



MARKETS IN MOTION

developments that matter in financial markets

Financial Inclusion

“The case for financial inclusion is not based on the principle of equity alone; access to affordable banking services is required for inclusive growth with stability. Achieving financial inclusion in a country like India with a large and diverse population with significant segments in rural and unorganized sectors requires a high level of penetration by the formal financial system.”

Smt. Usha Thorat, Deputy Governor, Reserve Bank of India

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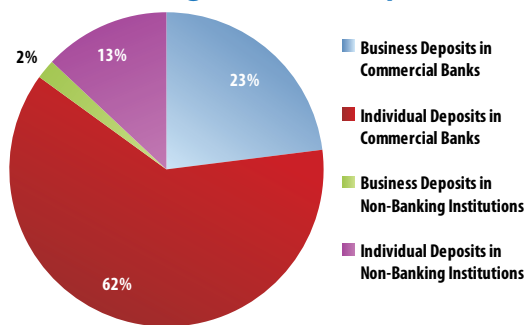
Introduction

Financial inclusion—providing access to financial services for all—has gained prominence in the past few years as a policy objective in all countries of the world. Financial Access 2010, a report of the World Bank released in September 2010, estimates that about half of the households in the world have no access to a bank account. A cross-country analysis using Financial Access 2010 data indicates that a one percent change in GDP per capita is associated with a change of around 0.3 to 0.6 percent in the number of deposit accounts per 1,000 adults.

Role of Financial Institutions

Commercial banks play a pivotal role in financial inclusion initiatives. The survey carried out by the World Bank in 142 economies reveals that 85 percent of total deposit volume and 96 percent of all deposit accounts are held in commercial banks. But, in a number of economies, non-banking institutions play an important role in providing basic deposit services. For example, in countries like Chile, Spain, and France, cooperatives or specialized state financial institutions hold more deposit accounts than commercial banks. Similarly, in a number of West African countries, such as Benin, Burkina Faso, Ivory Coast, and Niger, deposit-taking microfinance institutions have more depositors than commercial banks, suggesting that non-banking institutions can play an important role in providing basic deposit services. The percentage of total volume of deposits held by banks and non-banking institutions on a global scale is shown in the chart.

Percentage of Global Deposits



Situation in India

Savings rate in India grew from 22.3 percent of GDP in 1998-99 to 32.5 percent in 2008-09. India is known for its high level of household savings and the contribution of the household sector to total savings is 70 percent.

While the overall savings ratio increased significantly, financial savings remained at around 50 percent of household savings. Within financial savings, share of bank deposits increased from 33 percent in 2000-01 to 55 percent in 2008-09. In March 2004, there were 590 savings and current accounts per 1,000 adults and the number rose to 747 in a period of five years. The status of India vis-à-vis some select economies are shown in the table.

Financial Access through Commercial Banks

Sr. No	Emerging Economies	Deposits		Loans		Outreach
		Accounts per 1,000 adults	Value (% of GDP)	Accounts per 1,000 adults	Value (% of GDP)	
1	India	747.29	55.03	137.46	40.93	10.11
2	Indonesia	504.74	36.95	196.86	26.93	7.74
3	Malaysia	2063.33	105.45	963.6	113.16	11.44
4	Taiwan	5187.77	172.84	635.68	136.40	17.95
5	Thailand	1448.84	79.58	272.45	87.25	11.04
Mature Economies						
6	Japan	7172.42	146.24	177.63	85.08	12.46
7	Singapore	2236.25	280.88	914.55	213.43	10.54
8	UK	2923.25	61.32	..	80.64	20.74
9	US	2021.89	43.91	..	44.81	36.33

Source: www.cgap.org

Conclusion

Achieving higher rates of financial inclusion calls for higher financial savings and much greater penetration of banks and other financial intermediaries like insurance companies, mutual funds, and pension funds. The Indian government is taking proactive steps such as rural employment under the National Rural Employment Guarantee Act (NREGA), in which payments are made through bank accounts, with job cards serving as document of identity. The UIDs (Unique Identification Cards) planned to be provided to residents will further facilitate financial penetration as these will serve to meet the KYC (Know Your Customer) norms for account holders with small value transactions.

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Published by
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