International Journal of Application or Innovation in Engineering & Management (IJAIEM)
Web Site: www.ijaiem.org Email: editor@ijaiem.org
Volume 3, Issue 11, November 2014 ISSN 2319 - 4847

Financial Inclusion in India:A Brief Focus on Northeast India

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ABSTRACT

Financial inclusion has emerged as a tool for the socio-economic development of the society. It has become one of the most critical aspects in the context of inclusive growth and development of a region or a country. Several countries across the globe now look at financial inclusion as the means to more comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. The present article explores the current status of financial inclusion in India with reference to its northeastern region on the basis of facts and data provided by various secondary sources. The paper also explains the scope and challenges for financial inclusion being faced by Northeast India. The paper concludes that financial inclusion plays a major role in driving away the infrastructural gap and has enough scope for economic growth, raising living standard of people of the region.
Keywords:- Financial Inclusion, Current status, Factors, Initiatives of RBI

1.INTRODUCTION

Financial Inclusion has emerged as a tool for the socio-economic development of the society. The basket of financial services under Financial Inclusion will create an opportunity to capture the underserved market fulfilling corporate social responsibility thereby driving the economic growth of the country. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development of a region or a country. The importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Several countries across the globe now look at financial inclusion as the means to more comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. The concept of financial inclusion in India can be traced back to the year 1904 when co-operative movement took place in India. It gained momentum in 1969 when 14 major commercial banks of the country were nationalized and lead bank scheme was introduced shortly thereafter. Branches were opened in large numbers across the country and even in the areas which were hitherto being neglected. Even after all these measures a sizable portion of the population of the country could not be brought under the fold of banking system. In fact, there is a severe gap in financial access which needs special attention.

2.FINANCIAL INCLUSION: AN OVERVIEW

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of underprivileged and low income groups. By financial inclusion we mean the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. RBI defines financial inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players". Rangarajan Committee (2008) viewed financial inclusion 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 financial services include the entire gamut - savings, loans, insurance, credit, payments etc. By providing these services, the aim is to help them come out of poverty.

In short, Financial Inclusion = NFA + Banks+ OFIs+ MFI+ IT
Where, NFA : No-frills Bank account
OFIs : Other Financial Institutions
MFI : Micro Financial Institutions
IT: Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

The access to finance could be divided into four segments[1]**:**
i) The proportion of the population that uses a bank or bank like institution,
ii) Population which uses services from non – bank" other formal" financial institutions, but does not use bank services,
iii) The population which only uses services from information financial service providers,
iv) Percentage of population transacting regularly through formal financial instrument, and
v) The population which uses no financial services.

3.FINANCIAL INCLUSION IN INDIA

Financial Inclusion in India is not a new one. Nationalization of banks, priority sector lending stipulations, the lead bank scheme, establishment of Regional Rural Banks, launch of Self-Help Groups-banks linkage programmes were all part of the Reserve Bank of India's initiative to provide financial access to the unbanked and under-banked masses. However, the momentum gathered after 2005, when the regulator highlighted the need for financial inclusion in its Annual Policy Statement, and a symbolic beginning was made in the same year, India Bank brought all households in Mangalam Village in Pondicherry within its fold. The Reserve Bank of India's vision for 2020 has envisaged on opening of nearly 600 million new customers' accounts and services them through a variety of channels by leveraging on Information Technology. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. The importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. With only 34% of population engaged in formal banking, India has, 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions[3]. Therefore, India being a socialist, democratic republic, it is imperative on the policies of the government to ensure equitable growth of all sections of the economy. The financially excluded sector in India consists largely of landless labourers, oral lessees, marginal farmers, unorganized sector work-force, urban slum residents and socially excluded groups. With 82 percent of India's poor households located in rural locations, vast majority of rural India can be considered as financially excluded. Some of the important causes of relatively low extension of institutional credit in the rural areas are risk perception, cost of its assessment and management, lack of rural infrastructure, and vast geographical spread of the rural areas with more than half a million villages, some sparsely populated (Mohan, 2006). Table 1 indicates that, out of 32902390 total current account and savings account of banking services in All India. 27.44 per cent of total account in South India, 20.71 per cent of total account in Central India, 17.65 per cent of total account in North India, 16.42 per cent of total account in West India, 15.48 per cent of total account East India, 2.3 per cent of total account in North East India. So, it is concluded that, the maximum no of 27.44 per cent of total account in South India.

Table 1: Coverage of Banking Services in India

Sl. No.	Region	Current Account	Saving Account	Total Population	Total No. of Accounts	Total No. of Accounts (%)
1	North	42,15,701	5,24,16,125	13,26,76,462	5,66,31,826	17.65
2	Northeast	4,76,603	68,91,081	3,84,95,089	73,67,684	2.3
3	East	18,14,219	4,78,76,140	22,76,13,073	4,96,90,359	15.48
4	Central	22,02,217	6,42,54,189	25,57,13,495	6,64,56,406	20.71
5	West	31,78,102	4,95,25,101	14,90,71,747	5,27,03,203	16.42
6	South	46,66,014	8,33,86,898	22,34,45,381	8,80,52,912	27.44
All India		**1,65,52,856**	**30,43,49,534**	**1,02,70,15,247**	**32,09,02,390**	**100**

Sources: National Sample Survey Organisation (2012).

Some key statistics regarding the extent of financial inclusion in India are as follows[2]:

- 41% of the Indian population is unbanked (80 million households). Out of this, 40 % is unbanked in urban areas and 60 % in rural areas. Only 14% of adult population has credit accounts with formal financial institutions.
- Out of the 203 million households in India, 147 million households are located in rural India. Out of these rural households, 89.3 million households are famer households. 66 percent of farmer households are marginal farmer households.
- 51.4 percent farmer households (45.9 million out of 89.3 million) are financially excluded from both formal and informal financial sources.
- 27 percent farmer households have access to formal sources of credit. Among non-cultivator households nearly 80 percent do not access credit from any source

- North-East, Eastern and Central India account for 64 percent of all financially excluded farmer households in India. Overall indebtedness to formal finance sources is 19.66 % in these three regions.
- Geographically, 256 districts (out of 640 districts) representing 40 % of total districts in India, spread over 17 states and 1 UT have critical credit exclusion thresholds in respect of access to formal credit.
- The proportion of people having some form of life insurance cover stands at 10 percent and people with any form of non-life insurance cover stands at less than 1 percent. There are only 3.1 policies per thousand people in India (2007).

4.CURRENT STATUS OF FINANCIAL INCLUSION IN NORTHEAST INDIA

The Northeast India comprises of contiguous eight states of Arunachal Pradesh, Assam, Nagaland, Manipur, Meghalaya, Mizoram, Tripura and Sikkim - is geographically, ethnically and culturally different from the rest of the country. While significant initiatives have been taken by the government towards inclusion of the financially excluded in the country, the challenge gets accentuated for the north-eastern region due to its inherent characteristics that make it difficult to implement or replicate the inclusion models adopted elsewhere in the country. In fact, the banking development in Northeast India was, only a post-nationalization phenomenon. Prior to nationalization of banks in 1969, no bank branch of commercial banks existed in Arunachal Pradesh and Mizoram. Only two branches of commercial banks served the entire state in Manipur and Nagaland. Assam, however, with tea and oil industries was historically better served by banks among the states in the region. Since nationalization of banks in 1969, a remarkable progress was made in the banking development both geographically and demographically. Though starting from a low base, the branch network of commercial banks expanded significantly in the region. However, banking development is still lagging far behind all-other states in India. Even within the region, the inequalities in the availability of banking services are found to be very wide and glaring[3].

Table 2: Major aspects of Financial Inclusion in Northeast India (as on March 2010)

States	Bank Branches (Number)		Population per Branch (Number)	Bank Branches per 1000 sq. km.	C-D Ratio	Ratios of Deposit and Credit Accounts to Population (2009-10)		Per Capita Deposits and Credit (Amount in Rs.)	
	Total	Rural				Deposit	Credit	Deposit	Credit
A.P.	80	51	17,282	1	27	37.7	4.1	29,843	8,218
Assam	1,477	791	21,103	19	36	36.8	4.2	15,590	5,892
Manipur	81	35	33,602	3	41	18.1	2.7	9,917	4,170
Meghalaya	213	126	13,916	9	26	30.9	3.9	25,785	6,605
Mizoram	98	54	11,133	4	24	29.7	5.4	20,525	10,916
Nagaland	90	37	22,007	5	30	24.3	4.6	21,140	6,406
Sikkim	74	48	8,252	10	37	56.9	7.2	51,561	19,188
Tripura	192	114	19,120	22	25	46.2	8.3	20,319	5,999
NER	2,342	1,256	19,465	9	35	39.8	4.9	16,879	6,255
All India	86,960	32,627	13,916	26	73	60.7	9.8	37,688	27,642

Source: http://www.mdoner.gov.in/content/financial-inclusion

Table 2 reveals that the number of rural bank branches ranged from 37 in Nagaland to 791 in the state of Assam. Population per branch shows that Manipur has the highest whereas Sikkim got a population of 8252 per bank branch which seems a got sign of financial inclusion in the state. The Credit-Deposit ratio ranged from 24 in Mizoram to 41 in Manipur which is lower than the national average of 73. The regional average of 9 in respect to the bank branches per 1000 km^2 is comparatively much lower than the All India average of 26, which signify the low standard of financial inclusion in the region. Hence, all these banking development indicators show the slow progress of banking and resultant low level of financial outreach in Northeast India. Development of Northeast India has been high on the agenda of the Central and the respective state governments. Recognizing the special requirements of the region and the need for significant levels of government investment, Northeast India has been recognized as Special Category Region. The Government of India and the Reserve Bank have initiated various measures for spread of banking and promotion of financial inclusion. Nevertheless, to accelerate the pace of growth in Northeast India, some of the challenges that lie ahead are highlighted hereunder [4]. First, weak market linkages are a major constraint in the development of the region. For this reason, urgent attention needs to be paid to developing roads, air links, telecommunications and other components of transport and communications. Investment in infrastructure could be scaled up through the Public-Private Partnership model.

Second, initiatives need to be taken to promote sustainable industrial development compatible with the unique bio-diversity of the region. Agro-based industries, food processing, wood products, traditional textiles and light manufacturing industries can be encouraged to come up in the region. Third, there is a need to increase agricultural productivity and promote diversification into horticulture and floriculture for which the agro-climatic conditions in the region are well- suited. Fourth, a sustainable growth paradigm will not only help further acceleration in growth but will also improve fiscal sustainability by helping to lower the debt-GSDP ratio. Fifth, the high level of literacy and human development levels coupled with bio-diversity provides ample opportunity for development of tourism and exports. Sixth, a deterrent for bank lending is the high level of non-performing assets (NPAs) in the region. This has been, in part, due to unavailability of some of the activities financed by banks and lack of adequate engagement with the borrowers. There is, therefore, a need to improve credit culture in which financial education could play a vital role. Seventh, in any plan for financial sector development, the physical presence of a bank branch is important. But the topography of the region, the dispersal of population, transport bottlenecks and law and order conditions in some areas inhibit branch expansion other than in certain commercial centres. Hence, all the stake-holders - banks, state governments and the Reserve Bank - need to work in close co-ordination for increasing banking penetration and promoting financial inclusion in the region. The regional economy of the north-east is largely dependent on agriculture, and most other economic activity is small scale and heavily dependent on traditional skills of weaving and handicraft. Inadequate infrastructure is another major challenge that isolates the region from the rest of the country. This has led to the development of a diversely-organized informal financial market in the region, which reflects the creativity of local communities to meet their specific needs. The solution lies in developing low-cost banking models, by leveraging technology and forging local partnerships, and this is an opportune time to actualize execution of the financial inclusion strategy for the north-eastern region (Kapoor, 2011). While significant initiatives have been taken by the government towards inclusion of the financially excluded in the country, the challenge gets accentuated for the north-eastern region due to its inherent characteristics that make it difficult to implement or replicate the inclusion models adopted elsewhere in the country. The financial inclusion strategy for Northeast India needs to be built around the existing developments and trends in the region, and initiatives being taken by the government.

5.FACTORS AFFECTING THE ACCESS OF FINANCIAL INCLUSION

Following are some of the factors that affect the basic access of financial inclusion in India:

• **Psychological and cultural barriers:** Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

• **Lack of legal identity:** Lack of legal identity like voter Id, driving license, birth certificates, employment identity card etc.

• **Level of income decides financial access:** Low income people generally have the attitude of thinking that banks are only for the rich.

• **Various terms and conditions:** While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

- **Lack of Customized Products:** As people differ in their perception, opinions and thoughts so does their needs, the banking industry has to understand this basic philosophy and develop customer centric innovative products. The whole banking industry is offering generic products matching the needs of urbanized population and arsenal of other services where as the unbanked still remains to see the light of the dawn.
- **Lack of Financial Literacy:** Financial literacy and lack of basic education prevent people to have access from financial services. Low literacy rate has been a great impediment for financial inclusion as ignorance caused low levels of awareness causing difficulty to communicate the necessity for banking habits and what savings can do to enrich their living standards.
- **Language Barrier:** One of the major hitch in financial inclusion being non availability of printed literature in regional vernaculars which is otherwise a prerequisite for reaching the masses. As most of the literature in the banking industry are in bilingual mode (Hindi / English), with large demographic spread are habitually jeopardize by the ignorance of language which creating a fear psychosis.
- **Geographical remoteness:** Commercial banks operate only in profitable areas. Banks set their branches and offices only in those commercial areas. Therefore people living in under-developed areas find it very difficult to go for any bank transaction in other area again and again. Hence they don't go for any bank services.
- **Infrastructural Requirements:** With the liberalization branch opening under new branch authorization policy of RBI which encourages the opening of branches in under banked or unbanked areas. Infrastructural deployments are not that enthusiastic to run even a satellite operation which requires power, telecommunication services and roads for geographical access.

6. INITIATIVES UNDERTAKEN FOR THE GROWTH OF FINANCIAL INCLUSION

Reserve bank of India and Government play an important role in promoting financial inclusion for economic growth to increase the banking penetration in the country. Before 1990s several initiatives has been undertaken which included creation of State Bank of India in 1955; nationalization of commercial banks in 1969 and 1980;initiating the Lead Bank Scheme in 1970 was a big step to expand financial inclusion. Priority sector lending norms, branch licensing norms with focus on rural and semi urban branches, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 mainly to provide refinance to the banks extending credit to agriculture, establishment of regional rural banks in 1975 are also the major steps for same aim which encourage branch expansion in rural area (Raman, 2012). The Reserve Bank of India is navigating the path to financial inclusion by means of regulations and guidance.

It has initiated several measures to help bank the unbanked. Some of them are:-

- **Opening of No-Frills Accounts:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.
- **Relaxation on Know Your Customer (KYC) Norms:** KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction.
- **Overcoming language barrier:** Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening disclosure etc. in the regional language as well.
- **Simplification of Savings Bank Account Opening Form:** To ease the opening of bank account by the migratory labour, street hawkers and other poorer sections of the society, “Simplified Account Opening Form” has been designed. Banks have been requested to put in place a system to enable the customer to fill the account opening form on an ‘online’ mode.
- **Engaging Business Correspondents (BCs):** RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem.
- **Opening of branches in unbanked rural centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt.
- **Simplified branch authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. On the other hand, banks can open branches in any centre-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.
- **Electronic Bank Transfer:** The introduction of Information and Communications Technology (ICT) facilitates the electronic transfer of social security benefits directly to the beneficiaries. This reduces dependence on cash, thereby lowering the transaction costs and minimizing the chances of fraud by unscrupulous middlemen.
- **Financial Education:** Financial literacy will go a long way in achieving financial inclusion. Accordingly, the RBI has initiated several financial education measures. For example, it publishes comic strips to explain the concept of savings.

  Special Financial Inclusion Measures for NES

  Highlights of some of the special financial inclusion measures initiated by the Government of India for Northeast India:

First, in December 2009, the Reserve Bank relaxed the branch authorisation policy and permitted domestic scheduled commercial banks (other than RRBs) to open branches in rural, semi-urban and urban centres in Northeast India without having the need to take permission from the Reserve Bank in each case, subject to reporting. Second, to improve banking penetration in the Northeast India, the Reserve Bank requested the state governments and banks to identify centres where there is a need for setting up either full-fledged branches or those offering foreign exchange facilities, handling government business or for meeting currency requirements.

7. CONCLUSION

Financial inclusion is the road which India needs to travel towards becoming a global player. As people invest and save more and more will remove vicious circle of poverty and unemployment, it also act as a source of empowerment, better control of finance and allow people to participate more effectively in the economic and social process thereby increase per capita income. The issue of financial inclusion has received large importance in India during the recent years. India had invested considerable amount of resources in expanding its banking network with the objective of reaching to the people. During the last 40 years huge infrastructure has been created in the banking sector. While urban India has been getting access to, and avails itself of banking services at a rising rate, large areas of rural India are still severely under banked, especially the Northeastern region of India. Therefore, in achieving complete financial inclusion and for inclusive growth, there is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded so that the financial inclusion can be taken forward. In addition to cooperating with other stakeholders, policymakers who believe that microfinance can help them to speed up financial inclusion in their respective states should fund financial education programs that allow their citizens to realize the economic potential of microfinance. Basic financial literacy programs can help achieve better results in poverty alleviation. Thus, financial inclusion has enough scope for economic growth, raising living standard of people of a particular region.

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