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Research Article

AN ANALYSIS OF FINANCIAL INCLUSION IN INDIA

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Abstract: Financial inclusion is the process of ensuring access to all financial products and services to vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner. The financial services include savings, loans, payments, remittance facilities and financial counselling or advisory services by the formal financial system. India ranks 54th position in FDI and had a two-fold increase in FDI during 1981 to 2017. From 2004 onwards, there was an appreciable growth in the number of branches of commercial banks, ATMs, deposit accounts, loan accounts, outstanding loans and deposits, credit and debit cards, POS terminals and transactions. Financial inclusion assumes greater importance in India as access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction, social cohesion and inclusive growth.

Keywords: FDI, Financial inclusion, Inclusive growth, PMJDY, Social exclusion

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Introduction

India is one of the fastest growing economies of the world with a population of over 1.21 billion. Out of this, 72 percent live in rural areas and 28 percent in urban areas [1,2]. While India is targeting a double-digit economic growth rate, it is necessary to ensure the participation of all sections of the society. Lack of access to finance for small and marginal farmers and other weaker sections of the society had been recognized as a serious threat to economic progress. Prolonged deprivation of the financial services can even lead to social tensions causing social exclusion. Thus, financial inclusion is considered as an explicit strategy for achieving inclusive growth in the country. Financial inclusion has thus garnered a lot of interest and has become one of the major socio-economic challenges on the agenda of international institutions especially while framing the millennium and sustainable development goals [3,4], policy makers, central banks, financial institutions, micro-finance institutions and governments. Process of financial inclusion contains mainly three steps and they are financial literacy, opening a bank account and delivering financial services [5]. Adequacy, availability, awareness, affordability and accessibility to the financial services are the principles of financial inclusion. Factors affecting access to financial services are psychological and cultural barriers, legal identity, level of income, various terms and conditions by financial institutions, procedural formalities, limited literacy, place of living, social security payments, occupation and attractiveness of product [6]. Roles of financial inclusion are access to credit, economic growth [7], risk management, women empowerment, improve access to education, boost nation's health and well-being, reduce hunger, achieving SDGs (Sustainable Development Goals) and reduce inequality [8]. The problem of financial exclusion exists not only in the developing countries but also in the developed countries. But the type, degree and magnitude vary between the two countries. Global Financial Development Index (FDI), calculated by the IMF, had increased from 0.168 to 0.371 during 1981 to 2017. Switzerland ranked first with an FDI of 0.98 followed by Spain and USA [9].

Worldwide, 67 percent of adults own an account in formal financial institutions which serves as an entry point into the formal financial sector (World Bank, 2018) [10]. World Bank reported that 26.7 and 22.5 percent of adults in the world have savings and credits respectively, in a formal financial institution during 2017 and 52 percent of adults had made digital payments. GOI, RBI and NABARD had taken various initiatives for financial inclusion in India such as No-Frills account, simplified KYC (Know Your Customer) norms, General Purpose Credit (GCC) cards, financial literacy and credit counselling centres, financial literacy and business correspondents project, SHG-Bank linkage programme, microenterprise development programme, Joint Liability Groups (JLG), Pradhan Mantri Jan Dhan Yojana (PMJDY), Kisan Credit Card (KCC), *etc* [11]. In India, the level of financial inclusion was above the average with an inclusix score of 58 [12]. From 2004 onwards, there was an appreciable growth in the number of commercial banks, ATMs, deposit accounts, loan accounts, outstanding loans and deposits, credit and debit cards, POS (Point of Sale) terminals and transactions. It was reported that the agricultural households have higher savings (55.2%), investment (10.4%), indebtedness (52.5%) and borrowings (43.5%) compared to non-agricultural households. Meghalaya, Punjab, Telangana and Andhra Pradesh ranked first in household savings, investment, indebtedness and borrowings respectively. Availability of Kisan Credit Cards by the agricultural households had a positive correlation with land holdings [13].

Materials and methods

The objective of this paper is to evaluate the progress of financial inclusion in India. The study is based on secondary data which was collected from the reports of the RBI, the IMF, the World Bank, the NABARD and the Government of India. Number of branches of commercial banks, bank accounts, credit and debit cards, ATMs, ATM transactions, POS terminals and POS transactions were used to assess the trends of financial inclusion in India.

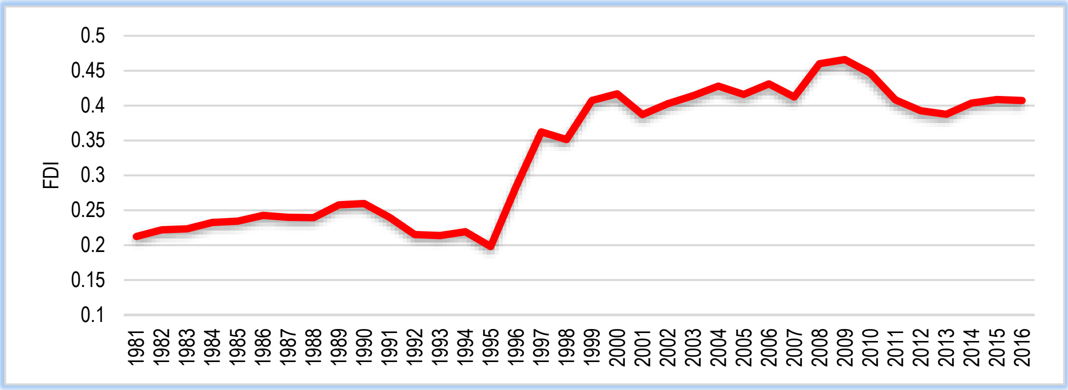

Fig-1 FDI of India (IMF, 2017)

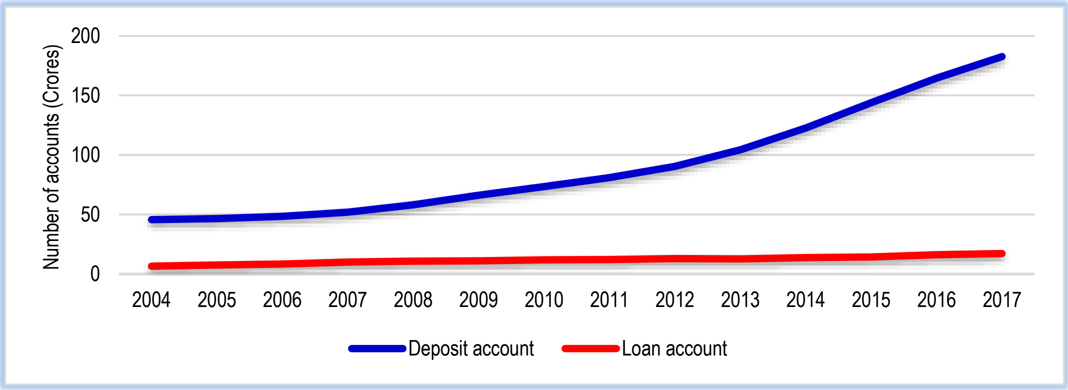

Fig-2 Number of deposit and loan accounts (IMF, 2017)

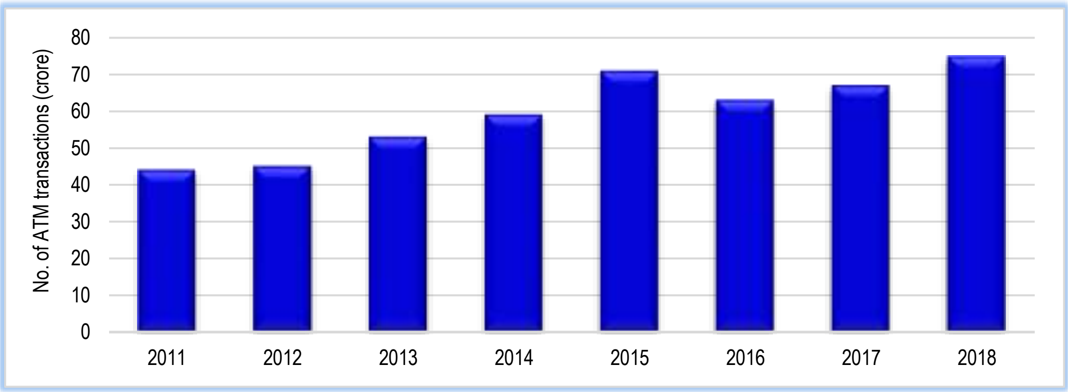

Fig-3 Number of ATM transactions (RBI, 2018)

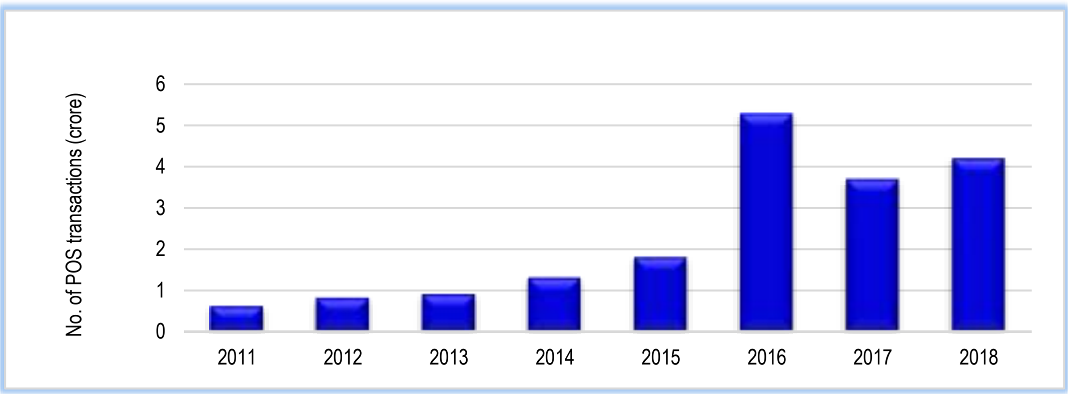

Fig-4 Number of POS transactions (RBI, 2018)

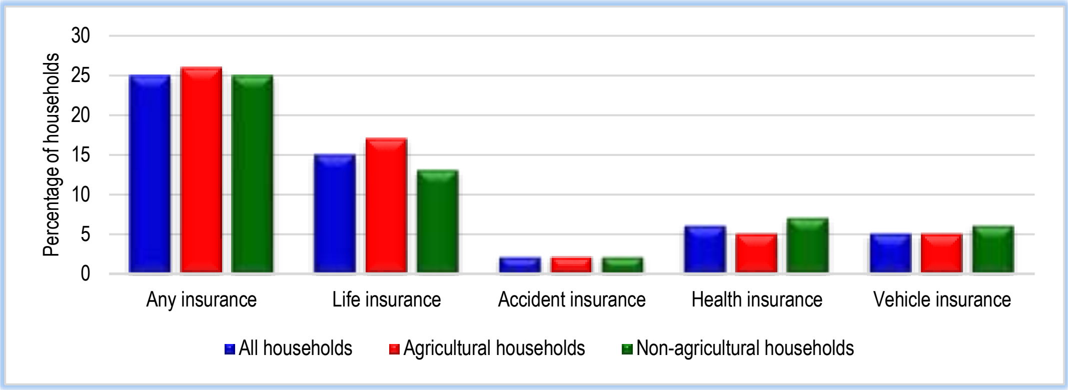

Fig-5 Percentage of households with insurance (NABARD, 2018)

Table-1 *Number of branches of commercial banks -region wise (RBI, 2018)*

Year	Northern	North Eastern	Eastern	Central	Western	Southern	All-India
2006	12297	1962	12486	14380	11245	20140	72510
2007	13024	2025	12854	14854	11690	21055	75502
2008	13862	2111	13413	15797	12373	22378	79934
2009	14632	2201	13917	16588	13087	23624	84049
2010	15709	2317	14770	17742	14037	25261	89836
2011	17004	2463	15646	18940	14990	26984	96027
2012	18446	2682	16777	20480	16217	29397	103999
2013	20275	2972	17982	22106	17478	31879	112692
2014	22642	3342	19723	24674	19009	35007	124397
2015	24247	3494	21114	26263	20023	37316	132457
2016	25665	4097	23511	27849	21218	39199	141539
2017	27056	4284	24224	28958	22070	40864	147456
2018	27122	4511	24784	29449	22437	41588	149891
CAGR	1.0757	1.0781	1.0651	1.0687	1.0653	1.0698	1.0691

Simple analysis tools such as percentage analysis, tabular analysis and CAGR (Compound Annual Growth Rate) were used for calculations.

Financial Development Index (FDI)
FDI was developed by the IMF to assess the impact of financial development on economic growth, inequality, and economic stability. The index database provides nine indices for over 180 countries with an annual frequency from 1981 onwards. India ranks 54th position in FDI (0.407) and had a two-fold increase in FDI during 1981 to 2016 [9]. [Fig-1] depicts the FDI of India during 1981 to 2016.

Branches of commercial banks
In India, during 2004 to 2017, there was more than two-fold increase in the number of branches of commercial banks. In 2004 there were only 67,156 branches of commercial banks which increased to more than double in 2017 (1,42,207) [9], with an annual growth rate of 1.06 percent. [Table-1] depicts, that the number of branches of commercial banks grew at a faster pace in north eastern region of the country [14].

Bank accounts
The number of deposits and loan accounts in India had increased during 2004 to 2017 with a growth rate of 1.12 and 1.06 percent respectively, which indicates the improvement in access to banking facilities in the country. PMJDY was a national mission for financial inclusion in India, launched on 28th August 2014 with an objective to ensure universal access to banking facilities with at least one basic bank account for every household. The number of PMJDY accounts had increased from 2014 to 2018, with a 32.62 crore Jan Dhan accounts with a balance of ₹86,163.79 crores [15, 16].

ATMs
In India there was an increase in the number of ATMs with a growth rate of 1.25 percent during 2005 to 2017. [Fig-3] depicts, that in the number of ATM transactions also, there was an increase till 2015, after that there was a slight reduction which was due to the intervention of mobile and internet banking facilities. The number of Rupay cards issued through PMJDY accounts also had increased from 8 lakhs to 24 lakhs during 2014-18 [15, 16].

Credit and debit cards
In India, the number of credit and debit cards had a reasonable growth with an annual growth rate of 1.00 and 1.22 percent respectively during 2006 to 2017. IMF had reported that in 2006 there were only 7.5 crore debit and 2.4 crore credit cards and in 2017 it had increased to 77 crore debit and 2.9 crore credit cards.

POS (Point of Sale) terminals
The number of POS terminals and transactions had increased with a CAGR of 1.27 and 1.38 respectively during 2011 to 2018. [Fig-4] shows that the number of POS transactions had increased till 2016 after that there was a slight reduction this was due to the emergence and popularity of mobile and internet banking facilities.

Insurance penetration
NABARD during 2017 had reported that about 25 percent of households in India had any type of insurance. Reasons for less insurance penetration are lack of funds, people did not feel the need, no regular income, lack of knowledge, lack of trust and other factors. [Fig-5] depicts that about 26 percent of agricultural households and 25 percent of non-agricultural households were reported to have been covered under one or the other type of insurance.

Conclusion
India is the second most populous country having density of 382 per square kilometre. The level of financial inclusion had increased in India, and also 1.5 lakhs branches of commercial banks, 2.1 lakhs ATMs and 33.1 lakhs POS terminals which are insufficient for the growing population. More than 70 percent of population live in rural areas but a greater number of branches of commercial banks and ATMs are located in urban and semi-urban regions. Broadening access to financial services and encouraging use of financial services for economic and social well-being will enable in achieving the goal of financial inclusion.

Application of research: Financial inclusion assumes greater importance in India as access to finance by the poor and vulnerable groups is a pre-requisite for poverty reduction, social cohesion and inclusive growth.

Research Category: Agriculture Economics

Abbreviations: ATMs: Automated Teller Machines, CRISIL: Credit Rating Information Services of India Limited, FDI: Financial Development Index, GCC: General Purpose Credit cards, GOI: Government of India, IMF: International Monetary Fund, JLG: Joint Liability Groups, KCC: Kisan Credit Card, KYC: Know Your Customer norms, NABARD: National Bank for Agriculture and Rural Development, PMJDY: Pradhan Mantri Jan Dhan Yojana, POS: Point of Sale and RBI: Reserve Bank of India.

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Study area / Sample Collection: RBI, IMF, World Bank, NABARD

Cultivar / Variety name: Nil

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Ethical approval: This article does not contain any studies with human participants or animals performed by any of the authors.
Ethical Committee Approval Number: Nil

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