PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

MINT, Delhi
Thursday, 1st March 2018; Page: 17
Width: 20.35 cms; Height: 48.48 cms; a3; ID: 23.2018-03-01.89

theirview

PAWAN AGRAWAL
is chief analytical officer, CRISIL Ltd.

India is doing well on financial inclusion

The latest all-India score on the CRISIL Inclusix financial inclusion index has surged, driven by the Jan Dhan Yojana

Poverty, said Nobel laureate Amartya Sen, is not merely lowness of income, but deprivation of basic capabilities.

This is a fair point. An inclusive financial ecosystem is quintessential to the social contract. It surmounts both physical and, more importantly, psychological barriers, and helps achieve sustainable economic growth.

But it doesn't need a Nobel laureate to underline the ramifications of excluding large swathes from the development process.

It is gratifying that our policymakers are seized of this imperative and have been working along multiple avenues to address this. Appropriate frameworks have been, and are being, designed. And, complementing the focused efforts of the government, the Reserve Bank of India (RBI) is propagating financial literacy, which lends sustainability to the inclusion process.

However, putting in those hard yards must be complemented by a dependable yardstick to quantify progress on financial inclusion. This is necessary so that the course corrections needed could be designed and implemented, too.

That's where CRISIL Inclusix comes in.

India's first financial inclusion index was launched in 2013 with the objective of becoming that crucial gauge and policy input. It is based on four dimensions—branch penetration, deposit penetration, credit penetration and insurance penetration. The last dimension was added for the first time this year as data became available.

The south remains ahead, but other regions are catching up thanks to microfinance

CRISIL Inclusix measures progress on financial inclusion down to the level of each of the 666 districts in the country, and is based on data provided by the RBI, the MicroFinance Institution Network, and the Insurance Information Bureau of India.

The index's readings for fiscal 2016 (the latest period for which data is available) show financial inclusion has improved significantly in India, with the all-India score rising to 58.0 in fiscal 2016, compared with 50.1 in fiscal 2013.

The score would have been even higher at 62.2 had we excluded the effect of rebasing of the index and inclusion of insurance data. The Pradhan Mantri Jan Dhan Yojana, and the RBI's steadfast focus on unbanked regions, have really made a difference.

As many as 600 million deposit accounts were opened between fiscals 2013 and 2016, or twice the number between 2010 and 2013. Nearly a third of this was on account of Jan Dhan. This gets well reflected in the deposit penetration index of CRISIL Inclusix, which surged over 16 points.

On the credit side, there was a sharp 31.7 million increase in new credit or loan (banks and microfinance) accounts in the two years up to fiscal 2016, which is the most since fiscal 2013. Notably, microfinance institutions contributed significantly to the financially under-penetrated regions.

The Digital India initiative, payments banks and small finance banks have all helped improve the reach of formal financial services to economically disadvantaged sections of the populace and geographically remote regions.

Underserved pockets, particularly in the North-East and the east, have logged a sharp rise in credit penetration. The credit penetration index of these two regions is up an average 9 points compared with 6 points at the all-India level.

But despite the strong growth, only 200 million borrowers have had access to credit from formal channels. This is the reason why the credit penetration index of CRISIL Inclusix remained low at 56.0 compared with 78.3 for deposit penetration.

The upshot is clear: concerted efforts are needed to deepen access to formal credit.

In terms of branch penetration, the number of new branches opened by lenders has declined because they are betting more on the digital channels (mobile phones/internet).

Among regions, the south remains ahead by a wide margin, but other regions are catching up thanks to the spread of microfinance, particularly in the east.

However, the inclusion of insurance data moderated the overall Inclusix scores for most regions, except the west and the east, which have maintained their performance.

Among states, Kerala was well ahead with a CRISIL Inclusix score of 90.9, while Rajasthan moved up from "below average" to "above average" and Haryana from "above average" to "high".

The upshot from the scores is that financial inclusion can spread faster if there is sharper focus on enhancing branch and credit penetration beyond south India. Policy makers need to continue incentivizing branch and credit penetration in districts with low CRISIL Inclusix scores. Coverage through protection-linked insurance and pension schemes also needs to be ratcheted up significantly.

There is still a long way to go before India reaches acceptable levels of financial inclusion, but there's little to complain about the policy approach today. More of a good thing would serve very well here.

Given CRISIL Inclusix's modular construction, we look forward to more data—both consistent and comprehensive—on other financial services and providers, too, to make the index even more rounded. To build on Amartya Sen's point, inclusive growth also would mean going beyond simple access to formal finance. It's great to see that concerted efforts are being made in aid of this.

Comments are welcome at theirview@livemint.com