The financial inclusion in Indian banking sector opportunities and Challenges

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Abstract- **Financial inclusion is one of the platforms which help people to involve and participate in financial services with equal opportunity. There are many poor households in India that do not have any access to financial services in the country. They are not aware of banks and their functions. Even if they are aware of banks, many poor people do not have access to get services from banks. Financial inclusion aims to eliminate the barriers and provide economically priced financial services to the less fortunate sections of society so that they can be financially independent without depending on charity or other means of getting funds that are actually not sustainable. Financial inclusion also intends to spread awareness about financial services and financial management among people in society. Moreover, it wants to develop formal and systematic credit avenues for poor people.**

Financial inclusion is recognized as a process that marks an improvement in the quantity, quality, and efficiency of financial intermediaries which helps improve lives, foster opportunities and strengthen economies. Financial inclusion provides opportunities for the banking sector to cut across various strata of society, regions, gender, and income and encourage the public to embrace banking habits. Reserve Bank of India has intervened for the success of financial inclusion by introducing various enactments, financial literacy drives, leveraging technology, etc.
This paper attempts to examine the financial inclusion, opportunities and challenges, various initiatives taken by the Government of India for growth and sustainability, and financial inclusion from a global perspective.

Keywords: **Financial inclusion, issues, and challenges, Government schemes and initiatives.**

INTRODUCTION:

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among a large segment of the rural population and plays its own role in the process of economic development. By bringing low-income groups within the perimeter of the formal banking sector, financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by usurious money lenders by facilitating easy access to formal credit.
Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner. Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to their vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed.
Financial inclusion engages in including poor people in the formal banking industry with the intention of securing their minimal finances for future purposes. There are many households with farmers or artisans who do not have proper facilities to save the money they earn after putting in so much effort.

REVIEW OF LITERATURE:

- **Sudarhan Maits and Tarak Nath Sahw (2020):** the article entitled "Role of public sector banks towards financial inclusion during pre and post-introduction of PMJDY a study on efficiency review''. The study finds that overall average efficiency towards financial inclusion increases significantly during post-phase, though all the public sector banks are not performing equally. There is a significant variation in efficiency level between them and even between the two periods. Further, there is a huge opportunity to enhance technical efficiency with the same input quantity, which will help achieve the financial inclusion target.
- **Badar Iqbal and Shaist Sami (2017):** the article entitled "Role of banks in financial inclusion in India. The research article examines the impact of financial inclusion on the growth of the economy over a period of seven years. Secondary data is used for the analysis of the multiple regression models as a statistical tool. The result of the study explains the positive impact of bank branches and credit deposit ratio on the GDP of the country.
- **RBI report (2020):** the report entitled National Strategy for Financial Inclusion (NSIF) 2019-2020, the report highlights the discussion on financial inclusion policies would be incomplete if digital financial inclusion and the role of fin-tech is not meaningfully integrated into the policy discourse. And also explains that over the next few years, fin-tech may evolve from its present structure, calling for adequate understanding among regulators, financial service providers, and most importantly the customers availing financial services through the digital mode.

- **RBI report (2019-2024):** National strategy for national inclusion highlights universal access to financial services and providing a bouquet of basic financial services as the starting point of the strategy. Over the next few years, it is envisaged that ubiquitous physical and digital connectivity coupled with full financial inclusion is possible owing to the focused efforts being undertaken by the respective stakeholders. The issues like the customer-centric approach for product design and delivery focus on financial literacy and strengthening the customer protection framework as described in the report.
- **Research Methodology:**

Secondary data is collected from the RBI websites, articles from journals, books, newspapers banks' annual reports, etc.

- **Objectives**
- To examine the opportunities and growth of financial inclusion in the Indian banking sector.
- To evaluate the various initiatives, and mechanisms implemented by the banking sector for sustainability and the growth towards financial inclusion.
- To examine the challenges to financial inclusion for the banking sector in India.

The paper highlights the above important objectives. They are explained by considering data collected from secondary sources.

- **The opportunities and growth of financial inclusion in the Indian banking sector**: financial inclusion is a fundamental keystone of socio-economic development. It has been a goal of high priority in India. Financial inclusion provides a unique opportunity to construct a sustainable financial system. It accelerates growth in the real sector and triggers overall economic development.

Table 1.1 Progress in financial inclusion in India

Particulars	March 2017	March 2018	March 2019	March 2020
Banking Outlets in villages-Total	5,98,093	5,69,547	5,97,155	5,99,217
Banking Outlets in villages-branches	50,860	50,805	52,489	54,561
Banking Outlets in villages-BCs (Branches mode)	5,47,233	5,18,742	5,41,129	5,41,175
Banking Outlets in villages-Other	0	0	3,537	3,481
Urban location covered Through BCs	1,02,865	1,42,959	4,47,170	6,35,046
BSBDAs-opened total (No in Million)	533	536	574	600
BSBDA through Branches (No in Million)	254	247	255	261
Number of BSBDA per Branch	4994	4862	4858	4784
BSBDA through BCs (No in Million)	280	289	319	339
Number of BSBDA per BC	512	557	590	626
BSBDAs-Deposits Mobilization-Total (Amount in Billion)	977	1121	1409	1684
BSBD through Branches (Amount in Billion)	691	731	878	958
BSBDA through BCs (Amount in Billion)	285	391	531	726
Average Balance per BSBDA(Rs)	1833	2091	2455	2807
Average Balance in BSBDAs (No in Million)	1018	1353	1665	2142
OD Facility Availed in BSBDAs (No in Million)	9	5.8	5.9	6.4
% of BSBD account holders availed of OD facility	0.17	4.08	4	5.29
KCC-total (No in Million)	46	46	49	48
KCC-Total (Amount in Billion)	5,805	6,096	6,680	6,391

Source: ibef.org/government-schemes

Table 1.1 data reveals the growth of financial inclusion from 2017 to 2020. It highlights the banking outlets in villages have increased from 5.98 lac in March 2017 to 5.99 lac in March 2020. There is a significant increase in the number of banking outlets in villages due to the branchless BC Mode. Basic Savings Banks Deposit Accounts (BSBDAs) have increased over the past years from 533 million in 2017 to 600 million in 2020. There is a significant growth of 50 percent of BSBD accounts of 533 million in 2017 to 600 million in 2020. The number of KCC holders steadily increased from 46 million in March 2017 to 48 million in March 2020.

- **Initiatives, and mechanisms implemented by the banking sector for sustainability growth towards financial inclusion.**

Financial inclusion in India got further momentum with the introduction of Pradhan Mantri Jana Dhan Yojana (PMJDY) launched as the national mission for financial inclusion (NMFI) in August 2014. The program envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, and access to credit, insurance, and pension. The Pradhan Mantri Jan-Dhan Yojana will be launched on 28 August 2014, across the nation simultaneously. It will be launched formally in Delhi with parallel functions at the state level and also at district and sub-district levels.

Camps are also to be organized at the branch level. The Pradhan Mantri Jan-Dhan Yojana lies at the core of the development philosophy of "Sab Ka Sath Sab Ka Vikas". With a bank account, every household would gain access to banking and credit facilities. This will enable them to come out of the grip of moneylenders, manage to keep away from financial crises caused by emergent needs, and most importantly, benefit from a range of financial products. As a first step, every account holder gets a RuPay debit card with a ` 1,00,000/- accident cover.

TABLE 1.2 PROGRESS IN PMJDY OVER THE LAST 5 YEARS.

Particulars	2017	2018	2019	2020
Total Number of Accounts Opened (Crore)	28.17	31.44	35.27	38.32
Out of which Rural & Semi-Urban Accounts (Crore)	16.87 (60)	18.52 (59)	20.90 (59)	22.63 (59)
Urban & Metro Center (Crore)	11.30 (40)	12.92 (41)	14.37 (41)	15.69 (41)
Deposits in Accounts (Crore)	62,972	78,494	96,107	1,18,434
Average deposit per Accounts (Rs)	2,235	2,497	2,725	3,091
Rupay Debit cards issued (Crore)	21.99	23.65	27.91	29.30
% of Rupay Debit Card issued (% of Account Holders)	78.06	79.13	79.13	76.46

Source: http://pmjdy.gov.in/Archive

The above data explains the total number of PMJDY accounts opened from 2017 to 2020. There is a significant growth of 28.17 crores to 38.32 crores accounts in 2020. There is significant growth in the deposit accounts from 62,972 crores in 2017 to 1,18,434 crores in 2020. The average deposit per account has increased over the years indicating improvement in access and usage of financial services. The average deposit per account was recorded to be Rs. 2,235 during the year 2017. It reached its all-time high at Rs. 3,091 at the end of March 2020.

Table 1.3 Progress of Pradhan Mantri Mudra Yojana.

on April 2015, the Indian government introduced the Pradhan Mantri MUDRA Yojana (PMMY) to provide loans of up to Rs. 10 lakhs (US$ 13.54 thousand) to non-corporate, non-farm small/micro enterprises. Through PMMY, the government aims to support and fund small business owners to help them to create jobs in sectors such as manufacturing, services, retail, and agriculture & allied industries. The scheme was developed to aid unbanked citizens (who do not have a savings or checking account with a bank) by getting them into mainstream banking, assisting them with microcredits, and empowering them to become self-reliant.

Table 1.4 Pradhan Mantri mudra yojana loan is classified into the following three categories:

Categories	Maximum loan amount	Description
Shishu	Rs 50 thousand	This category is for entrepreneurs who are either in the early stage of their business or need minimal capital to get started.
Kishore	Rs 5 lakh	This category is for entrepreneurs who have requirements between Rs 50000 and 5 lakhs.
Tarun	Rs 10 lakh	This category includes entrepreneurs who have a funding requirement of 10 lakh, which is the maximum sum that an entrepreneur could apply for a start-up loan.

Source: bef.org/government-schemes

The above table highlights the Pradhan Mantri Yojana classification of loans and the maximum amount sanctioned under the different categories in the last five years (from 2015 to 2020), the PMMY program has benefited 24.48 crore loan accounts, with a sanction of Rs. 12.30 lakh crore (US$ 166.56 billion), allowing small business owners to contribute to the country's overall economic development.

According to a study published by the Labour Bureau, under the Ministry of Labour and Employment, MUDRA loans generated 11.2 million additional jobs between 2015 and 2018, wherein 55% were self-employed jobs and 45% comprised new jobs, which were created in existing businesses. In the same period, the women workforce accounted for 62% of the total estimated increase in jobs in India.

Table 1.5 the progress of the Pradhan Mantri Mudra Yojana

Parameter	2017-18	2018-19	2019-20	2020-21
Overall Progress:				
No. of enterprises financed	48130593	59870318	62247606	50735046
Amount Sanction (Cr.)	253677	321721	337495	321759
Average loan size (Rs.)	52706	53736	54218	63419

Source: https://www.mudra.org.

The above data reveal the progress of the scheme PMMY over the last four years during the financial year 2020-21, about 3.21 lac crore loans have been sanctioned which has benefited about 5.07 crore enterprises. There is a significant growth in the average loan of Rs. 52706 in 2017-18 to Rs. 63419 in 2020-21.

Table:1.6 Growth Rates of Branches of Commercial Banks by Region:

Bank branch network has played a key role in facilitating banking services, building trust and credibility, providing financial advice, offering convenience, and easing the transition to digital channels.

	March 2017	March 2018	March 2019	March 2020
Rural	49876 (35.48)	50874 (35.67)	51613 (35.27)	52379 (34.89)

Semi-Urban	39034 (27.77)	39730 (27.85)	41138 (28.11)	42326 (28.19)
Urban	25116 (17.87)	25479 (17.86)	26416 (18.05)	27309 (18.19)
Metropolitan	26553 (18.89)	26556 (18.62)	27180 (18.57)	28124 (18.73)
Total	140579 (100)	142639 (100)	146347 (100)	150138 (100)

Source: http://dbie.rbi.org.in

The above table reveals the total number of brick-and-mortar branches of all commercial banks. there is a significant growth in the total number of branches from 140579 in 20017 to 150138 in 2020. In order to ensure the delivery of banking services, the rural banking outlets in the branchless mode have witnessed a massive rise in their numbers.

- **challenges to financial inclusion in the banking sector in India:** The banking system in India significantly differs from that of other Asian nations due to unique geographic, social, and economic spread. In India, financially excluded sections largely comprise of marginal farmers, slum dwellers, migrants, women, self-employed, and senior citizens. There have been many formidable challenges in financial inclusion for bridging the gap between the demand and supply side. This aspect throws light on the on the challenges faced by banks for financial inclusion in the context of infrastructure and institutional credit, risk perception, illiteracy, compliances, financial awareness, products, and services. Barriers to financial services expansion and product and service delivery in rural markets will be reviewed, and the primary focus will be on challenges with respect to marketing and delivery of financial services in rural areas. Reaching out to the excluded sections through financial literacy campaigns, and in the process of marketing, the banks and their schemes would be important towards financial inclusion.

The technology adoption is limited: due to the lack of technical know-how there is a difficulty in the adoption of technology in adopting banking services. Due to financial illiteracy, the perception of adopting technology is lagging behind. Especially in rural areas, it is one of the challenging issues for the banking sector. In the case of rural areas, telecom connectivity, and infrastructure are poor.

Inadequate Infrastructure: Limited physical infrastructure, limited transport facilities, inadequately trained staff, etc., in parts of the rural hinterland and far-flung areas of the Himalayan and North East regions, create a barrier to the customer while accessing financial services.

Poor Connectivity: With technology becoming an important enabler to access financial services, certain regions in the country that have poor connectivity tend to be left behind in ensuring access to financial services thereby creating a digital divide. The technology could be the best bridge between the financial service provider and the last-mile customer. Fintech companies can be one of the best solutions to address this issue. The key challenge that needs to be resolved would be improving tele and internet connectivity in the rural hinterland and achieving connectivity across the country.

Convenience and Relevance: The protracted and complicated procedures act as a deterrent while onboarding customers. This difficulty is further increased when the products are not easy to understand, complex, and do not meet the requirements of the customers such as those receiving erratic and uncertain cash flows from their occupation.

Socio-Cultural Barriers: The prevalence of certain value systems and beliefs in some sections of the population results in a lack of a favorable attitude towards formal financial services. There are still certain pockets wherein women do not have the freedom and choice to access financial services because of cultural barriers.

Product Usage: While the mission-based approach to financial inclusion has resulted in increasing access to basic financial services including micro insurance and pension, there is a need to increase the usage of these accounts to help customers achieve the benefits of relevant financial services and help the service providers to achieve the necessary scale and sustainability. This can be undertaken through increasing economic activities like skill development and livelihood creation, digitizing Government transfers by strengthening the 16 National Strategy for Financial Inclusion 2019-2024 digital transactions' eco-system, enhancing acceptance infrastructure, enhancing financial literacy, and having in place a robust customer protection framework.

Payment Infrastructure: Currently, the majority of the retail payment products viz., cheque Truncation System, (CTS), Adhaar Enabled Payment System (AEP), National Automated Clearing House (NACH), Unified payments Interface (UPI), and instant interbank electronic fund transfer (IMPS), etc. are operated by the National Payments Council of India (NPCI), a Section (8) Company promoted by a group of public, private and foreign banks. There is a need to have more market players to promote innovation & competition and to minimize concentration risk in the retail payment system from a financial stability perspective.

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