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A STUDY ON EVALUATION OF THE PERFORMANCE OF FINANCIAL INCLUSION PLANS (FIP) OF BANKS, IN INDIA FOR THE PERIOD (2010-16)

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Abstract: Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This is an integral part of promoting inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. In India, Government and RBI has taken several steps to make Financial Inclusion a reality, one of the such measures being the Financial Inclusion plan (FIP) initiated by RBI in 2010. As it was carried by all the Banks in the country as a mission to be accomplished in the given time frame so it is imperative to evaluate the performance of FIP. This paper attempts to evaluate the FIP on the basis of secondary data available with RBI. Besides this in the paper an attempt has been made to assess the Financial Inclusion status of India based on the survey of IMF and World Bank.

Key Words: Financial Inclusion, FIP, PMJDY, BSBDA.

INTRODUCTION

Financial Inclusion is the process where the inclusion of people who are excluded from the formal banking penetration and creating awareness to them for have the access of financial services from the formal financial institutions rather than depending upon the informal financial service providers like money lenders etc. The sustained economic growth is possible through the inclusion of the both the pattern of the economy, the serious issue is to bring the people excluded from the economic activities. In order to achieve the sustained development in the economy banking institutions play a major role by promoting people for savings, investment and use of the financial services available in the formal financial institutions.

The idea of financial inclusion first started in a small village called Mangalam in Pondicherry (the village which selected for pilot project, undertaken by K.C Chakraborthy, the Chairman Indian Bank) on December 30, 2005, where it was decided to open accounts for all adult population there by achieving 100 percent financial inclusion. The identified problem with this process was of distance to bank branch. Thus the idea of using Agent facilities, Information and Communication Technology (ICT) in banking operations strucked.

This paper is a conceptual and empirical study conducted with the objective of evaluation of status of Financial Inclusion in India and Financial Inclusion Plan (FIP) being carried out by the banks in India into two phases namely (2010-13) and (2013-16), using the secondary data collected from the literature and RBI reports, IMF Report and World Bank Report.

Status of Financial Inclusion In India

The International Monetary Fund Financial Access Survey, which compared access to financial services across countries, has pointed out the extent of exclusion in India. The survey showed that while India has made remarkable progress in terms of financial deepening and widening, a large percentage of the population lacks access to basic financial services. Table (1) shows there are only 13.3 ATMs per 100,000 adults in India, the lowest one in the countries mentioned in the

Table 1. Similarly, at 12.2 commercial branches per 100,000 adults, it is lowest in the group, with the exception of Indonesia. In deposit accounts, India has, however, performed better than others; the number of accounts has increased from 611.0 per 1,000 adults in 2005 to 1,197.6 in 2013.

Table 1

FINANCIAL ACCESS IN SELECTED COUNTRIES

Country	**Year**	**ATMs** (per 100,000 adults)	**ATMs** (per 1,000 kilometers)	**Commercial Bank Branches** (per 100,000 adults)	**Commercial Bank Branches** (per 1,000 kilometers)	**Deposit Accounts with Commercial Banks** (per 1,000 adults)	**Loan Accounts with Commercial Banks** (per 1,000 adults)
India	2005	2.3	5.9	9.0	23.2	611.00	101.0
	2013	13.3	39.0	12.2	35.7	1197.60	147.0
Brazil	2005	108.9	17.4			705.70	
	2013	130.7	23.2	47.7	8.4	1153.5	
China,	2005						
	2013	46.9	55.7	7.8	9.3	40.40	
Indonesia	2005	9.4	7.7	5.3	4.4	508.60	139.7
	2013	42.4	39.8	10.4	9.8	863.00	217.0
Sri Lanka	2005			8.9	20.9		
	2013	16.7	40.5	18.6	45.1		
France	2005	92.9	87.3	22.0	20.7		
	2013	109.2	107.0	38.7	38.0		
United Kingdom	2005	117.9	240.9	28.4	58.0		145.0
	2013	126.8	273.4	22.2	47.9		113.7

Source: IMF. Financial Access Survey. http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA 598B5463A34C

India's impressive performance in deposit account uptake is primarily due to the government's initiative to transfer national employment guarantee wages directly to the worker. In 2009, the government mandated that the transfer of wages under the Mahatma Gandhi National Rural

Employment Guarantee Act (MNREGA)[1] be made directly to the bank accounts of the workers. The objective was twofold: to reduce leakages, and to widen the access to basic banking services.5 However, the number of loans with commercial banks remains low, indicating that most of these accounts are used merely for receiving wages.

Another survey conducted by the World Bank captured how adults save, borrow, make payments, and manage risk (Table 2). The data showed that despite vigorous promotion of the use of electronic modes of payment over paper-based payments, the former is still at a nascent stage in India. Only 2.0% of people surveyed said that they use electronic methods for payment. Further, while 22.4% people saved money, only 11.6% did so at a formal financial institution.

Table 2

WORLD BANK'S GLOBAL FINDEX

	India	**Brazil**	**China**	**Indonesia**	**Sri Lanka**	**France**	**United Kingdom**
Payments							
Check used to make payments	6.7	6.7	1.8	1.5	2.8	79.5	50.1
Electronic payment used to make payments	2.0	16.6	6.9	3.1	0.5	65.1	65.3
Mobile phone used to pay bills	2.2	1.3	1.3	0.2	2.4		
Loan in the past year							
Loan from a financial institution	7.7	6.3	7.3	8.5	17.7	18.6	11.8
Loan from a financial institution, income, bottom 40%	7.9	3.5	7.7	6.4	19.1	16.1	11.1

5. The MGNREGA is a law whereby any adult who applies for employment in rural areas must be given work on local public works within 15 days. If employment is not given, an unemployment allowance must be paid. Mahatma Gandhi National Rural Employment Guarantee Act. http://www.mgnrega.co.in.

Loan from a financial institution, income, top 60%	7.5	8.2	7.0	10.1	16.5	20.3	13.2
Insurance							
Personally paid for health insurance	6.8	7.6	47.2	0.9	7.5		
Purchased agriculture insurance (% working in agriculture)	6.6	11.2	7.2	0.0	8.1		
Savings in the past year							
Saved at a financial institution	11.6	10.3	32.1	15.3	28.1	49.5	43.8
Saved at a financial institution, bottom 40%	10.4	5.8	18.3	7.8	19.0	37.7	43.5
Saved at a financial institution, income, top 60%	12.9	13.3	41.7	20.8	36.4	57.0	44.3
Saved any money in the past year	22.4	21.1	38.4	40.5	36.3	61.8	56.7
Saved any money, income, bottom 40%	19.4	12.1	23.3	31.9	24.1	51.0	56.2
Saved any money, income, top 60%	25.8	27.1	48.9	46.8	47.4	68.6	57.7

Source: World Bank (2014).

Against this background, it is useful to identify the needs of financially excluded households: a basic savings account with overdraft facilities, an instrument for remittances that plugs into the nationwide electronic funds transfer network, a pure savings instrument with relatively high returns and a lock-in period, and credit. A recent initiative toward these goals has been the Pradhan Mantri Jan Dhan Yojana (PMJDY)[2], an ambitious plan that seeks to cover each

[2] The PMJDY has six pillars: (i) universal access to banking facilities; (ii) provision of a basic bank account with overdraft, and a RuPay debit card to all households; (iii) encouragement of financial literacy to enable use of financial products; (iv) a credit

household in India with a bank account.6 Over 190 million Jan Dhan accounts were operational in October 2015. In fact, on the first day of the program, 15 million bank accounts were opened. Account holders are given a debit and a credit card, while micro-insurance is likely to be added later.

To achieve the goal of 100% Financial Inclusion in the country RBI has prepared a road map in terms of Financial Inclusion Plan (FIP) in phases.

Financial Inclusion Plan (FIP): In January 2010, the Reserve Bank advised all public and private sector banks to submit a Board-approved three-year Financial Inclusion Plan (FIP) starting in April 2010. These plans include: self-set targets for rural brick & mortar branches opened; BCs deployed; coverage of unbanked villages with population above and below 2,000 through branches/ BCs/ other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued; and other products designed for financially excluded segments. The implementation of these plans was closely monitored by the Reserve Bank on a monthly basis through a quantitative reporting format.

Phase 1 (2010-13) During phase 1, 74,141 villages with population more than 2000 were identified and allotted to various banks through SLBCs for coverage through various modes i.e Branches, BCs , ATMs and satellite branches etc. In the first phase a large banking network was created and large no. of bank accounts was opened. Around 74,000 villages having population more than 2000, were provided a banking outlet comprising of 2,493 branches, 69,589 BCs, and 2,332 through other modes.

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guarantee fund to mitigate risks stemming from overdraft facilities extended to these accounts; (v) provision of micro-insurance for all account holders; and (vi) unorganized sector pension schemes, such as Swavalamban Yojana.

After completion of the first phase it was realized that although a large banking network had been created along with the large no. of bank accounts, simply creating the banking infrastructure and opening the accounts will not serve the purpose of Financial inclusion, involvement of stakeholders needs to be ensured.

Progress made by banks under the 3-year FIP Phase 1 (April 2010-March 2013) on Key parameters are given below:

- **Banking Outlets in Villages**

Table 3
Banking Outlets in Villages

	FY 2010	FY 2011	FY 2012	FY 2013
Branches	33378	34811	37471	40837
Business Correspondents	34174	80802	141136	221341
Total	67674	116208	181753	268454
Urban Locations through Business Correspondents	447	3771	5891	27143

Banking outlets in villages have increased to nearly 2, 68,454 from 67,674 outlets in March 2010. A significant growth can be observed for BCs, where the no. of banking outlets in villages through BC has gone up to 221341 from 34174 in 2010 which means a rise of 547%. It clearly shows that banks have acknowledged the applicability of BCs. Another very significant observation regarding applicability of BC model is the rise in urban locations covered by BCs, the no. stands at 27143 from mere 447 in 2010 which indicates a growth of 507%. About 7,400 rural branches have been opened during this 3-year period compared with a reduction of about 1300 rural branches during the last two decades.

- **Number of BSBDAs.[3]**

Table 4
Basic Saving Bank Deposit Account: Branches

	FY 2010	FY 2011	FY 2012	FY 2013
No. in Millions	60.19	73.13	81.20	100.80
Amount in Rs. Billion	44.33	57.89	109.87	164.69

Table 5
Basic Savings Bank Deposit Account: Business Correspondents

	FY 2010	FY 2011	FY 2012	FY 2013
No. in millions	13.27	31.63	57.30	81.27
Amount in Rs Billion	10.69	18.23	10.54	18.22

Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total number of BSBDA to 182 million. The share of ICT-based accounts has increased substantially. The percentage of ICT accounts to total BSBDAs increased from 25 per cent in March 2010 to 45 per cent in March 2013. The rise in no. of BSBDAs through BCs in this period being 512% but the corresponding rise in the amount being deposited in those accounts is mere 70% which is discouraging for the banks in their business model.

- **Overdraft Availed in Basic Savings Bank Deposit Accounts**

[3] In 2012 RBI introduced the concept of Basic Savings Bank Deposit Account (BSBDA), which does not require any minimum balance. It offers the minimum common facilities like: deposit, withdrawal, ATM card, collection of cheques etc.

Table: 6
Overdraft Availed in Basic Savings Bank Deposit Accounts

	FY 2010	FY 2011	FY 2012	FY 2013
No. in Millions	0.18	0.61	2.71	3.92
Amount in Rs. Billion	0.10	0.26	1.08	1.55

From Table 6 it is evident that the no, of such A/Cs has gone up to 3.92 million from mere .18 million in 2010, which indicates a rise of 2078% which is very significant. The corresponding rise in the amount being 1450% as it has increased to 1.55 billion (Rs.) from .10 billion (Rs.).

- **Progress in KCC AND GCC Schemes**

Table: 7
Details of Kisan Credit Cards (KCC) Scheme

	FY 2010	FY 2011	FY 2012	FY 2013
Kisan Credit Cards (No. in Millions)	24.31	27.11	30.24	33.79
Kisan Credit Cards (Rs. In Billion)	1240	1600	2038	2623

Table: 8
Details of General Credit Card (GCC) Scheme

	FY 2010	FY 2011	FY 2012	FY 2013
GCC (No. in Millions)	1.40	1.70	2.11	3.60
GCC (Rs. In Billion)	35	35	42	76

From **Table 7&8** it is being inferred that with the addition of nearly 9.48 million farm sector households during this period, 33.8million households have been provided with small entrepreneurial credit as at the end of March 2013.With the addition of nearly 2.24 million nonfarm sector households during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.

- **ICT Transactions**

Table 9
Details of ICT Transactions Through BC

	FY 2010	FY 2011	FY 2012	FY 2013
ICT A/Cs BC Transaction (Number in Millions)	26.50	84	156	250
ICT A/Cs BC Transaction (Rs. In Billions)	7	58	97	234

About 490 million transactions have been carried out in ICT-based accounts through BCs during the three-year period. The number of transactions through ICT-based BC outlets, though increasing, is still very low when compared with the manifold increase in the number of banking outlets and the number of accounts. So, the focus should be on monitoring the usage of these accounts, which is to be monitored through the number and value of transactions in BSBDAs and on the credit disbursed through ICT-based BC outlets.

Phase 11 (2013-16): Initially all Banks were supposed to complete Phase II of the roadmap for covering all 490,298 unbanked villages with population less than 2,000 by March 31, 2016. The timeline was advanced to August 14, 2015 in view of the Pradhan Mantri Jan Dhan Yojana (PMJDY). At end-March 2016, as reported by the State Level Bankers' Committees (SLBCs), 450,686 villages (91.9 per cent of the target) had been covered by 14,901 branches, 415,207 villages through BCs and 20,578 villages through other modes such as ATMs and mobile vans. Keeping in view the necessity of brick and mortar branches for promoting banking penetration and financial inclusion, RBI has rolled out a roadmap in December 2015 for establishing such branches in villages with population above 5,000 but without a bank branch of a scheduled commercial bank. RBI has asked the SLBC convener banks to ensure opening of bank branches under this roadmap by March 2017.

Out of 2,259 rural bank branches opened during April 2015-March 2016, 1,670 branches were opened in unbanked rural centers under FIP. Around 71 million basic savings bank deposit accounts were added taking the total to 469 million by March 2016. The total number
Of small farm sector credits (Kisan Credit Cards) and small non-farm sector credits (General Credit Cards) stood at 47 million and 11 million, respectively.

With the conclusion of FIP's Phase II (2013-16) on March 31, 2016, RBI has asked all domestic scheduled commercial banks (including RRBs) to set new Board approved FIP targets for the next three years (April 2016 to March 2019).
Source: RBI Annual Report 2015-16.

Progress made by banks under the 3-year FIP Phase 2 (April 2013-March 2016) on key parameters is given below:

- **Banking outlets in villages**

Table 10
Banking Outlets in Villages

	FY 2013	FY 2014	FY 2015	FY 2016
Branches	40837	46126	49571	51830
Business Correspondents	221341	337678	504142	534477
Total	268454	383804	553713	586307
Urban Locations through Business Correspondents	27143	60730	96847	102552

From table 10 it is apparent that Banking outlets in villages have increased to nearly 586307 from 268454 outlets in March 2013. A significant growth can be observed for BCs, where the no. of banking outlets in villages through BC has gone up to 534477 from 221341 in 2013 which means a rise of 141%. Another very significant observation regarding rise in urban locations covered by BCs, the no. stands at 102552 from 27143 in 2013, it means a growth of 241%. This implies that BC Model is equally good for including the urban population besides the unbanked population in the rural areas.

- **No. of BSBDAs.**

Table 11
Basic Savings Bank Deposit Account Business Correspondents

	FY 2013	FY 2014	FY 2015	FY 2016
No. in millions	81.27	116.90	187.8	231
Amount in Rs Billion	18.22	39.00	74.6	164

Table 12
Basic Savings Bank Deposit Account Branches

	FY 2013	FY 2014	FY 2015	FY 2016
No. in Millions	100.80	126.00	210	238
Amount in Rs. Billion	164.69	273.30	365	474

From Table 11 & 12 it is evident that nearly 287 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added in the period 2013-16, taking the total number of BSBDA to 469 million. The share of ICT-based accounts has increased substantially. The rise in no. of BSBDAs through BCs in this period being 185% and the corresponding rise in the amount being deposited in those accounts is 811% which is very significant as in the first phase of FIP it appeared discouraging for the banks in their business model. It reflects the awareness among the rural people regarding the benefits of having a bank account and the savings.

- **Overdraft Availed in Basic Savings Bank Deposit Accounts**

Table 13
Overdraft Availed in Basic Savings Bank Deposit Accounts

	FY 2013	FY 2014	FY 2015	FY 2016
No. in Millions	3.92	5.90	7.6	9
Amount in Rs. Billion	1.55	16.00	19.9	29

From **Table 13** it is clear that the no, of such A/Cs has gone up to 9 million from 3.92 million in 2013, which indicates a rise of 129%. The corresponding rise in the amount being 1770% as it has increased to 29 billion (Rs.) from 1.55 billion (Rs.). This figure is encouraging for banks as the accounts opened are availing the Overdraft facility which is subject to the accounts being active, it will reduce the dormancy of such BSBDAs.

- **Progress in KCC AND GCC Schemes**

Table 14
Details of Kisan Credit Cards (KCC) Scheme

	FY 2013	FY 2014	FY 2015	FY 2016
Kisan Credit Cards (No. in Millions)	33.79	39.90	42.5	47
Kisan Credit Cards (Rs. In Billion)	2623	3684	4382	5131

Table 15
Details of General Credit Card (GCC) Scheme

	FY 2013	FY 2014	FY 2015	FY 2016
GCC (No. in Millions)	3.60	7.40	9	11
GCC (Rs. In Billion)	76	1097	1302	1493

From Table 14 & 15 it is apparent that with the addition of nearly 13.2 million farm sector households during this period, 47 million households have been provided with small entrepreneurial credit as at the end of March 2016, indicating a rise of 39% .With the addition of nearly 7.4 million nonfarm sector households during this period, 11 million households have been provided with small entrepreneurial credit as at the end of March 2016, indicating a rise of 205%, an impressive figure which shows the success of inclusion schemes in terms of encouraging the small entrepreneurs and taking them out from the grab of local money lenders.

- **ICT Transactions through BC**

Table 15
Details of ICT Transactions through BC

	FY 2013	FY 2014	FY 2015	FY 2016
ICT A/Cs BC Transaction (Number in Millions)	250	328	477	826
ICT A/Cs BC Transaction (Rs. In Billions)	234	524	860	1686

From **Table 16** it is evident that about 1631 million transactions have been carried out in ICT-based accounts through BCs during the three-year period, a rise of 232% from phase 1 of FIP, it's a supportive evidence for the success of ICT in the Inclusion drive. If we look at the rise in amount of transaction through ICT-led BC outlets a significant rise has been there from 234 billion (Rs.) in 2013 to 1686 billion (Rs.) in 2016 a growth of 620%. From this observation it is evident that focus on monitoring the no. and value of transactions in BSBDAs and the credit through ICT BC outlets after Phase 1 of FIP is effective.

CONCLUSION:

The initiatives taken by Reserve Bank of India and Government of India towards universal financial inclusion given the boost to the banks, the introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2015 made significant financial inclusion possible particularly in rural areas. There were significant numbers of banking outlets operate in branchless mode through business correspondents (BCs)/facilitators, the dominance of BCs in the rural areas considered as 91 per cent of the banking outlets were operating in branchless mode as on March 31, 2015. The reason for financial exclusion is people leaving for from branch location, due to the high cost of collections and distribution of services through Branches made introduction of Business Correspondents Model, at present it was considered as a viable alternative delivery model for bank branches. The constraints of the traditional brick-and-mortar approach have been widely acknowledged, and the RBI has permitted from 2006 onwards to banks to employ business correspondents/business facilitators (BC/BF) for conducing the business on behalf of the banks. Branchless banking like Business Correspondents model is the low cost banking facilitators and model for reach of outreach among all other delivery models.

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