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'Reaching the unreached': Traversing the Issues and Roadmap of Financial Inclusion in North East India

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Abstract-

The need to spread the access of financial services across all strata of society is considered as an apt necessity towards the trajectory of growth and development in an emerging economy like India. Despite the repeated attempts, India is yet to go a long way for harnessing existing level of financial exclusion. World Bank report has revealed that in India, 35 per cent of people had formal accounts *versus* the global average of 50 per cent and the average of 41 per cent in developing economies. Furthermore, there exists significant level of disparity in terms of concentration of financial inclusion in certain locations. As identified by CRISIL Inclusiveness Index (CRISIL Inclusix**)** 2011, the bottom 50 districts in India have only 2 per cent of the people who have access to banks, while the 6 largest cities of India had 11 per cent of all bank branches in the country. The lack of spread of outreach of various financial institutions and services has made the citizens of these dispersed localities more reliant upon informal financial sectors, thereby letting them being victimized. Unfortunately, North Eastern states fall within the category of such regions, yet to meet up the required financial needs across the length and breadth of the entire region. In this backdrop, this paper attempts to figure out the present status of North Eastern region in terms of the spread of financial inclusion, the impediments for expansion of financial outreach and analyze the need for unleashing the available potentials to trigger all-round growth.

Key Words: Financial Inclusion, Financial Services, RBI, North Eastern Region

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Introduction

The concept of financial inclusion is long practiced in India. Also, socio-economic developments were treated imperatives for broader financial inclusion and economic growth. Government of India through bank nationalization initiated the attempt to bring financial services within the reach of all segments of the nation. Following which, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage program, etc., were introduced with a view to serve the so long excluded groups and empowering the downtrodden masses. As a result of which a large number of bank branches were set up aiming to encompass every nook and corner of the country, but in vain. Yet a large group of people, estimated to be around 60% of total Indians do not have access even to the simplest type of formal financial services i.e. bank account. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population (Chakraborty, 2012).

The basic idea of financial inclusion entails the spread of access of formal financial services, products, and facilities to the low income and marginally excluded groups at an affordable cost.

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". Thus the aim of this concept is to cover all unbanked and under banked regions and cater to the need of everyone. Measurement of financial inclusion implies to evaluate the extent of accessibility, availability and usage of financial services (Kumar&Mishra, 2011). RBI, in December 2009 explained that financial inclusion is not restricted to mere opening of bank accounts but also includes other facilities as well. Thus, Savings, loans, insurance, payments, and remittance facilities, financial counseling were considered under the aegis of financial services. Studies have proved that lack of inclusion or rather exclusion from the banking system results in a loss of 1 per cent to the GDP (Chattopadhyay, 2011). Among the developed nations, UK was one of the earliest to realize the importance of financial inclusion (Kempson 2004, Collard et al. 2001).Understanding the gravity of the problem, Reserve Bank in its Mid Term Review of Monetary Policy of 2005-06, urged the banks to make financial inclusion as one of their prime objectives. Despite all these efforts, there is lack of equitable financial access across all regions of the country. The major objective of this paper is to analyze the present status of financial inclusion in North Eastern states of India.

Literature Review

A good number of studies have been carried out on financial inclusion in academia. According to Chakraborty (2010) financial inclusion is no longer a policy choice but it is a policy compulsion today. Gupta (2011) discussed the steps taken by Reserve Bank of India to foster the needs of weaker sections of the society under the corpus of financial inclusion. It also examines the role of Information and Communications Technology (ICT) in expanding financial inclusion in India.

Paramasivan and Ganeshkumar, 2013 outlines the status of financial inclusion in India. Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. Sarma and Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.

Ananth and Oncu (2013) tries to explore the challenges faced by the financial institutions in Andhra Pradesh with regard to financial inclusion. It further explicates the fact that the inability of formal financial institutions to meet the specific needs of the poor has enabled informal service providers to fill the vacuum. Chattopadhyay(2011) attempts to examine the extent of financial inclusion in the state of West Bengal. An index of financial inclusion is developed in the study which divulged that except Sikkim all the eastern, north-eastern, and central states are in the low level of financial inclusion. Further, out of 7 North-Eastern States, three states viz., Assam, Nagaland and Manipur scores the lowest rank of financial inclusion. It further reveals that despite various measures have been undertaken for financial inclusion, the success is not found to be considerable.

Objectives of the Paper

This paper is an attempt to analyze the status of financial inclusion in north eastern states. Moreover it attempts to envisage the steps taken by RBI to foster financial inclusion and to suggest way out for harnessing the negative phenomenon.

Financial inclusion in India- An overview

Sarma (2008: 3) defines financial inclusion "as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy". The World Bank (2008: 2) considers financial inclusion as access to financial services. It "implies an absence of obstacles to the use of these services, whether the obstacles are price or non-price barriers to finance". If we mull over the comparative position of India vis a vis other states in financial inclusion, the following picture gets revealed, where India stands much behind its other counterparts.

Table - 1: Select Indicators of Financial Inclusion- Cross Country Comparison

Country	Number of branches (per 0.1 million adults)	Number of ATMs (per 0.1 million adults)	Bank loan as per cent of GDP	Bank deposits as per cent of GDP
1	2	3	4	5
India	**10.64**	**8.90**	**51.75**	**68.43**
Australia	29.61	166.92	128.75	107.10
Brazil	46.15	119.63	40.28	53.26
France	41.58	109.80	42.85	34.77
Mexico	14.86	45.77	18.81	22.65
United States	35.43	-	46.83	57.78
Korea	18.80	-	90.65	80.82
Philippines	8.07	17.70	21.39	41.93

Source: Financial Access Survey, IMF,2011

Further analysis upon various parameters of financial inclusion indicates India’s position in financial inclusion and also the extent of usage of technology which is having mundane scope in advancing prompt inclusion in the country.

The Economist revealed the status of mobile banking usage among various countries, which shows except South Africa (where only 9% of total adult population are regular user), all other countries have a meager percentage (hardly 1% or 2%) of population who use mobile banking for various transactions.

Further World bank in 2011 pointed out a sheer gap among total credit, deposit participant of population and those from formal institutions which is revealed in the following table (table-2) suggesting wider scope of improvement in service and expansion in the formal channels for ensuring inclusion to a broader perspective. The comparative position reveals the weaker status of India in the aspect of financial inclusion, which is miles behind its other foreign counterparts.

Table-2: World bank Financial Inclusion Index

World Bank's FINDEX - Select Indicators on Financial Inclusion - 2011
(Proportion of Population of Age 15+)

Indicator Name	United States	United Kingdom	Germany	Russian Federation	Brazil	China	India
CREDIT:							
Loan from a financial institution in the past year	20.1	11.8	12.5	7.7	6.3	7.3	7.7
Loan from a financial institution in the past year, income, bottom 40%	17.6	11.1	12.3	6.3	3.5	7.7	7.9
Loan from a financial institution in the past year, income, top 60%	22.3	13.2	13.7	8.7	8.2	7.0	7.5
Loan in the past year	44.6	28.8	25.3	31.9	23.8	29.4	30.6
Loan in the past year, income, bottom 40%	45.1	28.1	25.4	32.1	19.7	32.4	35.7
Loan in the past year, income, top 60%	44.2	30.2	24.6	31.7	26.6	27.3	24.9
INSURANCE:							
Personally paid for health insurance	NA	NA	NA	6.7	7.6	47.2	6.8
Purchased agriculture insurance (% working in agriculture, age 15+)	NA	NA	NA	3.7	11.2	7.2	6.6
PAYMENTS:							
Checks used to make payments	65.5	50.1	7.2	5.2	6.7	1.8	6.7
Electronic payments used to make payments	64.3	65.3	64.2	7.7	16.6	6.9	2.0
Mobile phone used to pay bills	NA	NA	NA	1.7	1.3	1.3	2.2
SAVINGS:							
Saved at a financial institution in the past year	50.4	43.8	55.9	10.9	10.3	32.1	11.6
Saved at a financial institution in the past year, income, bottom 40%	32.1	43.5	55.1	8.8	5.8	18.3	10.4
Saved at a financial institution in the past year, income, top 60%	66.5	44.3	60.0	12.4	13.3	41.7	12.9
Saved any money in the past year	66.8	56.7	67.3	22.7	21.1	38.4	22.4
Saved any money in the past year, income, bottom 40%	51.5	56.2	67.1	18.9	12.1	23.3	19.4
Saved any money in the past year, income, top 60%	80.2	57.7	68.1	25.4	27.1	48.9	25.8

NA: Not Available

Source: IMF's Financial Inclusion Survey, 2012

It is believed that financial inclusion primarily should ensure every citizen at least having a bank account. So banks were compelled to expand their reach even to the remote lands. Hence the concept of brick and mortar branch, single man branch concepts were divulged.

Table 2: Growth of the Banking Sector since the First Nationalisation
(Scheduled Commercial Banks, including Rural Regional Banks)

	March 1969	March 1991	March 2012
Number of banks	73	272	165
Number of bank branches	8,262	60,220	99,884
Deposits at banks (billion Rs)	43.38	1,925.41	59,090.82
Credits at banks (billion Rs)	33.96	1,163.01	46,118.52
Deposits per branch (million Rs)	5.25	31.97	591.59
Credits per branch (million Rs)	4.11	19.31	461.72
Deposits per capita (thousand Rs)	0.08	2.16	47.60
Credits per capita (thousand Rs)	0.06	1.30	37.15

Source: Reserve Bank of India (banking) and World Bank (population).

However, even after being aware about the fact of limited outreach of banking facility and to cover rural households with at least 2000 population huge number of bank branches were opened in these years, but there is lack of equitable establishment among various regions in the country.

Table 4: Region wise and Population Group wise New Bank Branches Opened during 2011-12

Region	Rural	Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5	6
Central	543	483	240	119	1,385
Eastern	301	352	217	89	959
North-Eastern	43	60	49	-	152
Northern	450	425	187	205	1,267
Southern	647	871	315	247	2,080
Western	269	387	122	297	1,075
Total	**2,253**	**2,578**	**1,130**	**957**	**6,918**

Source- RBI, 2012

It is imperative that there needs to have special focus on NER for financial inclusion. In this regard an thematic representation of various new windows, their status in NER and the SWOT analysis of the region with respect to financial inclusion is presented hereafter.

Financial Inclusion in North eastern India

Popularly known as the land of seven sisters this picturesque region does not depict a rosy picture in terms of financial inclusion rather identified as being the states coming under the category of low financial inclusion. Various researchers like Chattopadhyay (2011), Kumar& Mishra (2011) have justified this argument by preparing an index of financial inclusion and assigning ranks with respect to the states. These studies have quite adequately revealed low level of financial inclusion in north eastern states as some of these even occupied the last and lowest rank status out of all Indian states. For calculating the index Banking penetration, Availability of banking services and Usage are considered as important dimensions, which were calculated as below:

Banking penetration (Dimension 1)

Considering this as one of the most important indicators of financial inclusion this measure is calculated as the number of adult population having a bank account.In the absence of the data on banked population, number of bank accounts as a proportion of the total population is treated as an indicator of this dimension. However, both deposit account and loan account are taken as the indicators of banking penetration.

Availability of banking services (Dimension 2)

For calculating the Availability of services the number of bank outlets (per 1000 population) and/or by the number of ATM per 1000 people, or the number of bank employees per customer, number of BCs appointed are treated as important measures. In the absence of data on the number of ATMs and number of BCs appointed, the number of bank branches per 1000 adult population and also number of branches per square km is used.

Usage (Dimension 3)

In order to calculate this dimension, outstanding credit and deposit are considered as two basic services of the banking. Accordingly, the volume of outstanding deposit and credit as proportion of the Net District Domestic Product (NDDP) has been used to measure this dimension.

The following table depicts the state wise index of financial inclusion and their respective ranks.

Table 5: State-Wise Index of Financial Inclusion

Name of the state	**Banking penetration**	**Availability of banking services**	**Usage**	**Index of Financial inclusion**	**Rank in terms of IFI**
Assam	0.17	0.17	0.07	0.13	22
Arunachal Pradesh	0.20	0.16	0.14	0.17	18
Manipur	0.00	0.01	0.01	0.01	24
Meghalaya	0.21	0.28	0.14	0.21	14
Mizoram	0.13	0.26	0.09	0.16	19
Nagaland	0.03	0.04	0.07	0.05	23
Tripura	0.31	0.22	0.08	0.20	15

Source: Financial Inclusion in India: A Case-Study of West Bengal, 2011

By considering different parameters of measuring financial inclusion as identified by Rangarajan,2008 the status of various indicators in NE region is expressed as below-

Table 6: Indicators of Financial Inclusion in NE states of India

Nameof the state	Total no. of bank branches	Branches per person	Credit-Deposit Ratio (in%)	Bank Credit/ State GDP Ratio	Life Insurance Penetration (in%)	Insurance Density (in Rs.)	No. of Districts having Non-life insurance offices	%ofdistricts covered with Non-life insurance
Assam	1707	0.047	36	20	1.05	387.9	25	93%
Arunachal Pradesh	95	0.063	23	15	0.61	415.7	14	87%
Manipur	94	0.034	33	13	0.72	268.4	2	22%
Meghalaya	230	0.078	24	16	0.36	213.6	4	57%
Mizoram	108	0.089	43	19	NA	246.9	1	13%
Nagaland	107	0.036	23	12	0.86	525.6	3	27%
Tripura	218	0.057	31	16	0.58	312.0	3	75%

Source- compiled by author

Table 7: Financial Inclusion by Postal Network (as on 31/03/2012)

Postal Circle	No. of Post offices	Area covered	Population/ post office
Assam	4007	19.57 sq km	7784
North eastern (except Assam)	3121	58.87 sq km	4620

All India	1,54,822	21.23 sq km	7817

Source- compiled by author

From the above table it is quite evident that there needs to have significant improvement in terms of bank branch expansion, Insurance penetration and population coverage under postal networks for attaining better financial inclusion. Out of all seven states no state is doing exceptionally good in these aforesaid parameters. Smaller and more geographically dispersed states like Arunachal Pradesh, Manipur, Nagaland and Mizoram are more backward in terms of financial inclusion in these respective states. Although Government of India and Reserve Bank of India is paying prime focus on this North eastern region and trying to follow the path to financial inclusion. The advancements under the new action plan in this region reflects sea change in terms of growth in the region .Banking penetration in villages using various modes like branch opening, BC/BF outlet and other modes has increased 3.9 times in March 2012 compared to 2010, which is even higher than all India position.

Road map for improvement

Being located in the geographically isolated and remote location of India, North eastern region has lagged in various ways; in case of financial inclusion parameters the comparative position is quite weak with reference to all India standards. Thus the ways and means to uncover existing level of financial exclusion is an important challenge.

Despite several initiatives like assigning special emphasis on NE region taken by RBI in order to normalize the scenario, the improvement in the status of financial inclusion seems to be far reaching. A dig into the number of newly opened bank branches in the region unleashes the picture. It therefore stresses for more stringent measures on the part of regulators as well as collaborative participation of various related entities.

In order to prepare the action plan it will be prudent to have a clear understanding about the strength and weakness of the region so as to foresee the exact shortcomings. An attempt made in this regard is as follows:

SWOT Analysis of Financial Inclusion in North Eastern Region

Strength	**Weakness**	**Opportunity**	**Threat**
Huge potential of expansion	Reach of formal institution is quite limited	Increasing level of mass awareness as a result of chit fund frauds, yet a lot to be done to motivate masses to channelize their savings in formal institutions.	Yet a large number of masses lack required information on savings, credit.

Moderate level of Financial literacy, thereby giving chance to venture	A good number of people are yet to get awareness about other forms of financial institutions	Increased use of Mobile phone can help to facilitate mobile banking network	Improper knowledge of technology can lead the common men prone to be cheated.
Demand for formal financial instruments on the rise	Some people are yet reliant upon informal or fraudulent mechanism	Opening of single man branch and engagement of Business Correspondents under the RBI dictum of opening at least 25% of new branches in unbanked area.	A huge chunk of population is yet to consider formal channels as dependable contrary to traditional system of savings and investment.
Untapped market in certain area, others yet to saturate	Financial services available only in some selected centers.	Largely unbanked population can be satisfied with the simplest form of financial services.	Common men largely prefer the word of mouth information for financial planning instead of informed decision.
Better demographic dividend	Lack of innovativeness in the service, absence of liaison between various government initiatives, private entity and common men	Increased financial need of youngsters at convenience can be met by better Information and Communication Technology.	The luster of some informal schemes attracts common men to make easy money and subsequent loss.
Huge network of post offices and presence of postal branches	Poor communication, lack of infrastructure, connectivity, and cooperation. Improper security arrangement and insurgency problem are also responsible for low financial inclusion	Wide spread postal network can be promulgated to help in expanding financial inclusion and provide required financial services	The traditional financial schemes of India post are gradually loosing competitiveness.

In the light of above, the future course of action can be designed so as to have better improvement in the scenario of financial inclusion in the region. A brief outline is provided here under.

- Collective effort involving all stakeholders should be undertaken in order to increase the financial awareness of masses.

- Financial outreach through formal institutions should be extended even to the remote localities by involving Business correspondents, banking on wheel, single man branch, adopting ICT model, using mobile banking network and the like.
- Spread of meaningful information related to savings, investment and credit should be divulged on an adequate and timely way encompassing all media.
- Innovative financial products should be devised in order to attract common as well as informative masses. Moreover achieving confidence of common men is an apt necessity.
- Postal network should be used in more meaningful way as well as spreading financial inclusion in the region.

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