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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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FINANCIAL INCLUSION IN INDIA - A ROAD AHEAD**K. THIRUMAMAGAL****RESEARCH SCHOLAR****PG & RESEARCH DEPARTMENT OF COMMERCE****PACHAIYAPPA'S COLLEGE FOR MEN****KANCHEEPURAM****DR. TI. M. SWAAMINATHAN****ASST. PROFESSOR****PG & RESEARCH DEPARTMENT OF COMMERCE****PACHAIYAPPA'S COLLEGE FOR MEN****KANCHEEPURAM****ABSTRACT**

Villages are the backbone of our economy. The soul of India lives in its villages. Empowerment of farmers leads to economic development of any country. However, malnourishment, suicide and health problems of farmers are shocking realities that still exist in many rural areas in our country and this is considered to be a serious threat to the economic progress of our country. The farmers already emaciated due to malnutrition further face the problem of inadequate finance. Financial assistance from the government will relieve them from several problems. Many of the farmers are under the clutches of unscrupulous money lenders which is surprising. They are blissfully unaware of financial services provided by our banks. Over the last few years, Government of India has given significant importance to the idea of financial inclusion. The need for the study of financial inclusion is to create a market driven banking sector with adequate focus on economic development. The objective of the study is to analyze the linkage between finance and economic development and to study the status of financial inclusion in India. Hope that the importance of Financial Inclusion is realized by all stakeholders responsible for making the banking process a success and that whatever strategies suggested will be pursued in right earnest by everyone in our country.

KEYWORDS

Financial Inclusion, Reserve Bank of India, Empowerment, Outreach Programme.

INTRODUCTION

India a sovereign, socialist, secular democratic republic is the world largest democracy in terms of citizenry. The constitution of India guarantees the equality to all the people of our country. Money like most other social institution has developed gradually over a very long period of time through trial and error. It is a most remarkable instrument which can be employed or influenced for many ends and in many ways.

Finance is the art and science of money. It is a universal lubricant that keeps the firm dynamic. Right from the very beginning of conceiving an idea to business, finance is needed to promote the business, to impart 3m's (men, machine and material) even the existing business need finance to further development of business. Everything depends, of course what we mean by money. **MONEY MAKES A MARE GO** is illustrative of this idea.

Finance plays a major role in the economic development of the country. Our country's development strategies focus on the villages where the people are blissfully unaware of the financial services provided by the banks. A new approach to development assistance and a comprehensive development framework has to be initiated by the banks and also our banks has taken various initiatives and brought to the limelight the need for social inclusion. The two main pillars of bank assistance to villages are

- building a climate for investments, jobs and sustainable growth and
- empowering poor men and women to participate in development.

Together these pillars form the key elements of sustainable development.

MEANING OF FINANCIAL INCLUSION

The term financial inclusion is, however, perceived in different ways under different contexts. There is a view that only access to credit is treated as financial inclusion whereas the other view includes all the services extended by the financial institutions. That apart, financial inclusion by banks and other institutions must target, apart from personal / private investment requirements of individuals and groups, the universal public investment requirements necessary for development of infrastructure, social sector services, public utilities and productive forces / capacity building efforts, etc. Thus, financial inclusion may well be all about money and finance, but with the ultimate objective of directly abolishing the state of social exclusion in the economy.

REVIEW OF LITERATURE

Basant Kumar1 & Brajaraj Mohanty (2012) (Financial Inclusion and Inclusive Development in SAARC Countries with Special Reference to India) stated that financial inclusion is a development policy priority aimed at improving conditions of vulnerable groups in many countries. Several initiatives for financial inclusion supported by legislative measures have come from financial regulators, banks and governments. One such initiative taken by the SAARC countries is the provision of microfinance. The comparison of Financial Access 2010 survey on various issues of financial inclusion agenda of the SAARC countries suggests that enforcement mechanisms are weaker than legislative requirements in all the SAARC countries.

Nitin Kumar (2012) made a deep analysis about the behavior of inclusion/exclusion across the population groups. According to the researcher, the financial inclusion mission has gained tremendous relevance in an emerging economy like India. *Financial exclusion seems to be more severe in rural and backward locations. He has employed the pooled dataset spanning over the period from 1990 to 2008 for rural and urban regions separately. The result is a testimony to the fact that inclusion policies are actually translating into significant improvement of branch density in India.*

Suresh Chandra Bihari (2011) studies about the various reasons behind the financial exclusion and explains the status of financial inclusion in India. The various financial services include credit, savings, insurance and payments and remittance facilities. Importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. With only 34 percent of population engaged in formal banking, India has a vast majority of financially excluded households. This study deals with the various reasons behind this and suggests way to ameliorate the same.

S Sankaramuthukumar and K Alamelu (2011) in his study has investigated about the aims at developing an index for insurance inclusion for India and her states. It also ranks the states according to insurance inclusion index, and compares the insurance inclusion index with the latest financial inclusion index for Indian states. The average Insurance Inclusion Index (III) for India is 0.29 which means that the insurance penetration is only 29% in the country. When compared to Life Insurance Inclusion Index (LIII), the General Insurance Inclusion Index (GIII) is too low in India. The national average is just 0.19. LIII for the country as a whole is 0.34, which is above the III. There is a positive correlation between III and Financial Inclusion Index (FII).

Tushar Pandey, Nagahari Krishna, Venetia Vickers, Antonio Menezes, and M. Raghavendra (2010) analyzed the efforts for financial inclusion need to be designed with a vision beyond just the percentage of the country population with access to a bank account or a no frills account; to focus more on how this can enhance the capability and convenience for the un-banked and under-banked, specifically the small and marginal farmers in this case, to enable greater transparency, accountability, efficiency and convenient access to necessary facilities. Government will play an important role in facilitating this partnership and scaling successful models as part of its policy to enable greater financial inclusion, with a focus on the small and marginal farmers.

Chandan Kumar Goyal (2008), in his research examines financial development which stimulates economic growth. In recent times, banking sector has played a significant role in strengthening Indian financial system. This paper looks into the circumstances that led to the growing consensus about financial inclusion/exclusion in recent years. It attempts to make a comparative analysis of the status of financial inclusion in Assam, Northeastern Region (NER), and India as a whole. Addressing the issue of financial inclusion from the perspectives of both supply and demand, the paper concludes by suggesting various means to deal with these constraints on financial inclusion.

BANKS TO REACH THE UNREACHED

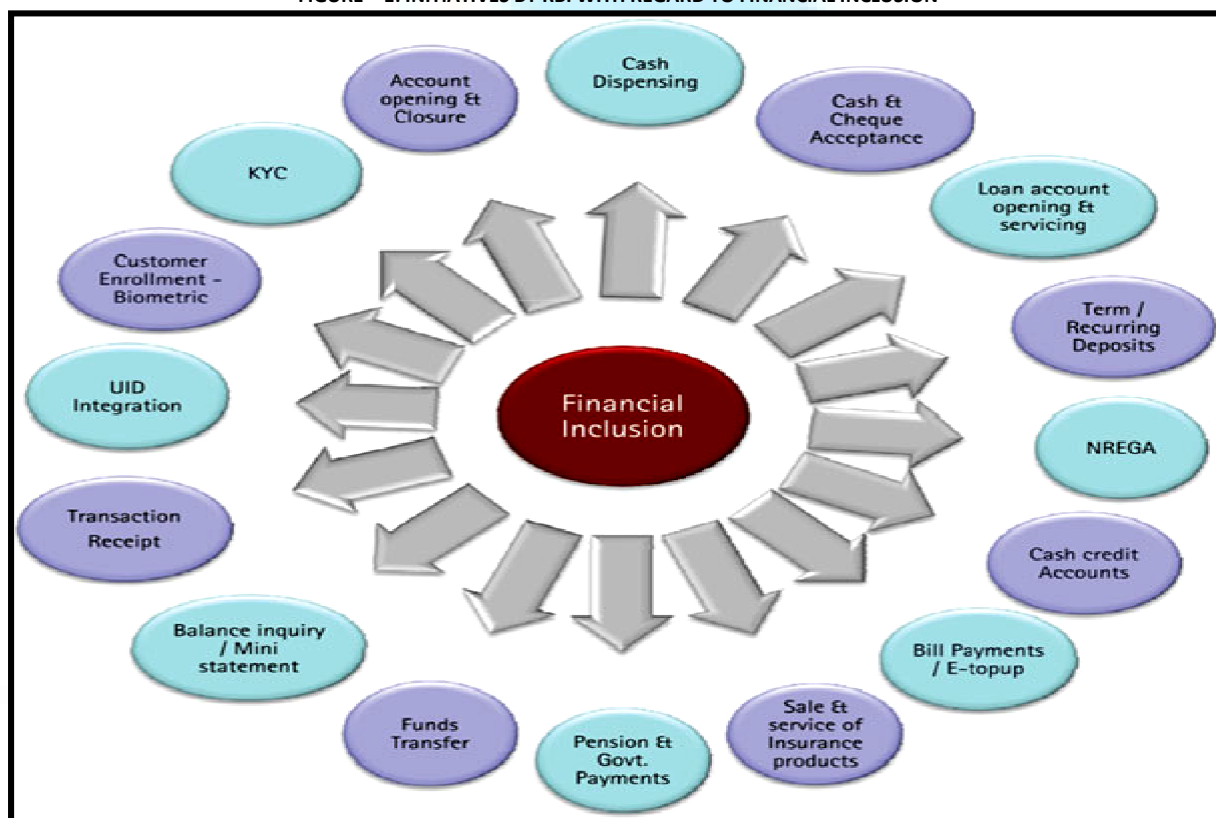
Financial inclusion is delivery of banking services to the less privileged and weaning them a way from the unscrupulous money lenders. This is a mammoth task and it cannot be achieved without active collaboration of all stakeholders. The government of India closely measure and monitor financial inclusion and are continuously discussing with banks the associated challenges and opportunities. This essentially means ensuring access to appropriate financial products and services by all sections of the society especially the weaker ones and those with low-income. The argument behind promoting financial inclusion stems from the fact that in its absence, socio-economic developments cannot take place at its expected due pace.

The unbanked, who live primarily in developing countries, comprise nearly half of the world's working-age population. In some countries, as much as 90% of the population lacks access to the formal financial system. This impedes their participation in the global economy by restricting their ability to buy goods and services, to borrow and save, or to invest in their future and that of their community and country.

STATEMENT OF THE PROBLEM

Financial inclusion is delivery of banking services to the less privileged and weaning them a way from the unscrupulous money lenders. This is a mammoth task and it cannot be achieved without active collaboration of all stakeholders. Banking to reach the unreached is considered to be one among several outstanding achievements to its credit. Although there has been improvement in the outreach programme activity in the banking sector, the achievement is not significant. The main problem is they don't have sufficient income to open an account in the bank and money lenders are still dominant source of rural finance despite wide presence of banks in rural areas. A whole-hearted effort is required in order to achieve the targets of financial inclusion. The concept of financial inclusion can be traced back to 1904 when cooperative movement took place. It gained momentum in 1969. Geographic penetration can be measured in terms of no of bank branches per 1000 sq km and no of ATM's per 1000 sq km.

FIGURE – 1: INITIATIVES BY RBI WITH REGARD TO FINANCIAL INCLUSION



NEED FOR THE STUDY

The need for the study is to suggest some revolutionary ideas with regard to financial inclusion that will transform the lives of the less privileged for the betterment of their own selves and as well of others and to march ahead slowly with adequate focus on economic development of our country evolving in to one of the finest country in the world. This paper studies the role of banks in the area of financing through financial inclusion of village, where the soul of India lies ahead.

OBJECTIVE OF THE STUDY

This study is an attempt to comprehend and distinguish the significance of financial inclusion in the context of developing countries such as India where the large population is deprived of the financial services which are very much essential for overall economic development of a country. Hence the objectives of the study are as per following:

1. To analyze the linkage between finance and economic development;

2. To study the status of financial inclusion in India and
3. To evaluate the extent to which the idea of financial inclusion has spread in India

METHODOLOGY OF THE STUDY

The study is based on the secondary data. Sampling technique used is cluster sampling and the researcher has divided the total population in to clusters or groups as north eastern, north western, south eastern, south western regions and the data is obtained from the database maintained by the Reserve Bank of India, banking company manuals & previous reports in magazines, newspapers etc., The study uses the data of financial assistance provided during 2009, 2010, 2011 and 2012 by all the sectors of banks in India. The sampling frame is confined to only scheduled commercial banks.

LINKAGE BETWEEN FINANCE AND ECONOMIC DEVELOPMENT

The bank performance in rural development during the past several years can be best analyzed in the light of main principles and objectives set out by from vision to action. The major thrust of from vision to action were clear; the bank rural development strategy would shift from a narrow agricultural focus to a broader rural development approach, incorporating long ignored issues such as land reform and nutrition and finding new ways to address old issues such as financial services and community driven development. To make these vision in to mission, the main priority actions included increasing economic and sector work, enabling knowledge management and agricultural research programs. Bank rural lending and non lending activities within the agricultural sector promoted a broadening of scope of lending. The improvements in project quality achieved in villages provide a strong platform from which to launch **reaching the rural poor** and move to scaling up quality rural operations.

STATUS OF FINANCIAL INCLUSION IN INDIA

TABLE 1: COVERAGE OF BANKING SERVICES, 2012

Region/ State	Current Accounts	Savings Accounts	Total Population	Adult Population (Above 19 years)	Total No. Of accounts	No. of acc. Per 100 of population	No. of acc. Per 100 of adult pop.
NORTHERN	4215701	52416125	132676462	67822312	56631826	43	84
Haryana	572660	8031472	21082989	11308025	8604132	41	76
Himachal Pradesh	134285	2433595	6077248	3566886	2567880	42	72
Jammu & Kashmir	277529	3094790	10069917	5379594	3372319	33	63
Punjab	1156137	13742201	24289296	14185190	14898338	61	105
Rajasthan	689657	12139302	56473122	28473743	12828959	23	45
NORTH-EASTERN	476603	6891081	38495089	19708982	7367684	19	37
Arunachal Pradesh	10538	209073	1091117	544582	219611	20	40
Assam	378729	5071058	26638407	14074393	5449787	20	39
EASTERN REGION	1814219	47876140	227613073	122136133	49690359	22	41
Bihar	464511	13225242	82878796	40934170	13689753	17	33
Orissa	228160	7030004	36706920	21065404	7258164	20	34
West Bengal	942733	21544753	80221171	45896914	22487486	28	49
CENTRAL REGION	2202217	64254189	255713495	129316677	66456406	26	51
Madhya Pradesh	553381	11731918	60385118	31404990	12285299	20	39
Uttar Pradesh	1324509	45804350	166052859	82229748	47128859	28	57
WESTERN	3178102	49525101	149071747	86182206	52703203	35	61
Maharashtra	2127240	31568184	96752247	56207604	33695424	35	60
SOUTHERN	4666014	83386898	223445381	135574225	88052912	39	65
Andhra Pradesh	1156405	23974580	75727541	44231918	25130985	33	57
Karnataka	1086662	19147819	52733958	30623289	20234481	38	66
Kerala	600065	17669723	31838619	20560323	18269788	57	89
Tamil Nadu	1786514	22052812	62110839	39511038	23839326	38	60
ALL-INDIA	16552856	304349534	1027015247	541031553	320902390	31	59

Source: RBI Report on Financial Inclusion, 2012.

TABLE 2: INDICATORS OF OUTREACH OF FINANCIAL SERVICES

VARIABLE	INDIA(as of march 2011)
Bank branches per 1,00,000 population	10.11
Bank branches per 1000 km square	26.46
Loan account per 1000 adults	89.03
Deposit account per 1000 adults	467.40
ATM per 1,00,000 population	7.29
ATM per 1000 km square	19.08
Financial access index rank	29

Source: compiled from financial access 2011

It can be observed from the table the problem arises not only from the supply side but also on the demand side. The opening of branches in unbanked segments increases year by year. By introducing various schemes and efforts by Reserve Bank of India reduces financial exclusion in a speedy manner.

TABLE 3: SPATIAL DISTRIBUTIONS OF BANKING SERVICES

(Amount in ` Billion)										
Population Group	As on March 31									
	March 2008		March 2009		March 2010		March 2011		March 2012	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
Rural	3030.25	1830.97	3654.91	2086.94	4235.02	2498.04	4968.57	2941.04	5782.11	4182.27
Semi-Urban	4293.77	2306.29	5319.44	2667.36	6182.07	3203.72	7212.02	3830.72	8484.46	4569.30
Urban	6576.24	3835.76	8244.63	4618.70	9511.16	5593.30	11163.80	6849.80	12809.04	7809.33
Metropolitan	18387.92	15972.63	22154.37	19202.25	26091.01	22161.13	30920.71	27147.12	34665.86	31654.37
All India	32288.17	23945.66	39373.36	28575.25	46019.26	33456.19	54265.10	40768.68	61741.47	48215.27

Source: compiled from RBI report on spatial distribution of banking services

The table 3 divulges the population group wise distribution of deposits and credits of scheduled commercial banks. The scheduled commercial banks has reached an unexpected level of 5782.11 billion of deposits as on march 2012 compared to 3030.25 billion as on march 2008 and 4182.27 billion of credit from 2941.04 as on march 2008 in rural areas. It can be observed from the table that the scheduled commercial bank which has provided maximum credit to different sectors compared to other scheduled banks. In its day to day operations, the scheduled commercial banks face several challenges. The main challenge is the disbursement of funds in loans and advances to the less privileged society of our country.

TABLE 4: REGION WISE FINANCIAL INCLUSIONS

Region / State / Union Territory	As on March 31											
	Rural				Semi-urban				Urban			
	2011		2012		2011		2012		2011		2012	
	No. of centers	No. of offices	No. of centers	No. of offices	No. of centers	No. of offices	No. of centers	No. of offices	No. of centers	No. of offices	No. of centers	No. of offices
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Northern Region	1143	1625	1356	1645	381	506	394	506	136	317	134	315
North Eastern Region	90	102	103	103	42	59	54	61	53	67	58	84
Eastern Region	443	618	481	629	334	386	347	393	287	361	261	217
Central Region	1013	1025	946	1091	791	870	726	861	268	448	310	443
Western Region	4185	2973	4058	3021	534	646	646	660	180	390	177	396
Southern Region	1513	1082	1488	1153	483	736	519	832	285	610	279	591
All India	8387	7425	8432	7642	2565	3203	2686	3313	1209	2193	1219	2046

Source: Rural Planning & Credit Department, RBI.

It can be observed from the table that north eastern region has less no of centers and offices when compared to other regions. Initiatives should be taken in this region with regard to various financial services to be provided to the weaker sections of the society.

Economic growth has to be equitably shared. In order to bring equality among the citizens of our country, financial inclusion has received renewed attention in recent years. The Government of India nudges the banks and other financial service players to identify the bottleneck that hinders the less privileged society from access to various financial services provided by them. The evidence from the various statistics shows that the country with large proportion of population provides financial services to only 40% of the people i.e., only two fifth of the population enjoys the benefit of their government. This in turn leads to poverty and poverty breeds crime. Rapid pace of growth is unquestionably necessary for substantial poverty reduction. The factor which determines the level of financial inclusion are per capita GDP, income inequality, adult literacy and urbanization and also the technological development also plays a major role in enhancing financial inclusion.

EFFORTS BY RESERVE BANK OF INDIA

The Reserve Bank of India has pioneered many initiatives in this regard truly fulfilling its commitment towards this worthy national cause. The efforts of the bank to include all the sections of the society under one roof of banking services are

NO FRILLS ACCOUNT

An account with nil balance is a commendable effort by the RBI. It is accessible to the vast sections of the population. In order to encourage people to have no frills account small overdraft facility is also provided to account holder.

KNOW YOUR CUSTOMER NORMS SIMPLIFIED

KYC requirements for opening bank account have been further simplified during the year to include card issued by the state Government(MGNREGA) duly signed by the respective officers or paper issued by the Unique Identification Authority of India containing the details of the account holders.

- One Time Settlement for Overdue Loans
- Business Facilitators and Correspondence Model
- IT Solution
- Credit Counselling and Financial Education
- Revamping of Regional Rural Banks and Cooperative Bank
- Microfinance development and equity fund
- Financial Inclusion Fund for Development and Promotional interventions and Financial Inclusion Technology Fund to meet the cost of Technology:

NABARD which plays a major role in providing credit to the weaker sections of the society has come up with these two funds with an overall corpus of 500 crores each, and it has been enhanced by 100 crores each in the Union Budget 2011-12.

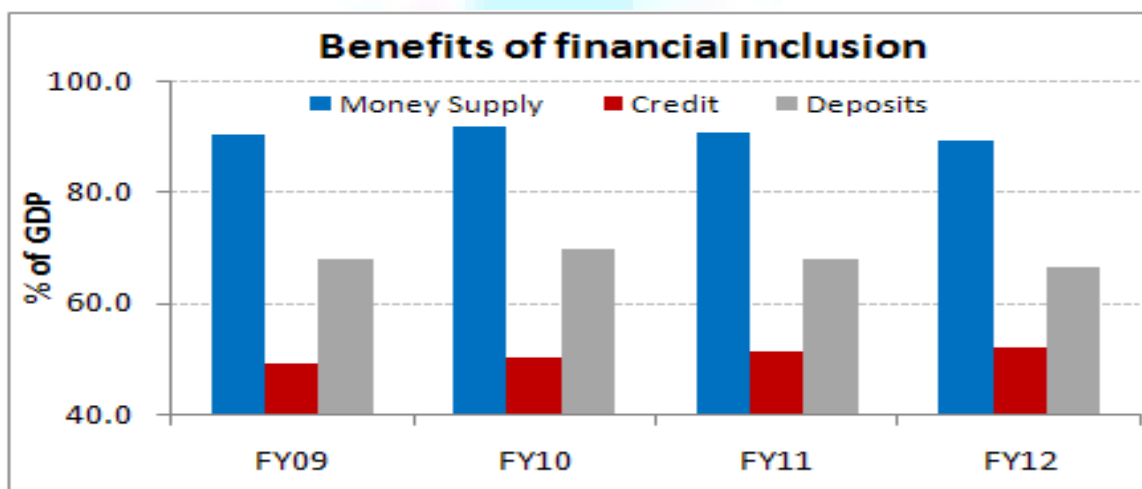
TABLE 5

FINANCIAL INCLUSION - A SNAPSHOT			
Particulars	Mar 10	Mar 11	June 11
Total villages covered	54258	100183	107604
Through branches	21475	22662	22870
Through BCs	32684	77138	84274
Through other modes	99	383	460
Urban locations covered through BCs	433	3757	4524
No-frill accounts	4.93 crore	7.39 crore	7.90 crore
No-frill accounts (amount in Rs crore)	4257.07	5702.94	5944.73
No-frill accounts with overdraft	1.31 lakh	6.32 lakh	9.34 lakh
No-frill accounts with overdraft (amount in Rs crore)	8.34	21.48	37.42

(Source: RBI)

The banks are advised to provide services to unbanked villages having a population of 2000 by March 2012. The RBI has also initiative banks to provide services through various forms of Information and Communication Technology instead of opening physical wallet. The Reserve Bank of India has so far conducted 34 outreach programmes in 2010-11 along with other dignitaries from banks, which has attracted the interest of electronic and print media in the country. The RBI endeavours to ensure post event momentum so those long term objectives of financial inclusion are attained.

FIGURE - 2



The table divulges the benefits of financial inclusion by taking in to consideration the money supply, credit given to the less privileged and the deposits made by them. It is evident from the data that the money supply is more but the demand for it is not up to that level.

PRIORITY SECTOR LENDING

As on March 2011 only 15 banks have achieved the target of lending to priority sector out of 81 banks in India. Scheduled Commercial Banks lending towards priority sector faced a pitfall, so they are required to contribute to the corpus of Rural Infrastructure Fund and various similar funds setup NABARD, SIDBI. This corpus will be announced by the Government of India every year. In the Union Budget 2011-12, the Government has announced that the corpus fund of 18000 crores of which 2000 crores will be used for creation of warehousing facilities and the Short Term Rural Cooperative Credit corpus of Rs. 10,000 crores will be dedicated to Micro Small and Medium Enterprises.

TABLE - 6: FLOW OF CREDIT TO AGRICULTURAL SECTOR

YEAR	TARGET	ACHIEVEMENTS
2010-11	3,75,000 Crores	119%
2011-12	4,75,000 crores	Still to be achieved

Source: compiled by researcher

The table divulges the flow of credit to agricultural sector. In 2010-11 they have achieved 119% more than the target of 3,75,000 crores and it is expected to be same in the year 2011-12. Advances to these sector increases year by year to march ahead towards economic growth. It has been observed from various data of RBI with regard to priority sector advances that the scheduled commercial banks provide maximum credit compared to other banks in India. Special agricultural credit plan (SACP) also added advantage to scheduled commercial banks credit.

TABLE - 7 DISBURSEMENTS TOWARDS SACP BY PUBLIC SECTOR BANKS

YEAR	TARGET	ACHIEVEMENTS	PERCENTAGE OF ACHIEVEMENTS	ANNUAL GROWTH IN DISBURSEMENT
2007-08	1,52,133	1,33,226	87.6	8.8
2008-09	1,59,470	1,65,498	103.3	24
2009-10	2,04,460	2,07,347	101.4	26
2010-11	2,29,709	2,05,367	89.4	-0.95

Source: Compiled from RBI Statistical report

It can be observed from the table that the achievements are less when compared to the targets in 2007-08, 2010-11 but the public sector banks have achieved more than their target which showed a annual growth rate of 24% in 2008-09 and 2009-10 and during 2009-10 even the private sector banks has achieved 78,452 crores above the target of 62,352 crores with a percentage of 126%.

SUGGESTIONS AND CONCLUSION

- The bank's activities mainly focus on financial inclusion which is evident in our wide reach of branch network.
- The banks objective is to mobilize people's deposit and give back to them in the form of credit so that their individual economies are strengthened. Future, according to forecasts is well positioned compared to the global conditions.

- The banking industry is expected to flourish in a scenario of increased growth of domestic market, reduced unemployment and definitely accelerated poverty alleviation.
- The finance minister proposal to set up a women's bank was acknowledged by the bankers of India that it will give a boost to Financial Inclusion.
- It is a solution that has no more need for a physical wallet. The compact technology can make life easier.
- This technology alone cannot unleash the financial inclusion. Besides the bank branches, which are currently in the locations are the Post Offices which we have almost in all areas.
- Post offices are manned by local people who speak the local language and there is no need to carry people from other locations to different place. They need to be conscious of the lives of those people who are going to manage it and try as much as the State can ensure that they eliminate any kind of danger that may befall people who are going to be brought from outside.
- If they are able to succeed in doing something in their state that has so many issues, then it become easy for the Government to replicate those in other locations.

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