Financial Inclusion – Present Scenario in India with Nachiket Mor Committee Vision

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Abstract

The need of growing Indian economy is to curb challenges like poverty, unemployment and to bring Financial Prosperity to weaker section of society. The RBI Governor has considered ‘Financial inclusion’ as one of the key pillar in Economic Development reforms and taken imitative to achieve the goal of financial inclusion in effective manner. In present scenario, there is the gap in achieving the goal of financial inclusion because of Consumer Protection and Consumer literacy. In achieving the goal of Financial Inclusion, the Compatible formal financial system is required to build up a strong supply response. The approach of the study is data collected from secondary sources in order to access the present position of financial Inclusion in India. As financial Inclusion involves high cost and study will discuss the major visions of Nachiket Mor Committee for achieving the goal of Financial Inclusion.


Introduction

Though India had achieved 7-8% of GDP growth yet as per International Poverty line, half of the population lives below poverty line. This economic growth is representing of half of the Nation Population. Imagine the Economic Success, if other half, bring above the poverty line. This could only be
happen with Financial Inclusion. To achieve the goal of Financial Inclusion RBI has adopted various strategies like Branch Banking, Business Correspondences etc.

To bridge the Gap in achieving financial inclusion the major efforts should be on Consumer protection and Consumer literacy.

As per the progress record, the emphasis has been on both Financial Inclusion explained as the widen financial institutions and financial services crosswise the country to the weak group of society and Financial Depth distinct as the percentage of credit to GDP at various levels of the economy. But the wide-ranging situation remain disgraceful on a regional and sectoral basis, even non-satisfactory. ‘An estimate suggests that close to 90 per cent of small businesses have no links with formal financial institutions and 60 per cent of the rural and urban population do not even have a functional bank account. And, while the bank credit to GDP ratio in the country as a whole is a modest 70 per cent, in a large state such as Bihar, it is even lower at a mere 16 per cent’[1]. This means that in order to meet the credit needs a part of the economy dependent on the informal sector. On the savings front, difficulties of access combined with an absence of a positive real return on financial savings, has accelerated the move away from financial assets to physical assets and unregulated providers. Savings as a proportion to GDP has fallen from 36.8 per cent in 2007-08 to 30.8 per cent in 2011-12 and the financial savings of households have declined from 11.6 per cent of GDP to 8 per cent during the same period (RBI’s June 2013, Financial Stability Report). From this there is clear indication of demand of Compatible Formal Financial Services by small businesses and household sector combined with an eagerness to pay for them. The challenge is to get compatible the formal financial system to build up a strong supply response which needs to be strengthened visibly.

The Nachiket Mor Committee on Financial Inclusion has focused its attention on framing a clear vision and design principles with comprehensive monitoring framework to track the progress of Financial Inclusion and Financial deepening in India.

What is Financial Inclusion?

Financial inclusion termed as delivering banking and financial services at the less cost to weak group of society and to tap unbanked area with the objectives of in calculating habits of saving among vulnerable group, to endow with formal credit facilities and to plug the gaps and leakages in public subsidies & welfare programs to weaker sections of society with
the belief to unleash the unbanked potential of the bottom of pyramid section of Indian economy which can begin the next revolution of growth and prosperity, if achieved.

‘Financial inclusion, broadly defined, refers to universal access to a wide range of financial services at reasonable cost. These include not only banking products but also other financial services such as insurance and equity products’ (Chairman: Dr. Raghuram G. Rajan, The committee on Financial sector reforms, chairman: Dr. Raghuram G. Rajan).

Definitions of financial inclusion has emerged from time to time all of them reckoning the need for Delivery of banking and financial services, At an affordable cost, To the people who do not have access to financial services, To the people pertaining to low income groups.

Why Financial Inclusion

The need of Financial arises in developing countries due to its role in Economic Development by reducing poverty and providing for equitable growth. Due to high cost of traditional banking System, the bottom of pyramid section of Indian economy remains as the unbanked potential.

If unbanked potential is tapped with Financial Inclusion, over the period of time, then this contribution will lead to snow ball effect and leads to Economic growth.

Fig 1. Depicts household access to financial services (Source: Chairman Dr. Raghuram G. Rajan, A hundred small steps –Report on Financial Sector Reforms). As household, even the deprived of weaker sections of society, access to financial services for Contingency planning, credit, wealth creation but at the same time expects from the financial system that it should be:

easy of access,
provide security and safety of deposits,
low transaction costs, convenient operating time,
minimum paper work, ability to transact easily effect frequent deposits, avail quick and easy access to credit and other products including remittances suitable to their income streams and consumption patterns’.
By providing, suitable and cost effective financial products to low income families will transform informal unbanked sector into the formal financial sector.

Due to lack of Financial Literacy and practically no access to financial services, the substantial weaker section of society is unaware of Financial services and has to be depended upon informal sectors like borrowing from friends, family or usurious moneylenders to meet their needs like illness, property damage or death of the primary breadwinner. The existing Financial system requires to be redesigned so as to suit the requirements by taking into account their seasonal inflow of income from agricultural operations, migration from one place to another, seasonal and irregular work availability and income. To provide such financial system which is more responsive to needs of vulnerable group of the society.

Financial Inclusion – RBI Policy Initiatives and Recent Measures

As Financial Inclusion is considered as the most important objective of the Nation for Financial Stability, RBI And Govt. Of India have focusing on below mentioned key areas to promote this[2]:-

**Basic Saving Bank Deposit (BSBD):** RBI has recommended all banks to open BSBD accounts with minimum ordinary facilities such as Zero balance account, deposit and withdrawal of cash at bank branch and ATMs, receipt/credit of money through electronic payment channels, facility of providing ATM card etc.

**Relaxed and simplified KYC norms** : RBI has relaxed and simplified the process of easy bank account, especially for small accounts with balances not exceeding `50,000 and aggregate credits in the accounts not exceeding ` one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card(UID) as a proof of both identity and address.

**Simplified Branch Authorization Policy:** RBI has Simplified Branch Authorization to tackle the issue of uneven spread bank branches, domestic Schedule commercial Banks are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than one lakh under general permission, subject to reporting. In North- Eastern States and Sikkim domestic SCBs(Schedule Commercial Banks) can open branches without having any permission from RBI.
With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centers, subject to certain conditions.

Compulsory Requirement of Opening Branches in Unbanked Villages: Banks are directed to allocate at least 25 per cent of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.

Redress of customer grievances and Close supervision of BC operations:
Opening of transitional brick and mortar composition, for effective cash management, documentation, redress of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC(Business Correspondences’) locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

Financial Inclusion Plan (FIP): Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

FIPs should be disaggregated: Banks have been advised that their FIPs should be disaggregated and percolated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts.

Financial Literacy Centers (FLCs): In June 2012, revised guidelines on FLCs Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e., ‘Financial Literacy’ and easy ‘Financial Access’.
Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps/choupals, seminars and lectures during April 2012 to March 2013.

**Current Status of Financial Exclusion[5]**

According to NSSO 59th Round Survey Results, out of total Farmer households- 51.4% of farmer households are financially excluded from formal/informal sources,

27% access formal source of credit : one third of this group borrowed from non-formal source,

Overall, 73 per cent of farmer households have no access to formal sources of credit.

Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64 per cent of all financially excluded farmer households in the country.

Overall indebtedness to formal sources of finance of these three regions accounted for only 19.7 per cent

However, over the period of five decades, there has been overall improvement in access to formal sources of credit by the rural households (Chart 1).

**Government of India Population Census 2011**

As per census 2011, only 58.7 per cent of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas (Chart 2).

**World Bank ‘Financial Access Survey’ Results**

From the table 1 given below, it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world.

**Nachiket Mor–Committee Vision Statement**
As Financial Inclusion has great Importance in Economic Development thus policy makers are keen to observe and to learn from the successful occurrence of Financial Inclusion in other countries and to try out with new ideas. The supervisory body, while paying close notice to the attainment of financial inclusion goals of the organization as a whole would allow each participant to implement momentous sovereignty to chart its own corridor. It would also apply regular caution in order to guarantee that solution devise ideology such as systemic Stability, Complete Transparency of balance sheets, Neutrality of regulatory stance towards different types of participants, and the need to protect customers, are not violated.

There are **Six Vision Statements** which are as follows by the Committee[6]

: **Universal Electronic Bank Account (UEBA):**

One of primary vision to achieve the goal of Financial Inclusion through opening of an individual Universal Electronic Bank Account of each Indian citizen above the age of 18 years, with secure and full banking service by January 1, 2016.

Every resident should be issued a Universal Electronic Bank Account (UEBA) without account opening fee at the time of receiving their Aadhaar Number as per instructions initiated by UIDAI regarding bank account opening with customer preference of listed or designated banks.

The preferred bank would be required to send the customer a letter communicating the details of the account thus opened. The committee recommends that the RBI issue a circular which indicates that no bank can refuse to open an account for a customer has adequate KYC (Know Your Customer) includes Aadhaar.

**Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges:**

As per the vision of committee regarding the Access points which would be electronic payment access points and their number & distribution would be in such a manner so that each point would be located just at fifteen minutes walking distance for every single resident. The electronic access point would
facilitate every resident to deposit and withdraw cash of any amount to and from their bank accounts and transfer the funds from one bank account to another in a secure environment with reasonable charges for all services by bank.

**Sufficient access to affordable Formal Credit:**

In committee vision, the sufficient access to affordable formal credit by formally regulated lender to each low-income household and small business would have been convenient by January 1, 2016. As per vision of Committee each and every District and every significant sector (Sub Sector) of economy would have Credit to GDP ratio at least 10% and this ration would be increased by 10% every year which will reach 50% by January 1, 2020.

**Universal Access to a Range of Deposit and Investment Products at Reasonable charges:**

By January 1, 2016, each low income household and small business would have convenient access to service provider or agent, who is regulated by Govt. Regulators. These providers should have ability to offer low-income household and small business in suitable investment and deposit products which provide real return to the investment and pay reasonable charges for their services. By that each District would have a Total Deposit and Investment to GDP ratio 15% and this ratio would be increased every year by 12.5% with the goal that reaches 65% by January 1, 2020.

**Universal Access to a Range of Insurance and Risk Management Product at Reasonable Charges:**

The committee has vision that each low income household and small business would have convenient access to suitable insurance and risk management products by providers who are regulated by Govt. Regulators by January 1, 2016. The offered insurance and risk management products would have ability to manage risk related to (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property, and pay charges for their services.

Each District would have a Total Term Insurance Sum Assured to GDP ratio of at least 30% and the same would be increased by 12.5% every year to reach 80% by January 1, 2020.
Right to Suitability:

Each low-Income household and small business would have legally protected right to be offered only-suitable financial services. While the customer will be required to give informed consent. They will have the right to seek legal redress if they feel that due process to establish suitability was not followed or that there was gross negligence.

Conclusion

In the report of the Committee on Financial inclusion, the four principles are discussed: Systematic Stability, Balance-Sheet Transparency, Institutional Neutrality, and Responsibility towards the Customer that would strengthen the Financial Inclusion and deepening strategies. The framework to understand various types of banking system designs uses the functional building blocks of payments, deposits and credit and constructs two broad designs. These are the Horizontally Differentiated Banking System (HDBS) and the Vertically Differentiated Banking System (VDBS). Across these, ten existing and potential banking designs were identified. These are: National Bank with Branches, National Bank with Agents, Regional Bank, National Consumer Bank, National Wholesale Bank, National Infrastructure Bank, Payments Network Operator, Payments Bank, Wholesale Consumer Bank, and Wholesale Investment Bank. As per Report, financial inclusion cannot be achieved without the active involvement of all stakeholders like RBI, other financial regulators, banks, governments, NGOs, civil societies, etc. The report suggested to design one centrally regulated blueprint so that all the players become clones of each other in their own differentiated or complementary capabilities to achieve the national goal of financial inclusion. In order to have the system stability each participant has to reveal risks and capabilities to handle those risk and financial capital to assume those risks transparently. The regulator would allow each participant to exercise significant autonomy to chart its own part to achieve goal of financial inclusion with need to protect the vulnerable customer.

The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Banks alone will not be able to achieve this unless an entire support system would be partnering with them in this mission.

Financial Tripod
Table 1: Select Indicators of Financial Inclusion, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Bank Branches (Per 1000 Kms)</th>
<th>Number of ATMs (Per 1 Million)</th>
<th>Number of Bank Branches (Per 1 Million)</th>
<th>Number of ATMs (Per 1 Million)</th>
<th>Bank Deposits (As % to GDP)</th>
<th>Bank Credit (As % to GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>11.58</td>
<td>24.53</td>
<td>10.04</td>
<td>9.0</td>
<td>62.49</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>24.89</td>
<td>22.60</td>
<td>32.58</td>
<td>11.55</td>
<td>479.46</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>14.38</td>
<td>25.55</td>
<td>21.59</td>
<td>17.65</td>
<td>53.16</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>8.25</td>
<td>15.00</td>
<td>8.52</td>
<td>15.67</td>
<td>63.36</td>
</tr>
<tr>
<td>5</td>
<td>Korea</td>
<td>72.07</td>
<td>18.63</td>
<td>8.85</td>
<td>18.63</td>
<td>85.82</td>
</tr>
<tr>
<td>6</td>
<td>Mauritius</td>
<td>103.95</td>
<td>21.08</td>
<td>12.85</td>
<td>42.78</td>
<td>170.7</td>
</tr>
<tr>
<td>7</td>
<td>Mexico</td>
<td>61.54</td>
<td>18.64</td>
<td>14.86</td>
<td>45.73</td>
<td>231.56</td>
</tr>
<tr>
<td>8</td>
<td>Philippines</td>
<td>16.35</td>
<td>32.73</td>
<td>8.07</td>
<td>17.7</td>
<td>61.03</td>
</tr>
<tr>
<td>9</td>
<td>South Africa</td>
<td>9.16</td>
<td>12.28</td>
<td>10.71</td>
<td>60.69</td>
<td>51.86</td>
</tr>
<tr>
<td>10</td>
<td>Sri Lanka</td>
<td>61.85</td>
<td>35.72</td>
<td>16.73</td>
<td>14.29</td>
<td>45.72</td>
</tr>
<tr>
<td>11</td>
<td>Thailand</td>
<td>12.16</td>
<td>63.86</td>
<td>11.29</td>
<td>77.65</td>
<td>78.76</td>
</tr>
<tr>
<td>12</td>
<td>Malaysia</td>
<td>8.52</td>
<td>33.88</td>
<td>10.09</td>
<td>35.62</td>
<td>230.82</td>
</tr>
<tr>
<td>13</td>
<td>UAE</td>
<td>168.60</td>
<td>28.07</td>
<td>24.87</td>
<td>122.77</td>
<td>406.54</td>
</tr>
<tr>
<td>14</td>
<td>USA</td>
<td>9.58</td>
<td>35.65</td>
<td>10.00</td>
<td>50.65</td>
<td>57.78</td>
</tr>
<tr>
<td>15</td>
<td>Switzerland</td>
<td>84.59</td>
<td>160.68</td>
<td>50.07</td>
<td>100.50</td>
<td>151.82</td>
</tr>
<tr>
<td>16</td>
<td>France</td>
<td>10.22</td>
<td>106.22</td>
<td>61.56</td>
<td>109.8</td>
<td>24.77</td>
</tr>
</tbody>
</table>

Sources: Financial Access Survey, data is reported to the nearest of 100, and is based on the survey data.

Figure 1: Household Access to Financial Services

- Contingency Planning
- Retirement Savings
- Buffer Savings
- Insurable Contingencies
- Business Livelihood
- Emergency Loans
- Housing Loans
- Consumption Loans
- Wealth Creation
- Savings & Investments based on household's level of financial literacy and risk perception

Source: A Hundred Small Steps – Report of the Committee on Financial Sector Reforms (Chairman: Dr. Raghuram G. Rajan)
Financial education, Financial Inclusion and Financial stability are three elements of integral strategy, as shown in the diagram below. While Financial Inclusion works supply side of providing access to various financial services; Financial education feeds the demand side by promoting awareness among the people regarding needs and benefits of financial services offered [7]. All the stakeholders need to join hands and make it possible.

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