce, small ticket money transfers for person to person payment, micropayments, utility bill payments etc.

Trends 2010-2017[2]

Banking outlets in villages
2010: **67,694**
2017: **598,093**

BSBDA (in million)
2010: **73**
2017: **533**

KCC (in million)
2010: **24**; 2017: **46**
GCC (in million)
2010: **1**; 2017: **13**

ICT-based transactions
2010: **27 million**
2017: **1159 million**

Future pathways and Challenges

Despite the impressive strides that have been made over the last five to seven years, a large percentage of the population still remains financially excluded. This is due to the many implementation challenges such as lack of infrastructure, training tools for banks, an ICT enabled environment, innovative products and accessibility issues (physical and linguistic barriers)[1]. There is a need to integrate the various programs from the government and RBI. Furthermore, research is required to understand the different challenges and ways to address them as well as the uptake and sustenance of the programs to inform policy changes to ensure full financial inclusion in the country.

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[2] Reserve Bank of India Annual Report, 2016-2017. DOI: http://www.thehindubusinessline.com/multimedia/archive/03196/RBI_Annual_Report__3196461a.PDF