*Financial Inclusion Plans – Reflecting the Growth Trajectory**

A review of the Financial Inclusion Plans (FIPs) data furnished by public sector banks (PSBs), private sector banks (PVBs) and regional rural banks (RRBs) from 2016 to 2020 shows the dominance of PSBs in the financial inclusion space. However, the growth in access indicators has remained tepid for PSBs, while for PVBs, the growth in both access and usage indicators has been high. From being an alternate delivery model, the Business Correspondent (BC) model is emerging as the predominant delivery model. The north-eastern, eastern, and central regions, which have historically remained behind the curve, have fared better in the access indicator of financial inclusion during the review period.

1. Introduction

In India, banks have been spearheading financial inclusion with the Reserve Bank striving towards a more competitive, efficient and heterogeneous banking structure so as to meet the various objectives of financial inclusion. In the Indian context, an important yardstick of measuring the progress under financial inclusion has been the assessment of the Financial Inclusion Plans (FIPs) introduced by the Reserve Bank since 2010. The objective of these plans has been to encourage banks to adopt a planned and structured approach towards financial inclusion. Through these plans, each bank group is expected to leverage upon their unique competencies to further financial inclusion. To illustrate, while public sector banks (PSBs) can usher greater financial inclusion through their dominance in reach and perceived trust among citizens, private sector banks (PVBs) can ensure inclusion through their early adoption of technology and regional rural banks (RRBs) through their local and regional presence.

Using the FIP returns submitted by these banks to the Reserve Bank, the progress under access and usage dimensions of financial inclusion can be effectively assessed. India's progress towards financial inclusion hold immense relevance on the global platform, as the country is the second largest in the world in terms of population and seventh largest in terms of area.

This article attempts to understand the progress achieved as part of FIPs during the five-year period from 2016 to 2020 across various geographical regions of India and to identify areas of strengths and limitations of the different bank groups in furthering financial inclusion. The article is divided into five sections. Section 2 discusses the issue of Access with Section 3 illustrating the issue of Usage. The BC model is discussed under Section 4 while Section 5 concludes.

2. Access

Access is one of the dimensions of financial inclusion, which refers to the range of avenues that are available to the customers to avail financial services. In this section, growth under two key access parameters of financial inclusion *viz.* rural bank branches and BCs, have been analysed.

A. Growth in Rural Branches

During the review period, the expansion in access in rural areas through the traditional brick and mortar branches has remained tepid; it posted a compounded annual growth rate (CAGR) of only 0.15 per cent. In PSBs and RRBs, there was a trend towards consolidation with their number of rural branches decreasing during this period. On the other hand, rural branches of PVBs have registered a growth of 8.10 per cent during the period under review (Chart 1).

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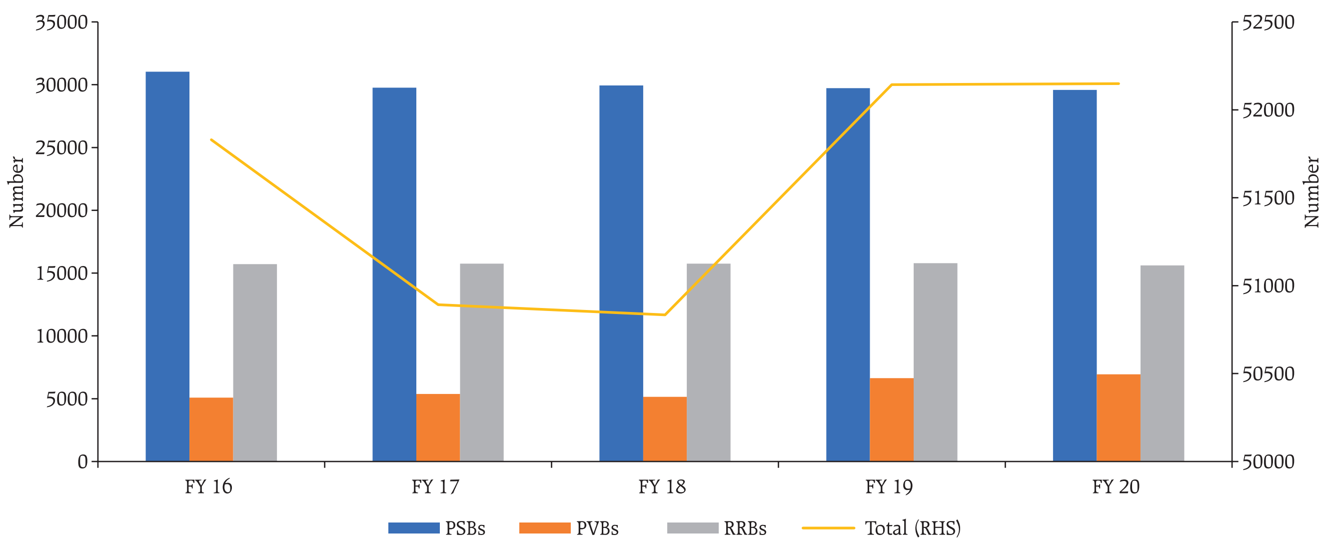
Chart 1: Number of Rural Branches - Bank Group Wise



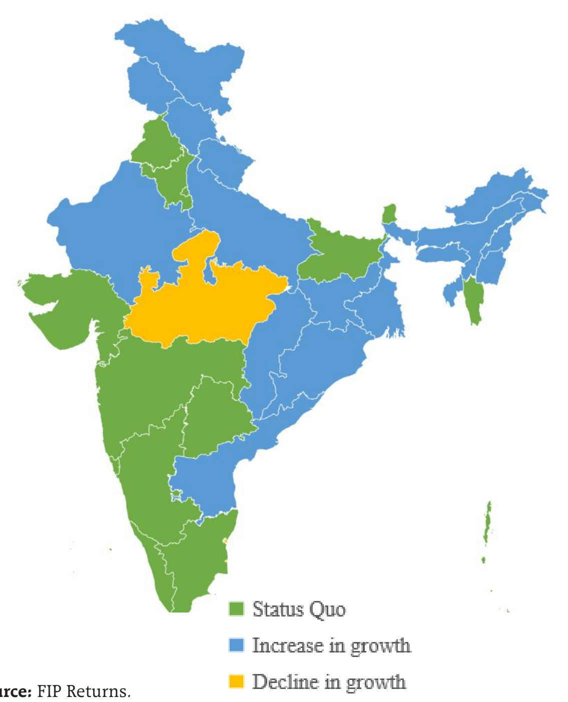
Source: FIP Returns.

The growth in the number of rural branches was the highest for the north-eastern (NE) region at about 3.70 per cent followed by eastern and central regions, recording a growth of 1.35 per cent and 0.43 per cent, respectively. Western and southern regions registered negative growth over the period (Chart 2).

B. Growth in BC Outlets in Villages

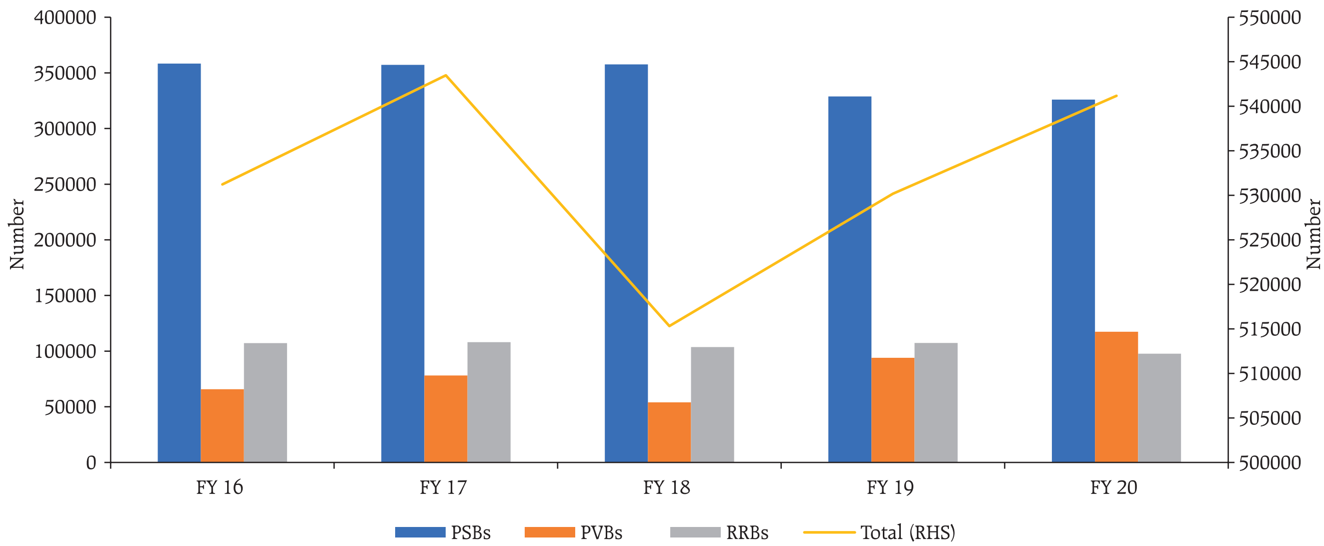
To ensure greater financial inclusion, banks were permitted to use the services of intermediaries in providing financial and banking services through the Business Correspondent (BC) Model. Over the years, the BC model has assumed greater prominence over the traditional brick and mortar branches. Increasingly, the access to banking services in rural areas, particularly in the unserved/underserved parts, is being provisioned through BC outlets. PSBs dominated the number of BC outlets in villages as discussed in sub-section C later, but during the review period, on account of consolidation, their BC outlets showed negative growth. The growth in BC outlets in villages was also negative for RRBs. In contrast, PVBs posted a positive growth in outlets between 2016 and 2020 (Chart 3).

Chart 2: Growth in Number of Rural Branches - 2016 *vs* 2020



Source: FIP Returns.

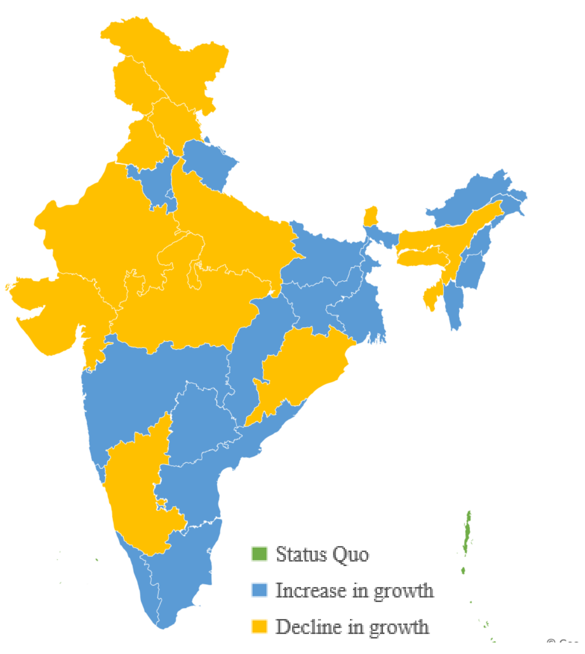
Chart 3: Number of BC Outlets in Villages - Bank Group Wise



Source: FIP Returns.

However, share of PSBs in BC outlets in rural areas has remained consistently above 60% over the years, being the highest among the bank groups.

Chart 4 : Growth in Number of BC Outlets in Villages - 2016 *vs* 2020



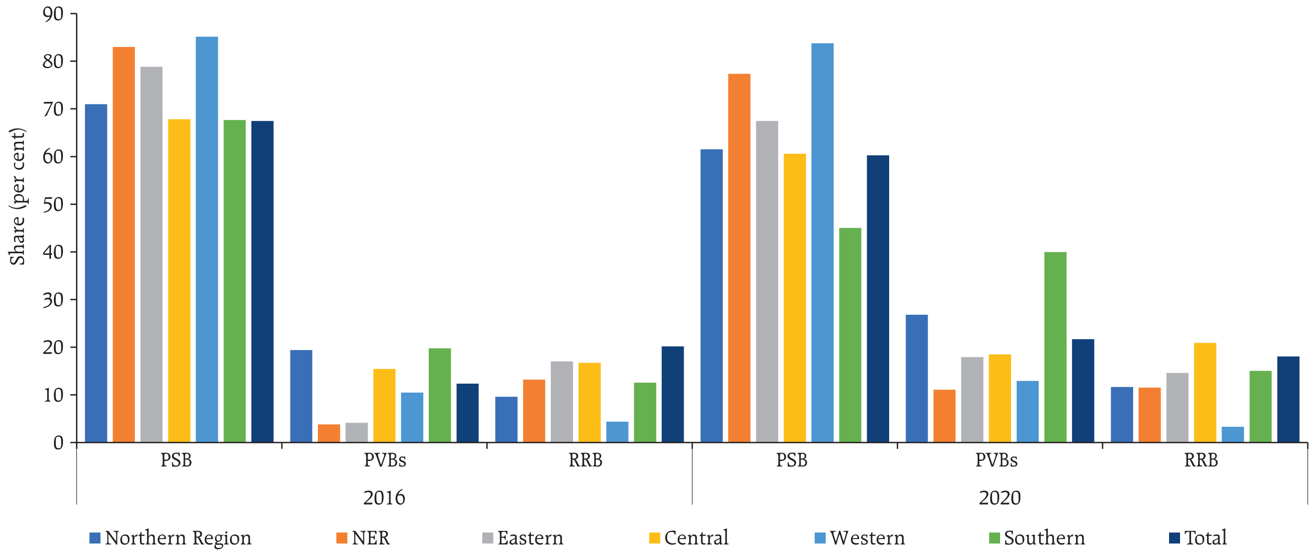
Source: FIP Returns.

The number of BC outlets in villages posted a higher growth in the eastern region with an addition of 22,998 outlets during the review period (Chart 4).

C. Share of BC Village Outlets and Rural Branches

As already noted, PSBs posted a negative growth in BC village outlets but they have continued to dominate these outlets. Similarly, they also dominated the number of rural branches in the country. Their share in rural branches has remained above 60% during the period (Chart 5). However, their share in BC village outlets has dropped marginally to 57 per cent in 2020 from 60 per cent in 2016 (Chart 6), across regions. For both rural branches and BC outlets in villages, PSBs continue to account for maximum share in western region. However, for BC outlets in villages, share of PSBs has dropped from 68% in 2016 to 45% in 2020. At the same time, PVBs have increased their share progressively across regions, with manifold increase in BC outlets in villages in NER, eastern and southern regions.

Chart 5: Rural Branches- Region Wise Share of Bank Groups

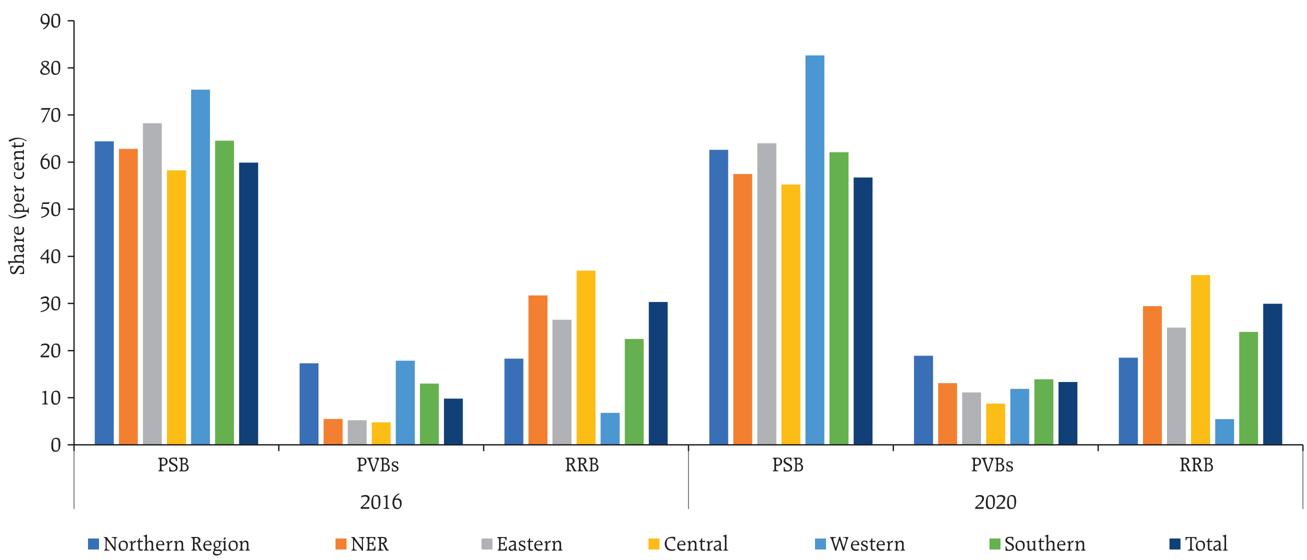


Source: FIP Returns.

D. BC Outlets in Urban Locations

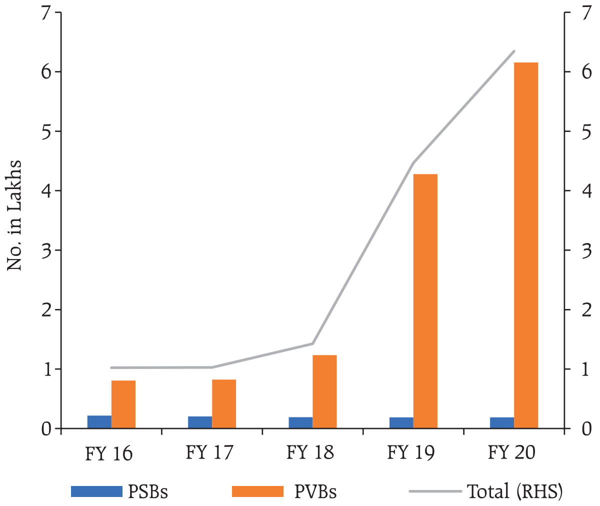
Traditionally, it was understood that a BC, which is an extended arm of a bank, offering basic banking services, would be operational in villages. However, over the years, banks have started to use the BC model in urban locations as well. The urban BC model has been primarily adopted by PVBs, which showed a significant growth of 66.23 per cent during the period under review (Chart 7).

Chart 6: BC Outlets in Villages- Region Wise Share of Bank Groups



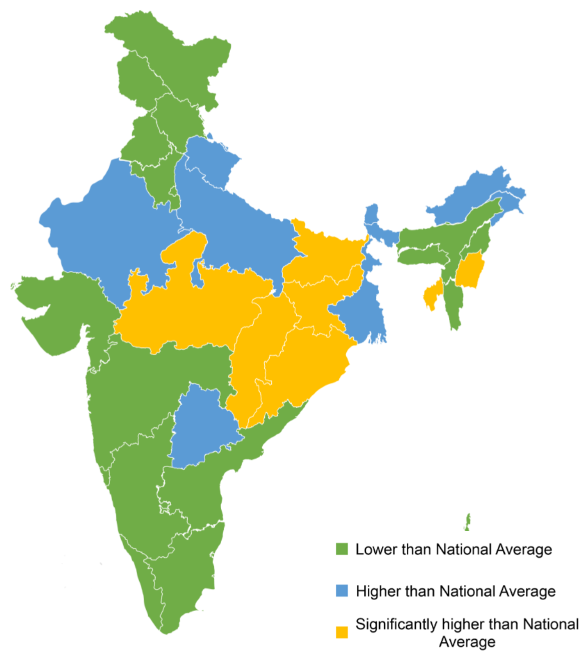
Source: FIP Returns.

Chart 7: Number of BC Outlets in Urban Location - Bank Group Wise



Source: FIP Returns.

Chart 8: Growth in Number of Urban BC Outlets - 2016 *vs* 2020



Source: FIP Returns.

All regions registered a positive growth in urban BC outlets during the review period, with the eastern region taking the lead with a growth rate of about 124.67 per cent, followed by central and NE regions with a growth rate of 97.59 per cent and 76.27 per cent, respectively (Chart 8[1]).

3. Usage

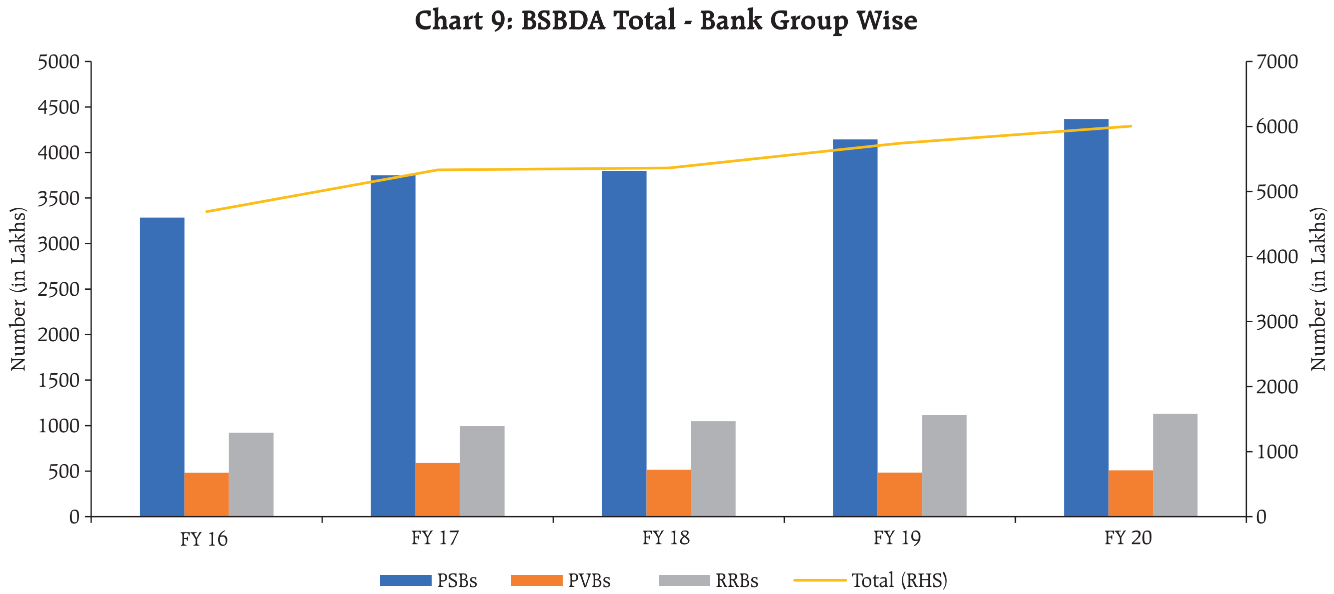
The dimension of usage refers to how the customers of financial services make use of the available access infrastructure. In this section, assessment of one deposit and one credit product, an important conduit for furthering of financial inclusion, has been carried out.

A. Deposit - Basic Savings Bank Deposit Accounts (BSBDAs)

Financial inclusion aims to extend the reach of formal financial services in an affordable way to the sections that are traditionally excluded due to several impediments including the cost of banking products and services. The Basic Savings Bank Deposit (BSBD) Account is designed as a savings account which would offer certain minimum facilities free of charge, to the holders of such accounts, thus, providing a cost-effective option for the unbanked/under-banked segments.

Total number of BSBDAs as at end-March 2020 stood at 6004.2 lakh as against 4690.04 lakh at end-March 2016 posting a growth (CAGR) of 6.37 per cent. The growth (CAGR) in the outstanding balance stood at 27.46 per cent. Following the impetus given by Pradhan Mantri Jan Dhan Yojana (PMJDY) – a flagship scheme of Government of India, an increment of approximately 1314 lakh BSBD accounts was registered over the review period, which was distributed across all bank groups in different proportions (Chart 9).

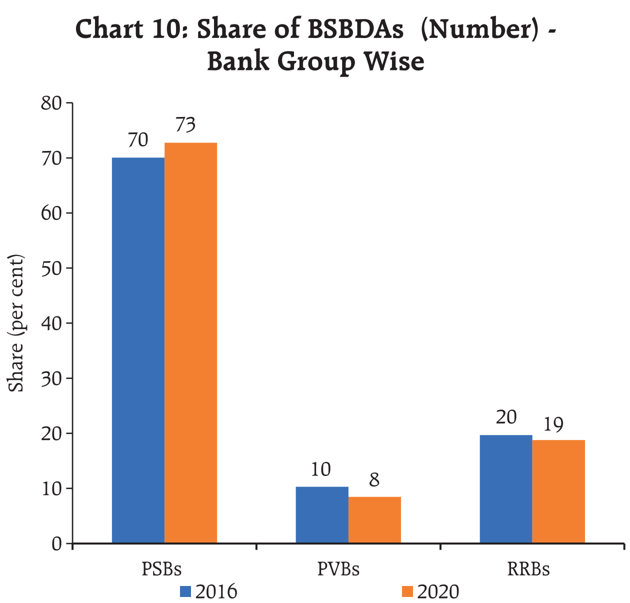
[1] Significantly Higher refers to CAGR of more than 75 per cent, with a National CAGR standing at 44 per cent.



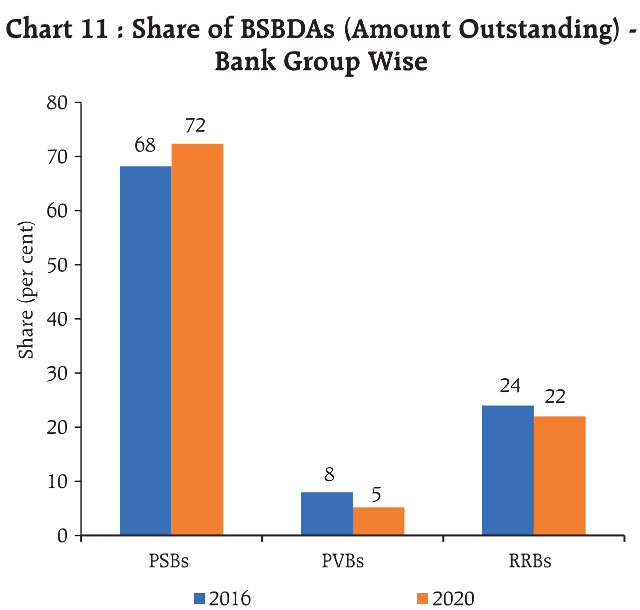
Source: FIP Returns.

PSBs showed an increase in both the number of and amount outstanding under BSBDAs. However, PVBs and RRBs posted a decline in their shares on both these counts (Chart 10 and 11).

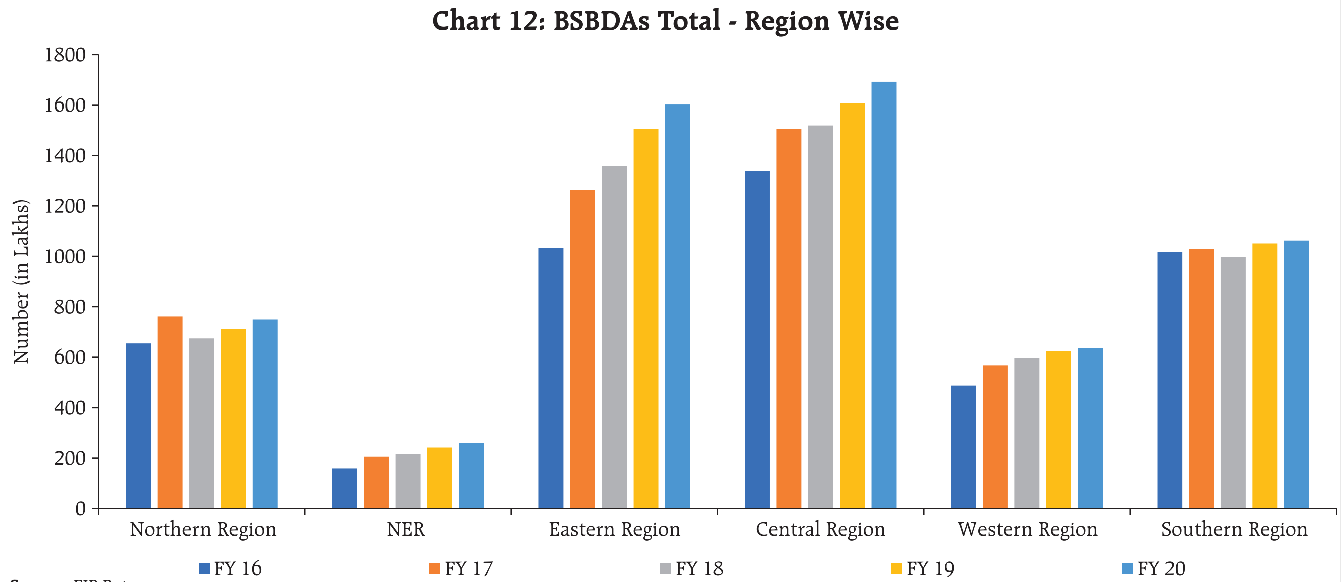
Growth in BSBDAs was distributed across India with all the regions showing positive growth in terms of number of accounts as well as amount outstanding. The eastern region showed the highest increase in the actual number of BSBDAs (of 569.62 lakh), while the NE region posted the highest growth in the number of BSBDAs (of 13.09 per cent) during the review period (Chart 12).



Source: FIP Returns.



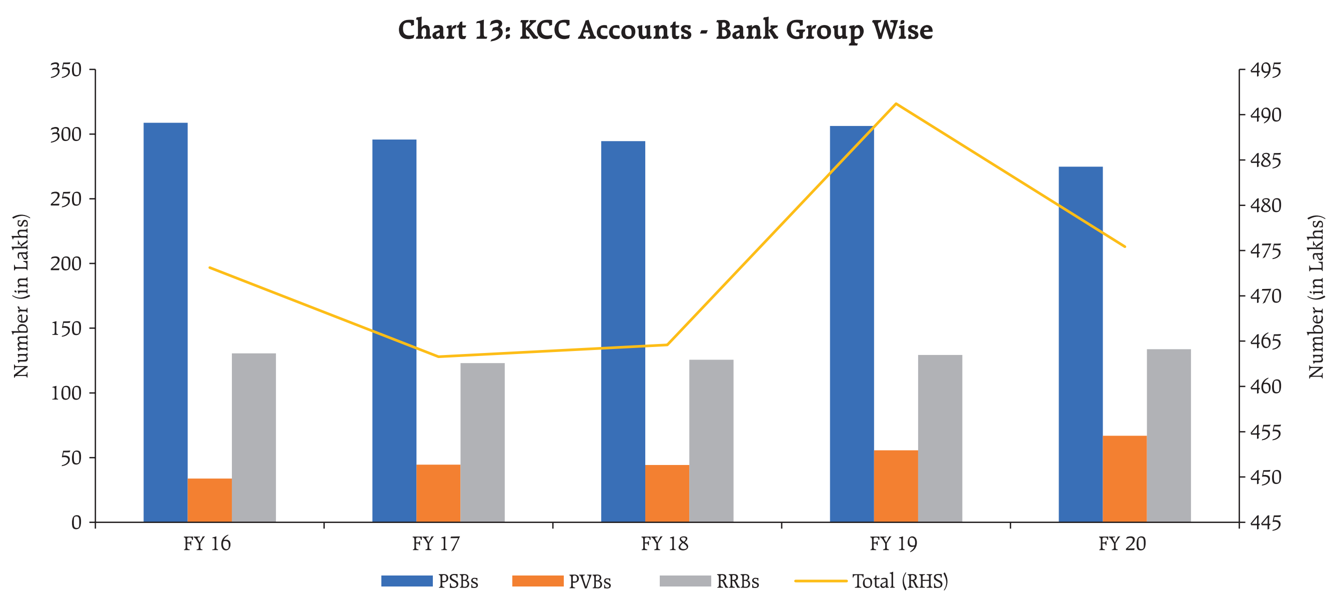
Source: FIP Returns.



Source: FIP Returns.

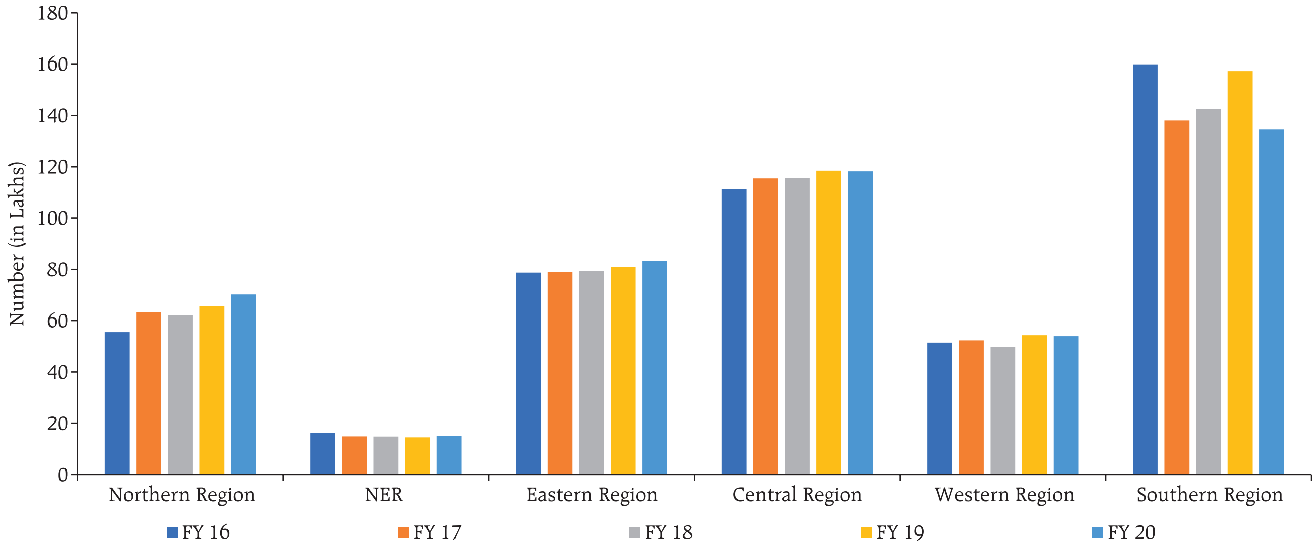
B. Farm Credit - Kisan Credit Cards (KCCs)

At end-March 2020, there were 475.42 lakh KCCs with an amount outstanding totalling to ₹6,39,069 crore. While the number of KCCs registered a marginal growth of 0.12 per cent, the amount outstanding under the accounts increased significantly at the rate of 5.64 per cent (CAGR) (Chart 13).



Source: FIP Returns.

Chart 14: KCC Accounts - Region Wise



Source: FIP Returns.

A positive growth in the number of KCCs could be seen for PVBs and RRBs, with PVBs taking the lead. Though the share of PSBs in total number of KCCs declined from 65 per cent to 58 per cent over the review period, they continued to account for the highest share among all bank groups.

Except the NE and southern regions, all other regions registered a positive growth in number of KCCs (Chart 14). As regards the total amount outstanding under KCCs, all regions recorded a positive growth.

4. BC Model

A. Number of BCs

The number of BCs reported by banks increased substantially with a CAGR of more than 35.35 per cent. Among the bank groups, PVBs showed the highest growth over the period with a growth of nearly 65.30 per cent. Further, RRBs too showed a positive growth in number of BCs during this period. By contrast, the number of BCs of PSBs decreased marginally, primarily on account of consolidation in this bank group.

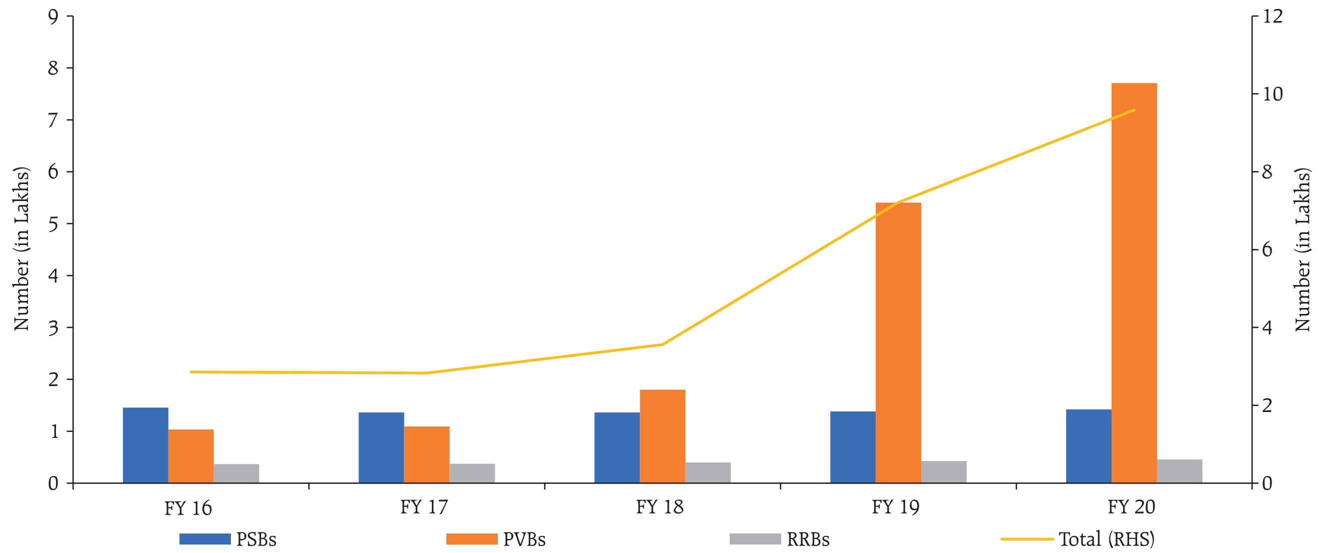
The share of PVBs in total number of BCs increased from 36.1 per cent in March 2016 to 80 per cent in March 2020 mainly due to significant increase in number reported by two private sector banks, while the share of PSBs decreased from 51 per cent in March 2016 to 15 per cent in 2020 (Chart 15).

Number of BCs increased in all the regions of the country with the eastern region alone registering an increase of 2,48,315 BCs at the rate of 54.19 per cent (CAGR) followed by central region and northern regions (Chart 16).

B. Transactions

Traditionally, a BC – an extended arm of the bank, offered basic banking services of deposit, withdrawal, transfer, account opening and balance enquiry to the customers of the bank (BC's bank). However, several policy level initiatives such as, regulatory provision of inter-operability,

Chart 15: Number of BCs Deployed - Bank Group Wise

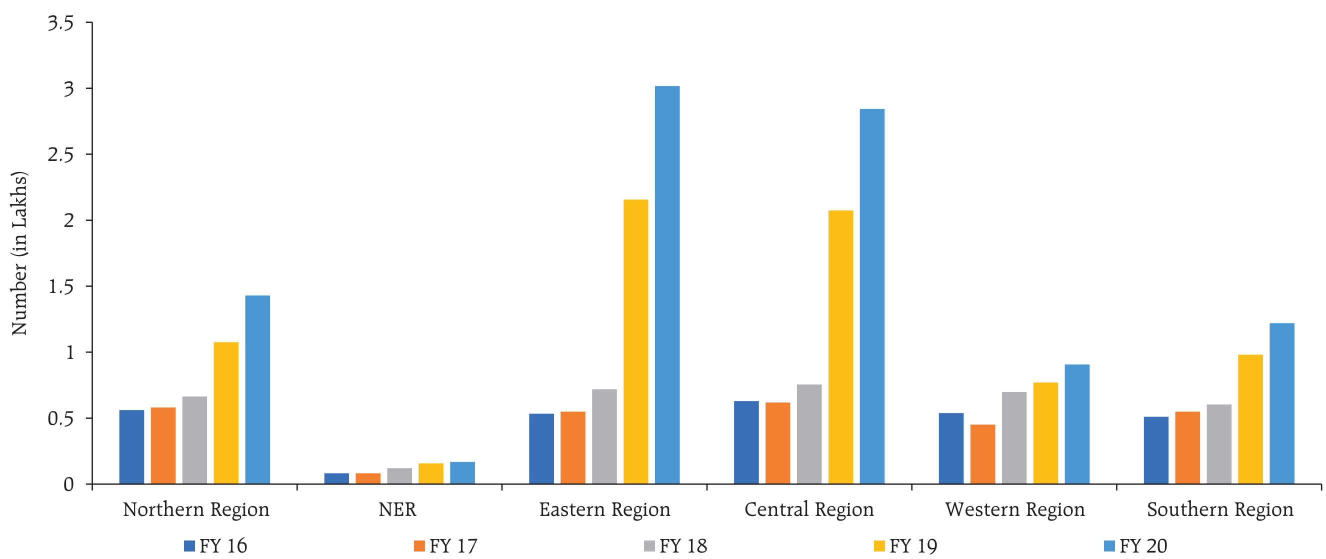


Source: FIP Returns.

developments in the payment systems, emergence of bio metric-based identification and transactions, and non-deposit taking Non-Banking Financial Companies (NBFCs-ND) being permitted to be engaged as BCs, led to the introduction of various new forms of BCs. These new BCs included remittance BCs, commonly referred to as Domestic Money Transfer (DMT) agents and credit-led BCs (mostly NBFC-MFIs have been roped in by banks to act as such BCs).

In this section, data of credit related transaction and remittance transactions undertaken at BC outlets have been analysed to understand bank group-wise/region-wise performance.

Chart 16: Number of BCs - Region Wise



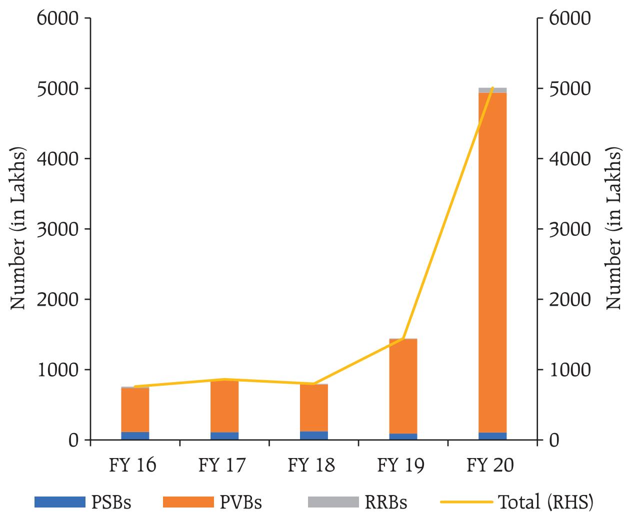
Source: FIP Returns.

I. Credit related Transaction – ICT-BC – Credit/Overdraft (OD)Transactions - During 2016-20, credit-related transactions at BC outlets grew for PVBs and RRBs at a CAGR of 66.91 per cent and 31.81 per cent, respectively. This was in line with the trend of increment in the number of BC agents for PVBs over the five year period. (Chart 17). However, during the same period, the ICT-BC Credit/OD transactions for PSBs declined marginally by 1.86 per cent.

Similarly, share of PVBs in credit/ OD transactions at BC outlets rose progressively from 82 per cent in 2016 to 97 per cent in 2020, while the share of PSBs and RRBs reduced significantly.

The number of ICT-BC Credit/OD transactions through BCs recorded an overall CAGR of 60.27 per cent over the review period, with all regions registering a positive growth. The eastern region recorded the highest growth courtesy significantly higher numbers being reported by select PVBs (Chart 18).

Chart 17: Number of ICT-BC - Credit/Over Draft Transactions - Bank Group Wise

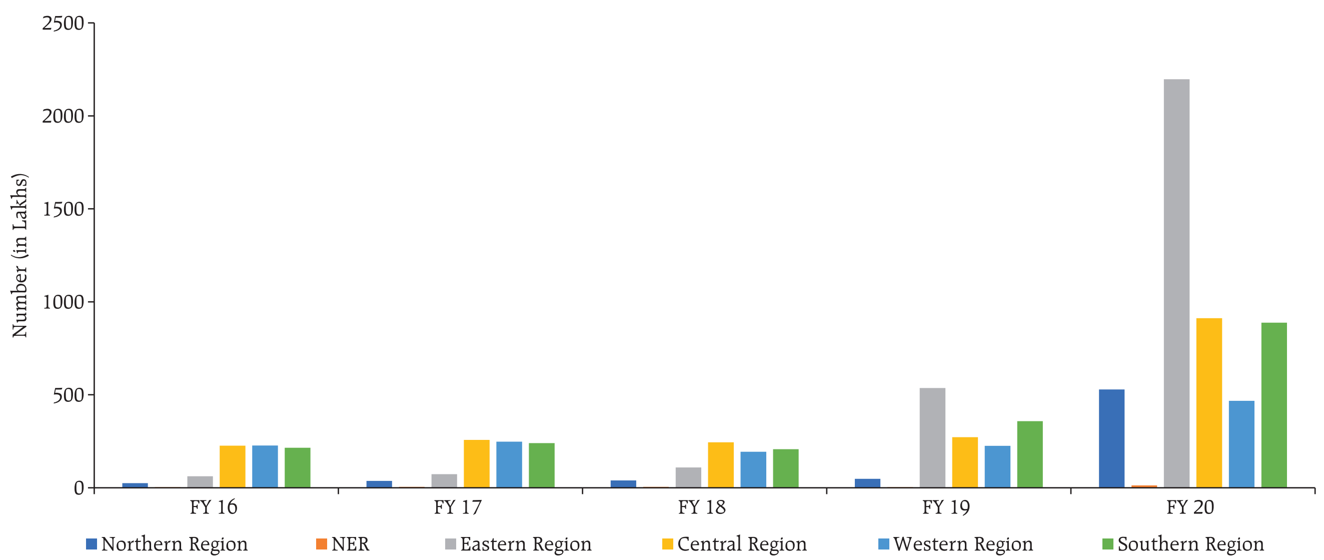


Source: FIP Returns

II. Remittance - ICT-BC - Remittance Transactions

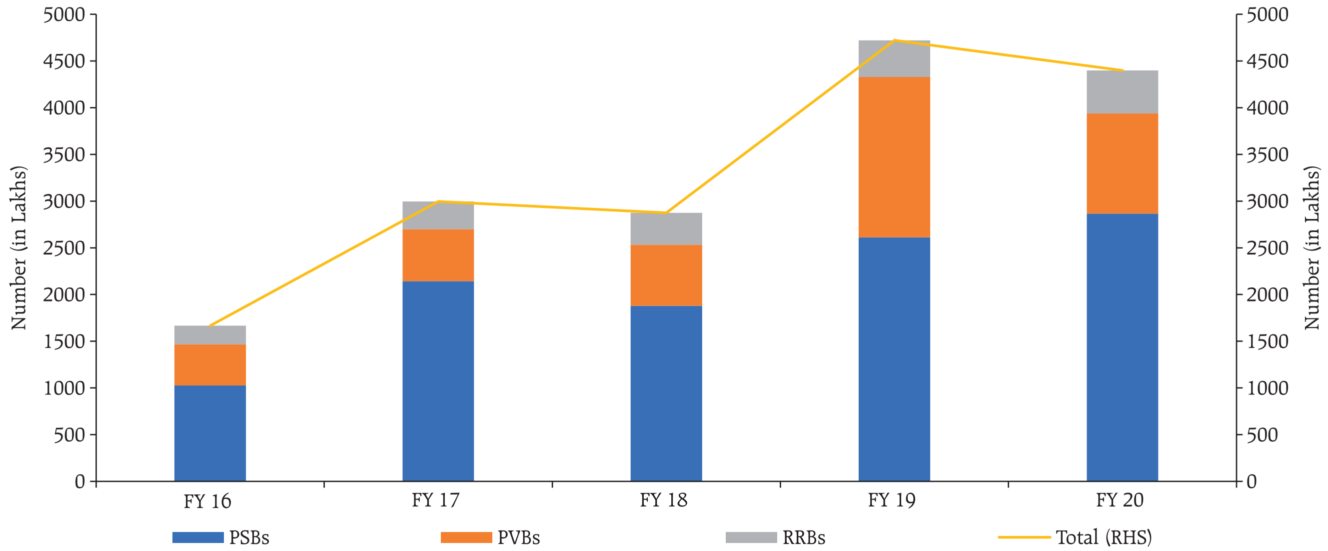
The number of remittance transactions grew for all bank groups with PSBs registering the highest growth of 29.30 per cent (Chart 19). During the period, the growth for PVBs and RRBs was 24.82 per cent and 23.31 per cent, respectively.

Chart 18: Number of ICT-BC-Credit/OD Transactions - Region Wise



Source: FIP Returns

Chart 19: Number of ICT-BC- Remittance Transactions - Bank Group Wise

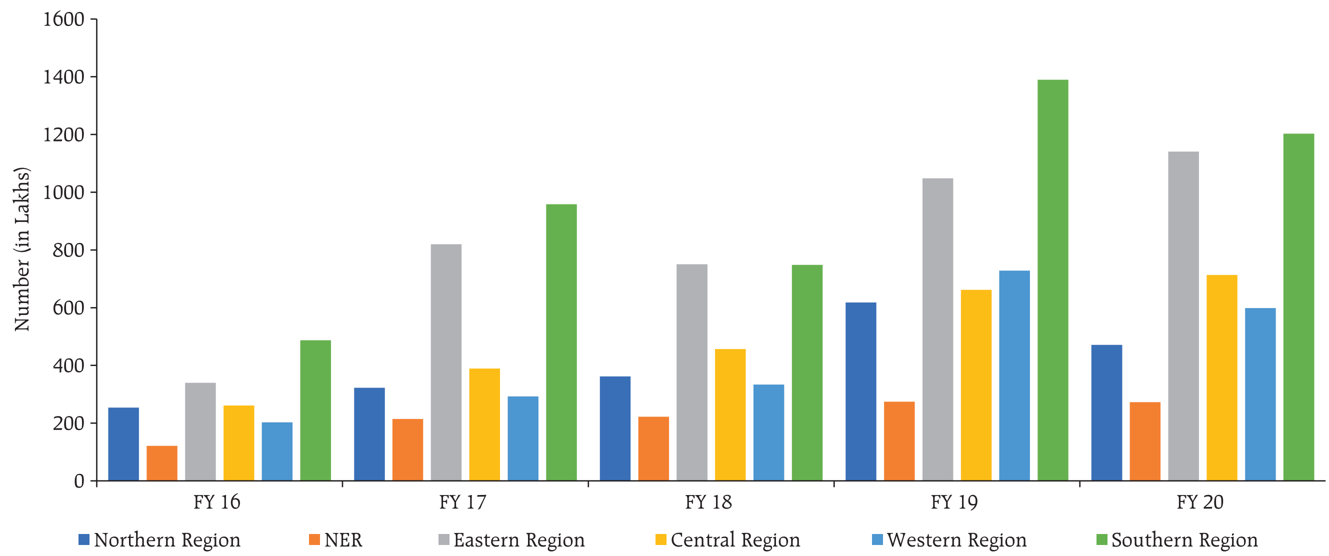


Source: FIP Returns

While PVBs accounted for the major share in the ICT-BC Credit/OD transactions, the ICT-BC Remittance transactions were dominated by PSBs having more than 65 per cent share of the total remittance transactions. Though the Urban BC space, which primarily is used as a remittance channel, has been dominated by PVBs, their share in the transactions decreased during the review period from 26.47 per cent in 2016 to 24.34 per cent in 2020.

All regions registered a positive growth in both volume and value of remittance transactions, ranging from 16 per cent to 35 per cent and 26 per cent to 62 per cent, respectively (Chart 20).

Chart 20: Number of ICT-BC- Remittance Transactions - Region Wise



Source: FIP Returns.

Eastern region recorded highest growth in number of transactions as well as amount involved in these transactions. However, the remittance transactions were dominated by the southern region. Eastern region showed a striking increase in the share in the total value of the ICT-BC remittance transactions during the review period.

C. Deposit and Credit Products through BC Model

The BC model has been striving to achieve two important aspects i) utility and ii) viability. The expansion in the BC network establishes that all stakeholders are now convinced of the utility of this model. Previous sections of the article provided insights into the reach of the BC model, which reinforced the utility of the model for financial inclusion.

Viability of the model is dependent on the deepening of the BC network (extension in the unserved/underserved rural and urban pockets) and broadening of the BC operations (delivery of bouquet of products and services). Engagement of BCs for account opening (BSBDAs), sourcing credit and facilitating credit related transactions are important steps towards strengthening the model.

I. BSBDAs through BCs

As on March 2020, 56.43 per cent of the total number of BSBDAs were opened/ sourced through the BC network with PSBs accounting for more than 75 per cent share of the total . Though the number of BC outlets (Rural +Urban) (7.3 lakhs) as well as BC agents (7.7 lakhs) were the highest for PVBs, their share in BSBDAs was the lowest, indicating that most of these BC outlets/BCs were not involved in delivery of such services.

II. KCCs through BCs

Only 5 per cent of the total KCCs were sourced/opened through BCs in 2020. PVBs accounted for the largest share (81 per cent) in KCCs through BCs followed by PSBs (15 per cent) and RRBs (4 per cent). Though having dominant presence in the number of BC outlets, PSBs' contribution in channelizing KCCs through BCs was insignificant, resulting in very less utilization of BC model for KCCs.

III. General Credit Cards (GCCs) through BCs

Total number of GCCs through BCs at end-March 2020 was 132.61 lakh, with PVBs accounting for almost 98 per cent of the total. The share of GCCs through BCs progressively increased from 34.60 per cent in 2016 to 65.58 per cent in 2020 with PVBs using the BC model extensively for GCCs. This can be attributed to the engagement of NBFC-MFIs as BCs by PVBs and using their network for sourcing and financing Joint Liability Groups (JLGs).

5. Conclusion

Through the review of FIP data furnished by banks (PSBs, PVBs and RRBs) over the five years (2016-2020), it is observed that the dominance of PSBs has continued in the financial inclusion space. PSBs accounted for about 56 per cent of total rural branches in 2020. PSBs were also predominantly present in the rural areas accounting for 60 per cent of total BC outlets in villages in 2020. Similarly, of the total BSBDAs, the contribution of PSBs remained over 70 per cent during the review period. Further, among the credit products, KCCs were channeled mainly through

PSBs, which accounted for 58 per cent of the total number of KCCs in 2020.

As PSBs continued to maintain their hold, PVBs too registered a higher growth in both access and usage indicators during the review period. There was a growth in BC outlets in villages for PVBs with the growth being significantly high for the north-eastern, eastern and central regions, surpassing the growth of PSBs and RRBs together. PVBs also significantly improved their tally of urban BC outlets during the five years with their share growing from 77 per cent in 2016 to 97 per cent in 2020. On similar lines, contribution of PVBs in the total number of BC agents too grew exponentially from 37 per cent in 2016 to 80 per cent in 2020.

From being an alternate delivery model, the BC model is emerging as the predominant delivery model. While the growth in number of rural branches remained subdued during the review period, there was a significant growth in BC outlets in both villages and urban pockets providing formal financial services at the doorstep of large number of unserved/underserved population. About 56 per cent of total BSBDAs and 65 per cent of GCCs were channeled through BCs. While BCs of PSBs dominated the deposit space, PVBs accounted for a major share in GCCs through BCs. During the review period, the total transactions routed through BC outlets increased considerably both in terms of volume as well as value.

Finally, the north-eastern, eastern, and central regions, which have historically remained behind the curve, fared better in the access indicator of financial inclusion during the review period.