Financial Exclusion to Inclusion in Indian Scenario: An Incessant Journey

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Abstract

India is a country of continental proportions, and poverty is a multidimensional phenomenon, around 28% of the Indian population suffers from chronic poverty and hunger. In the last twenty years, India has undergone a transformation of its economic and regulatory structures. Policy reforms in this period have led to the increasing maturity of our markets, as well as healthy regulation and have led our country from a restrictive, limited access society to a more empowered, open access economy, where people are able to access resources and services more easily and effectively. But despite these efforts, access to finance has remained scarce in rural India, and for the poorest residents in the country. Today, the proportion of rural residents who lack access to bank accounts remains at around 40% only. The rest 60 % are still deprived of bare minimum banking services for which they are totally dependent on informal banking sources like private money lenders. Unrestrained access to public goods and services is an essential condition of an open and efficient society. It is essential that the availability of banking services to the entire population without discrimination should be the prime objective of public policy. This exclusion is devastating. Economic opportunity is after all, entangled with financial access. Such financial access is especially valuable for the poor. While the need to solve this mammoth problem is great, financial inclusion has become one
of the most critical aspects in the context of inclusive growth and development. Initiatives for financial inclusion have come from financial regulators, governments and the banking industry. The banking sector has taken a lead role in promoting financial inclusion.

**Key Words**

Financial Inclusion, Financial Exclusion, Financial Services, Reserve Bank of India (RBI), Inclusive Growth, Business Correspondents (BC), No-Frill Accounts (NFAs), Kisan Credit Card (KCC), General Credit Card (GCC), Financial Inclusion Plans (FIP)

**Introduction**

“Financial Exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.” In countries with a large rural population like India, Financial Exclusion has a geographic dimension as well. Inaccessibility, distance and lack of proper infrastructure hinder financial inclusion. Financial Inclusion is the delivery of banking services at affordable costs to vast sections of vulnerable and low income groups including households, enterprises, traders etc. Amartya Sen (2000) persuasively reiterated that poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. Consequently, the poor and deprived are required to be provided with much needed financial assistance in order to cruise them out of their conditions of poverty. Accordingly, there should be an appropriate policy support in channeling the financial resources towards the economic upliftment in any developing economy. Financial inclusion is intended to connect people to banks with consequential benefits, ensuring that the financial system plays its due role in promoting inclusive growth. However, it is one of the biggest
challenges also which the emerging economies are facing. On the other hand, financial
development creates enabling conditions for growth when access to safe, easy and affordable
credit and other financial services by the poor and weaker groups, disadvantaged areas and
lagging sectors and helps in accelerating growth and reducing income disparities and poverty.
Access to a well-functioning financial system, by creating equal opportunities, enables
economically and socially excluded people to integrate better into the economy and actively
contribute to development and protects themselves against economic shocks.

The major steps towards achieving of financial inclusion in India comprises of three phases,
namely:

- **Phase I (1960-1980):** Social control of Banks (1960), Nationalisation of Banks (1969),
  Lead Bank Scheme (1969), Setting up of Regional Rural Banks (RRBs) (1975) and
  Priority Sector lending stipulation by RBI (1972);

- **Phase II (1980-2005):** Integrated Rural Development programme promoted by
  Government of India, Microfinance programme and Bank linkage facilitated by
  NABARD; and

- **Phase III (2005 onwards):** Development of Micro Finance Institutions (MFIs) and
  including Financial Inclusion in a “MISSION” mode.

Mostly low income, unemployed and illiterate people, women and disabled are excluded from
the formal financial services. Lack of Banking habits, high transaction cost, lack of banking
knowledge and insufficiency of knowledge on banking products prevents the unbanked
people from knocking the door steps of banks. Thus, Financial Exclusion means “No Savings,
No Insurance, No access to money advice, No affordable credit, No Bank account and No
assets”. There are people who desire the use of financial services, but are denied access to the same. Consequently, there are three types of Financial Exclusions, namely:

People who do not have any access to a regulated financial system;

People who have limited access to banks and other financial services; and

Individuals who have inappropriate products.

Hypothesis

It has been assumed that samples so collected will result in a valid and reliable conclusion.

It has been assumed that all Scheduled Commercial Banks (SCBs) in India function within a similar non-controllable external environment.

All the banks have followed the uniform principle of appointing Business Correspondents (BCs) as per extant RBI guidelines.

All the banks have followed same Business Correspondents (BC) model.

Research Methodology

The research work consists of Theoretical; Historical and Analytical Study, based on the collection of data from primary and secondary sources. It is an attempt to understand and differentiate the significance of Financial Inclusion in the context of our country wherein a large population is deprived of the financial services which are very much essential for overall economic and inclusive growth of India.

Data Collection

The study is based on both, primary and secondary data. The Primary data has been collected with the aid of survey/questionnaire containing relevant information through discussions and
personal interactions with the villagers/people/end beneficiaries and Business Correspondents (BCs) of various bank branches based in the various districts of the State of Uttarakhand. This will make the study more informative, effective and meaningful. Secondary data has been collected through reports and statistics from Reserve Bank and Ministry of Finance. In addition to the above data and information, print and electronic media including the information available on various websites has been used extensively.

**Universe and Sampling Plan**

The Universe consists of all Scheduled Commercial Banks (SCBs) having financial inclusion branches and Business Correspondents (BCs) functioning in the state of Uttarakhand. Convenient sampling methods have been adopted in the research methodology. I have selected State Bank of India, Punjab National Bank, Canara Bank, Indian Overseas Bank and Central Bank of India carrying on Financial Inclusion Plan (FIP) initiatives as sample in which 561 respondents (in which both end beneficiaries and Business Correspondents were covered).

**Tools and Techniques**

On the basis of the data/information so collected from the various sources, the tabulation, analysis and interpretation will make the study more meaningful and complete. Mathematical and statistical tools such as percentage, trend analysis etc. have been used to complete the purpose of the study. The use of tables, charts, graphs etc., have also been made where ever they are needed and necessary for clarity of thoughts, easy understanding and to make the presentation of research more simulative.
Limitations of the Study

Taking into consideration the objectives of the study and its coverage both in terms of time span and the number of banks striving for achieving Financial Inclusion Plans (FIP) in Uttarakhand vis-à-vis other States, the study is prone to many limitations, namely:

Due to time constraint, the study concentrates itself up on data collected from various districts of State of Uttarakhand;

The study is restricted only to Scheduled Commercial Banks and excludes Regional Rural Banks (RRBs);

Concept of secrecy proves an impermeable barrier in communication;

There is difficulty of timely availability of published data from various sources and agencies in the country;

Access of depth information;

Lack of time with respondents;

Although utmost care has been taken in selecting a sample, the results may not be exactly equal to the true value of population due to statistical errors.

Initiatives towards Financial Inclusion in India

Financial Inclusion is a “Buzz Word” in current scenario and can 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” - The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan, 2008)

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy, whereas in emerging
economies, it is a question of both access to financial products and knowledge about their fairness and transparency. Financial Inclusion has assumed paramount importance in today scenario, as the major focus is on an overall inclusive growth; as it has been realised and accepted that the poor is bankable and that the unbanked villages and poor provide remarkable business opportunity for banks and other financial intermediaries viz., Business Facilitators (BF) or Business Correspondents (BC).

**Twin Aspects of Financial Inclusion:** Financial Literacy and Financial Inclusion are twin pillars. While Financial Literacy stimulates the demand side, making people aware of what they can demand, Financial Inclusion acts from supply side providing the financial market/services what people demand.

**Scope of Financial Inclusion:** It includes access to financial products and services like, Bank accounts, Immediate Loans/Credit, Savings products, Remittances/ Transfer of Funds & Payment services, Micro Insurance Services (Life and Non- Life), Mortgage, Financial advisory services, Mutual Funds/ Annuity Products, Pension Products etc.

The broad strategy for financial inclusion in India in recent years comprises the following elements:

Encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as Non Government Organisations (NGOs), MFIs, Civil Society Organisations and BCs;

Focusing on a decentralised strategy by using existing arrangements such as State Level Bankers’ Committee (SLBC) and District Consultative Committee and strengthening local
institutions such as co-operatives and RRBs;
Using technology for furthering financial inclusion;
Advising banks to open a basic banking ‘no frills’ account;
Having adequate Banking Coverage;
Emphasis on financial literacy and credit counseling; and
Creating synergies between the formal and informal segments.

**Banking Coverage:** A village is covered by banking service if either a bank branch is present or a BC is physically present or visiting that village. Further, as per the guidelines issued by RBI, availability of banking services means availability of a Minimum of Four Products:

- A basic No-Frills banking account with Overdraft Facility (A No Frills Account (NFA) is one for which no minimum balance is insisted upon and for which there are no service charges for not maintaining the minimum balance);
- A Remittance Product for Electronic Benefit Transfer and other remittances;
- A Pure Savings Product ideally a recurring or a variable recurring deposit; and
- Entrepreneurial Credit such as General Credit Card (GCC) and Kisan Credit Card (KCC).

**Reasons of Financial Exclusion (Past & Present):** The major reasons were/are Absence of Technology; Absence of reach and coverage; Absence of Viable Delivery Mechanism; not having an appropriate Business model and Rich have no compassion for poor.

**Financial Exclusion (Who are these People):** Underprivileged section in rural and urban areas like, Farmers, small vendors, etc., Agricultural and Industrial Labourers, People
engaged in un-organised sectors, Unemployed Women, Children, Old people and physically
callenged people.

**Initiatives taken by Government, RBI and Other Regulatory Bodies**

- Persuading State Governments for including Financial Education in the school curriculum;
- All villages above 2,000 population to be provided access to financial services;
- Villages below 2,000 population to be covered in an integrated manner
- Banks to formulate a board approved Financial Inclusion Plan (FIP) and to submit the
  same along with the reports/achievements of targets thereof to RBI;
- Establishment of Financial Stability and Development Council to institutionalise the
  mechanism for maintaining financial stability;
- To set up Financial Inclusion and Financial Inclusion Technology Fund;
- All banks have been recommended to include performance under financial inclusion in the
  performance evaluation of their field staff;
- Set up of Financial Literacy and Credit Counseling centres by banks including Financial
  Literacy Program;
- Allowing RRBs/Co-operative banks to sell insurance and financial products;
- Opening of No-Frill Accounts (NFAs);
- Granting overdraft in Saving Bank Accounts;
- Setting up of BC/BF Model;
- Pre-Paid Cards, Mobile banking etc.;
- KCC and GCC Guidelines and norms issued;
- Liberalised policy for branch expansion and Automated Teller Machines (ATMs);
- Introducing Technology products and services.
Analysis and Observations based on Secondary Data

Facts and Achievements towards Financial Inclusion: Key Performance Indicators

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural Branches (a)</th>
<th>Total Branches (b)</th>
<th>% of Rural Branches (a)/(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>34,791</td>
<td>59,752</td>
<td>58.23%</td>
</tr>
<tr>
<td>1995</td>
<td>33,004</td>
<td>62,367</td>
<td>52.92%</td>
</tr>
<tr>
<td>2000</td>
<td>32,734</td>
<td>65,412</td>
<td>50.04%</td>
</tr>
<tr>
<td>2005</td>
<td>32,082</td>
<td>68,355</td>
<td>46.93%</td>
</tr>
<tr>
<td>2010</td>
<td>32,494</td>
<td>84,604</td>
<td>38.41%</td>
</tr>
<tr>
<td>2012</td>
<td>34,671</td>
<td>93,659</td>
<td>37.02%</td>
</tr>
</tbody>
</table>

Fig. 1

Observation: Share of rural branches vis-à-vis total branches has been showing a declining trend.
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Parameter</th>
<th>31.03.2010</th>
<th>31.03.2011</th>
<th>31.03.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Number of Villages Covered</td>
<td>54,258</td>
<td>100,183</td>
<td>147,534</td>
</tr>
<tr>
<td>2</td>
<td>Villages covered through Branches</td>
<td>21,475</td>
<td>22,662</td>
<td>24,701</td>
</tr>
<tr>
<td>3</td>
<td>Villages covered through Business Correspondents BCs</td>
<td>32,684</td>
<td>77,138</td>
<td>120,355</td>
</tr>
<tr>
<td>4</td>
<td>Other modes like Rural ATMs, Mobile Van’s etc.</td>
<td>99</td>
<td>383</td>
<td>2,478</td>
</tr>
<tr>
<td>5</td>
<td>Number of villages &gt; 2,000 population covered</td>
<td>27,353</td>
<td>54,246</td>
<td>82,300</td>
</tr>
<tr>
<td>6</td>
<td>Number of villages &lt; 2,000 population covered</td>
<td>26,905</td>
<td>45,937</td>
<td>65,234</td>
</tr>
<tr>
<td>7</td>
<td>No. of BCs employed by Banks</td>
<td>33,042</td>
<td>57,329</td>
<td>95,767</td>
</tr>
<tr>
<td>8</td>
<td>Number of No-Frills Accounts (NFAs) opened (in million)</td>
<td>50.3</td>
<td>75.4</td>
<td>105.5</td>
</tr>
<tr>
<td>9</td>
<td>Amount in NFAs (Rs. in billion)</td>
<td>42.6</td>
<td>57.0</td>
<td>93.3</td>
</tr>
<tr>
<td>10</td>
<td>Number of NFAs with Overdraft (OD) facility (in million)</td>
<td>0.1</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>11</td>
<td>NFAs with OD amount outstanding (Rs. billion)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>12</td>
<td>Number of Kisan Credit Cards (KCCs) issued (in million)</td>
<td>15.90</td>
<td>18.20</td>
<td>20.30</td>
</tr>
<tr>
<td></td>
<td>Amount outstanding in KCCs (Rs. billion)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>940.1</td>
<td>1,237.4</td>
<td>1,651.5</td>
</tr>
<tr>
<td>14</td>
<td>Number of General Credit Cards (GCCs) issued (in million)</td>
<td>0.9</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>15</td>
<td>Amount outstanding in GCCs (Rs. billion)</td>
<td>25.8</td>
<td>21.9</td>
<td>27.3</td>
</tr>
<tr>
<td>16</td>
<td>Number of Information and Communication Technology (ICT) based accounts through BCs (in million)</td>
<td>12.6</td>
<td>29.6</td>
<td>52.1</td>
</tr>
<tr>
<td>17</td>
<td>Number of transactions during the year (in million)</td>
<td>18.7</td>
<td>64.6</td>
<td>119.3</td>
</tr>
</tbody>
</table>

**Fig. 2**

**Villages Covered (Population Wise)**

<table>
<thead>
<tr>
<th>Year Ending (March)</th>
<th>Number</th>
<th>Villages Covered &lt; 2000</th>
<th>Villages Covered &gt; 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>26,905</td>
<td><strong>27,353</strong></td>
<td><strong>54,246</strong></td>
</tr>
<tr>
<td>2011</td>
<td>45,937</td>
<td><strong>26,905</strong></td>
<td><strong>54,246</strong></td>
</tr>
<tr>
<td>2012</td>
<td>65,234</td>
<td><strong>26,905</strong></td>
<td><strong>54,246</strong></td>
</tr>
</tbody>
</table>

**Number**

- Villages Covered < 2000
- Villages Covered > 2000
Fig. 3

**Villages Covered (Mode Wise)**

<table>
<thead>
<tr>
<th>Year Ending (March)</th>
<th>Villages covered through Branches</th>
<th>Villages covered through BCs</th>
<th>Other Modes</th>
<th>Total Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>21,475</td>
<td>12,684</td>
<td>10,983</td>
<td>45,142</td>
</tr>
<tr>
<td>2011</td>
<td>54,258</td>
<td>22,862</td>
<td>11,713</td>
<td>88,833</td>
</tr>
<tr>
<td>2012</td>
<td>101,833</td>
<td>24,768</td>
<td>17,768</td>
<td>144,369</td>
</tr>
</tbody>
</table>

Fig. 4

**Number of Business Correspondents (BCs) employed by Banks**

<table>
<thead>
<tr>
<th>Year Ending (March)</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>33,042</td>
</tr>
<tr>
<td>2011</td>
<td>57,329</td>
</tr>
<tr>
<td>2012</td>
<td>95,767</td>
</tr>
</tbody>
</table>
Fig. 5

No-Frill Accounts

Year Ending (March)

No. of NFA

No. of NFA with OD

Fig. 6

Amounts Outstanding in No-Frill Accounts

Year Ending (March)

Amount of NFA

Amount of NFA with OD
Fig. 7

Kisan and General Credit Cards

![Bar chart showing the number of accounts (in millions) for Kisan and General Credit Cards for the years 2010, 2011, and 2012. The chart includes data on the number of KCCs and GCCs.]

Fig. 8

Amounts Outstanding in KCCs & GCCs

![Column chart showing the amounts outstanding in billions for KCCs and GCCs for the years 2010, 2011, and 2012. The chart includes data on the amounts outstanding in billions for each year.]
Fig. 9

ICT based accounts through BCs

Year Ending (March)

Number (In Millions)

2010 2011 2012

12.60 29.60 52.10

Fig. 10

Transactions during the year

Year Ending (March)

Number (In Millions)

2010 2011 2012

18.70 64.60 19.30
State Wise FIP Progress as on 31st March 2012

Table 3

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of State</th>
<th>Total No. of Villages Allotted</th>
<th>Total No. of Villages Covered</th>
<th>Total No. of Villages yet to be Covered</th>
<th>Total No. of BCs appointed</th>
<th>Total No. of FI Accounts opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Andaman &amp; Nicobar Islands</td>
<td>9</td>
<td>9</td>
<td>0</td>
<td>9</td>
<td>720</td>
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<tr>
<td>2</td>
<td>Andhra Pradesh</td>
<td>6,640</td>
<td>6,639</td>
<td>1</td>
<td>6,262</td>
<td>2,985,903</td>
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<tr>
<td>3</td>
<td>Arunachal Pradesh</td>
<td>11</td>
<td>11</td>
<td>0</td>
<td>4</td>
<td>45,686</td>
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<tr>
<td>4</td>
<td>Assam</td>
<td>2,319</td>
<td>2,319</td>
<td>0</td>
<td>629</td>
<td>428,695</td>
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<tr>
<td>5</td>
<td>Bihar</td>
<td>9,213</td>
<td>9,177</td>
<td>36</td>
<td>7,097</td>
<td>2,944,040</td>
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<tr>
<td>6</td>
<td>Chandigarh</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Chhattisgarh</td>
<td>1,050</td>
<td>1,050</td>
<td>0</td>
<td>802</td>
<td>241,613</td>
</tr>
<tr>
<td>8</td>
<td>Dadra &amp; Nagar Haveli</td>
<td>30</td>
<td>30</td>
<td>0</td>
<td>23</td>
<td>30,615</td>
</tr>
<tr>
<td>9</td>
<td>Daman &amp; Diu</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>5,486</td>
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<td>10</td>
<td>Delhi</td>
<td>110</td>
<td>107</td>
<td>3</td>
<td>84</td>
<td>35,810</td>
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<tr>
<td>11</td>
<td>Goa</td>
<td>41</td>
<td>41</td>
<td>0</td>
<td>36</td>
<td>6,817</td>
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<td>12</td>
<td>Gujarat</td>
<td>3,502</td>
<td>3,502</td>
<td>0</td>
<td>2,712</td>
<td>998,903</td>
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<td>13</td>
<td>Haryana</td>
<td>1,838</td>
<td>1,838</td>
<td>0</td>
<td>1,727</td>
<td>737,641</td>
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<tr>
<td>14</td>
<td>Himachal Pradesh</td>
<td>48</td>
<td>48</td>
<td>0</td>
<td>41</td>
<td>36,184</td>
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<tr>
<td>15</td>
<td>Jammu &amp; Kashmir</td>
<td>795</td>
<td>726</td>
<td>69</td>
<td>618</td>
<td>254,749</td>
</tr>
<tr>
<td>State</td>
<td>Total</td>
<td>Non-Total</td>
<td>Total</td>
<td>Non-Total</td>
<td></td>
<td></td>
</tr>
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<td>------------</td>
<td>--------</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Jharkhand</td>
<td>1,541</td>
<td>1,541</td>
<td>0</td>
<td>1,487</td>
<td>1,554,596</td>
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<tr>
<td>Karnataka</td>
<td>3,395</td>
<td>3,395</td>
<td>0</td>
<td>3,035</td>
<td>1,704,723</td>
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<td>Kerala</td>
<td>120</td>
<td>120</td>
<td>0</td>
<td>104</td>
<td>162,421</td>
<td></td>
</tr>
<tr>
<td>Lakshadeep</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>2,736</td>
<td>2,736</td>
<td>0</td>
<td>2,439</td>
<td>1,355,462</td>
<td></td>
</tr>
<tr>
<td>Maharashatra</td>
<td>4,292</td>
<td>4,292</td>
<td>0</td>
<td>3,988</td>
<td>2,212,227</td>
<td></td>
</tr>
<tr>
<td>Manipur</td>
<td>186</td>
<td>186</td>
<td>0</td>
<td>95</td>
<td>48,968</td>
<td></td>
</tr>
<tr>
<td>Meghalaya</td>
<td>39</td>
<td>39</td>
<td>0</td>
<td>12</td>
<td>62,381</td>
<td></td>
</tr>
<tr>
<td>Mizoram</td>
<td>14</td>
<td>14</td>
<td>0</td>
<td>11</td>
<td>4,886</td>
<td></td>
</tr>
<tr>
<td>Nagaland</td>
<td>196</td>
<td>196</td>
<td>0</td>
<td>73</td>
<td>181,782</td>
<td></td>
</tr>
<tr>
<td>Orrisa</td>
<td>1,877</td>
<td>1,875</td>
<td>2</td>
<td>1,738</td>
<td>614,090</td>
<td></td>
</tr>
<tr>
<td>Puducherry</td>
<td>42</td>
<td>42</td>
<td>0</td>
<td>34</td>
<td>33,428</td>
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<tr>
<td>Punjab</td>
<td>1,576</td>
<td>1,576</td>
<td>0</td>
<td>1,355</td>
<td>561,948</td>
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<tr>
<td>Rajasthan</td>
<td>3,883</td>
<td>3,879</td>
<td>4</td>
<td>2,779</td>
<td>1,078,613</td>
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<tr>
<td>Sikkim</td>
<td>43</td>
<td>43</td>
<td>0</td>
<td>41</td>
<td>18,327</td>
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<tr>
<td>Tamil Nadu</td>
<td>4,445</td>
<td>4,445</td>
<td>0</td>
<td>4,051</td>
<td>1,888,419</td>
<td></td>
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<tr>
<td>Tripura</td>
<td>419</td>
<td>419</td>
<td>0</td>
<td>414</td>
<td>442,872</td>
<td></td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>16,270</td>
<td>16,269</td>
<td>1</td>
<td>13,452</td>
<td>7,849,863</td>
<td></td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>226</td>
<td>226</td>
<td>0</td>
<td>202</td>
<td>63,161</td>
<td></td>
</tr>
<tr>
<td>West Bengal</td>
<td>7,486</td>
<td>7,398</td>
<td>88</td>
<td>7,108</td>
<td>3,046,524</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>74,398</td>
<td>74,194</td>
<td>204</td>
<td>62,468</td>
<td>31,637,553</td>
<td></td>
</tr>
</tbody>
</table>

*Source: SLBC Conveners*
Zone Wise FIP Progress as on 31\(^{st}\) March 2012

Table 4

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of State</th>
<th>Total No. of Villages Allocated</th>
<th>Total No. of Villages Covered</th>
<th>Total No. of Villages yet to be Covered</th>
<th>Total No. of BCs appointed</th>
<th>Total No. of FI Accounts opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>North Zone (NZ)</td>
<td>20,863</td>
<td>20,790</td>
<td>73</td>
<td>17,479</td>
<td>9,539,356</td>
</tr>
<tr>
<td>2</td>
<td>North East Zone (NEZ)</td>
<td>3,227</td>
<td>3,227</td>
<td>0</td>
<td>1,279</td>
<td>1,233,597</td>
</tr>
<tr>
<td>3</td>
<td>East Zone (EZ)</td>
<td>20,117</td>
<td>19,991</td>
<td>126</td>
<td>17,430</td>
<td>8,159,250</td>
</tr>
<tr>
<td>4</td>
<td>Central Zone (CZ)</td>
<td>3,786</td>
<td>3,786</td>
<td>0</td>
<td>3,241</td>
<td>1,597,075</td>
</tr>
<tr>
<td>5</td>
<td>West Zone (WZ)</td>
<td>11,754</td>
<td>11,750</td>
<td>4</td>
<td>9,544</td>
<td>4,332,661</td>
</tr>
<tr>
<td>6</td>
<td>South Zone (SZ)</td>
<td>14,651</td>
<td>14,650</td>
<td>1</td>
<td>13,495</td>
<td>6,775,614</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>74,398</td>
<td>74,194</td>
<td>204</td>
<td>62,468</td>
<td>31,637,553</td>
</tr>
</tbody>
</table>

Source: Zones have been divided based on details from http://www.mapsofindia.com/

Fig. 11
Fig. 12

Status of FIP as on 31.03.2012

Fig. 13

Total No. of BCs Appointed (31.03.2012)
Analysis of Consolidated FIP Progress for the half year ended 31st March 2012

Table 5

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Month</th>
<th>Total No. of Villages Allotted</th>
<th>Total No. of Villages Covered</th>
<th>Total No. of Villages yet to beCovered</th>
<th>Total No. of BCs appointed</th>
<th>Total No. of FI Accounts opened</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>September 2011</td>
<td>74,359</td>
<td>41,695</td>
<td>32,664</td>
<td>35,482</td>
<td>16,418,035</td>
</tr>
<tr>
<td>2</td>
<td>October 2011</td>
<td>74,358</td>
<td>45,546</td>
<td>28,812</td>
<td>39,440</td>
<td>19,393,454</td>
</tr>
<tr>
<td>3</td>
<td>November 2011</td>
<td>74,404</td>
<td>49,437</td>
<td>24,967</td>
<td>43,546</td>
<td>20,997,553</td>
</tr>
<tr>
<td>4</td>
<td>December 2011</td>
<td>74,411</td>
<td>55,465</td>
<td>18,946</td>
<td>46,963</td>
<td>22,829,958</td>
</tr>
<tr>
<td>5</td>
<td>January 2012</td>
<td>74,404</td>
<td>62,629</td>
<td>11,775</td>
<td>49,871</td>
<td>25,512,452</td>
</tr>
<tr>
<td>6</td>
<td>February 2012</td>
<td>74,401</td>
<td>69,078</td>
<td>5,323</td>
<td>59,952</td>
<td>27,989,324</td>
</tr>
<tr>
<td>7</td>
<td>March 2012</td>
<td>74,398</td>
<td>74,194</td>
<td>204</td>
<td>62,468</td>
<td>31,637,553</td>
</tr>
</tbody>
</table>

Source: SLBC Conveners
**Observation:** As compared to the third quarter, there has been an increase of around 36% in the coverage of villages, which illustrates that it has been done just to achieve the planned figures.
**Observation**: As compared to the third quarter decline from 44% to 34%, there has been an steep decline from 34% to just 7% of the percentage of total villages to be covered vis-à-vis the total allotted villages, which in turn again reflects that it has been done just to achieve the planned figures.

![Fig. 17](image)

**Observation**: As compared to the third quarter, there has been an increase of around 35% in the appointment of BCs, which reflects higher emphasis of the banks only in the last quarter of the fiscal year.
Observation: As compared to the third quarter, there has been an increase of around 37% in the number of FI accounts opened, which reflects higher emphasis of the banks only in the last quarter of the fiscal year.

Analysis based on Primary Data

Category: I from Villagers/People/End Beneficiaries

1. Do you keep a note of your income and/or expenditures?
2. Is your expenditure greater than your earning?
3. In case of deficit, do you borrow money from private money lenders or otherwise?
4. Do you save out of your earnings?
5. If yes, have you started saving in any of the Financial Institution?
6. Have you attended any Financial Literacy programme?
7. Is your area’s BC efficient/effective (in terms of creating awareness, advice on managing money, debt counselling, providing quality service etc.) and enjoys good reputation?

8. Do you know about different types of saving accounts? (Savings, FD, RD, No Frill)

9. Do you know about different types of loan products available to you by FIs? (Personal Loan, Vehicle Loan, KCC, GCC, Educational Loan, Non Farm Loan viz., Shop Loan, etc, Agricultural Loan, Agricultural Allied Activity Loan viz., Dairy, Poultry etc)

10. Does a higher official of bank visit the area regularly?

Table 6

<table>
<thead>
<tr>
<th>Question No.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (%)</td>
<td>27</td>
<td>32</td>
<td>47</td>
<td>49</td>
<td>31</td>
<td>18</td>
<td>23</td>
<td>31</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>No (%)</td>
<td>73</td>
<td>68</td>
<td>53</td>
<td>51</td>
<td>69</td>
<td>82</td>
<td>77</td>
<td>69</td>
<td>71</td>
<td>91</td>
</tr>
</tbody>
</table>

Fig. 19
Category: II from Business Correspondents (BCs)

1. Are you satisfied with the bank’s payment and incentive scheme/mechanism? Are you satisfied with the revenue model of your bank?

2. Are regular training courses imparted by the bank? Further, are you aware of the Finance Ministry/RBI and other regulatory bodies’ decisions taken for you from time to time?

3. Are your concerned base branch official and higher authorities of the bank helpful and provide necessary assistance?

4. Do you have the ability to invest in POS and other equipments?

5. Do you undertake any other economic activity apart from being BC?

6. Do you face any problems in terms of reach and coverage?

7. Do you have the preliminary knowledge of IT?

8. Do you try to cross sell other financial products viz., insurance/mutual funds etc.?

9. Are KYC norms being followed strictly? Are the details of KYC still pending in respect of accounts already opened so far?

10. Do you understand the term “Reputation Risk of Bank”?

Table 7

<table>
<thead>
<tr>
<th>Question No.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (%)</td>
<td>4</td>
<td>7</td>
<td>16</td>
<td>11</td>
<td>15</td>
<td>34</td>
<td>28</td>
<td>6</td>
<td>38</td>
<td>21</td>
</tr>
<tr>
<td>No (%)</td>
<td>96</td>
<td>93</td>
<td>84</td>
<td>89</td>
<td>85</td>
<td>66</td>
<td>72</td>
<td>94</td>
<td>62</td>
<td>79</td>
</tr>
</tbody>
</table>
Barriers/Challenges in successful implementation of Financial Inclusion Plans (FIPs)

India currently faces several issues and challenges in the area of Financial Inclusion for Inclusive growth. Despite the various efforts put in by the Government, RBI, banks and other bodies, there is no denying of the fact that several barriers/challenges still exists in successful implementation of the FIPs, which can briefly be enumerated as under:

- BC model is too restrictive;
- Absence/Improper/Inadequate use of Appropriate Technology;
- Absence of reach and coverage;
- Inaccessibility, distance and lack of proper infrastructure;
- Banks perceive Financial Inclusion more as an obligation than a business opportunity;
Absence of viable Delivery Mechanism;

Non-Scaling up of FIP related activities due to lack of infrastructure required for scaling up capacity - availability of handheld devices, cards, technology partners, vendors, etc.;

Short of Mainstream banks’ determination and involvement;

Lack of collaborative approach involving Government, Banks, Technology Vendors, Service Providers, NGOs/Civic Society, Customers and BC Services;

Not having an apt Business model; and

Non-Involvement of all, especially the state and local administration at grass-root level.

Key Findings

On analysis of six months data for FIP, it can easily be stated that the banks are just perceiving Financial Inclusion as a compulsion;

Further, on detailed analysis it can easily be stated that more perseverance is being placed in the fourth quarter only, for achieving the budgeted figures as envisaged by the higher authorities, for that particular fiscal year, which in turn again shows the sign of compulsion rather than persuasion;

Based on the survey and interactions with the end beneficiaries and the business correspondents (BCs), the following elucidation can be made:

• That the main motivational factor for BCs is entirely missing viz., financial stability;

• That there is a great need of organising regular financial literacy programmes for creating awareness among the villagers and end beneficiaries;

• That the importance of “Reputational Risk of the Bank” is required to be exhaustively explained to the Business Correspondents (BCs);

• That the base branch manager and the higher official of the banks should visit the
rural areas/villages regularly in order to understand the end beneficiaries problems at the grass root level itself;

- That there is a great need of organising regular training programmes for Business Correspondents (BCs) in order to update them about the ever changing environment, system and technology(s);

- That there exist a great need towards attaining proper coordination and communication between the end beneficiaries and the bank through the aid of the main intermediary viz., Business Correspondents (BCs);

**Recommendations**

The BC Model needs to be liberalised, for ensuring their financial viability and motivation; Banks should providing adequate training to BCs with respect to emerging new technologies, new products and systems;

Both digital and physical connectivity needs to be improved immediately so as to reduce the difficulties of reach and coverage;

There is a strong need to restructure the financial system particularly the rural financial system for achieving inclusive growth;

The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the Financial Inclusion initiatives;

There needs to be proper systematic coordination with UIDAI (multi-purpose Unique Identity Cards, an initiative of the Government of India) in order to make the best use of it for the purpose for financial inclusion;

It is recommended that National Financial Inclusion Mission on the lines of National Literacy Mission be formed to carry out systematic and coordinated drive for financial
inclusion;
Involving educational institutions, both at high school and higher education level is necessary to make them understand the importance of financial inclusion for inclusive growth in the economy which in turn would motivate them to automatically participate in the financial system.
Partnering with trustworthy and acclaimed people’s organisations for accelerating the process of financial inclusion especially in the rural areas.
The BCs’ should operate under proper supervision to avoid the risk of fraud and misappropriation;
The banks have to start a rigorous drive to open branches in the unbanked areas;
End beneficiaries need to be financially literate to make apt use of banking services and services need to be more specifically designed to meet demand;
The documentation part for opening of bank accounts and availing loans needs to be simplified, as the present guidelines are more tedious and result in huge costs for the poor in accessing the banks for any kind of services.
State Governments and Local Administration should play a pro-active role in facilitating Financial Inclusion viz., creating awareness and involving district and block level functionaries in the entire process, undertaking financial literacy drives etc.
Political will is an all important aspect in any developmental effort. Political leadership should accord adequate importance for financial inclusion in order to motivate and mobilise all the weaker sections of the society in favour of financial inclusion for their economic upbringing.
In a huge country like India, there needs to be huge publicity for popularising the concept of Financial Inclusion and its benefits to the common man. Consequently, a comprehensive
approach needs to be developed for achieving the cause of economic growth.

All the financial institutions should adopt financial inclusion as a corporate social responsibility and chalk out strategies in tune with the national policy on financial inclusion.

Reserve Bank needs to take a pro-active role in the accelerating financial inclusion by involving all the stakeholders in the financial system by using its regulatory powers.

In view of the postman’s intimate knowledge of the local population, post offices in rural areas can also play an important role in accelerating the financial inclusion activity.

Conclusion

Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.

References

[1] Excerpts from presentation by Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India in various SKOCH Summits.

[2] Economic Times

Experience, Measures for Improvement and the Future; Asian Development Bank


