A Comparative Study of Financial Inclusion in India and China

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Abstract: Financial inclusion is a national priority for any government as it is an enabler for inclusive growth—its main objective is to bring the bottom of the pyramid of the financial landscape under the ambit of formal banking. This efforts to include the financially excluded segments of society have been a continuous process. The countries India as well as China have same population growth and have financial inclusion. Global survey on financial inclusion include the dimensions which are formal saving, formal credit and formal payment used by the 15+ age population. So more sophisticated analysis reflected comparison of both countries for mapping of future financial inclusion policies.

Keywords: Financial Inclusion, Formal Credit, Formal Saving, Formal Account

I. INTRODUCTION

A committee on financial inclusion headed by **Dr. C Rangarajan (2008)** defined 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."

According to the **Planning Commission (2009)**, "Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products."

According to **Dr K.C. Chakrabarty (2011)**, "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players."

Financial inclusion basically focuses on access to affordable and wide range of financial products along with services which comprises banking and savings related products, insurance products, pension products and investment products.

"Financial Inclusion means providing financial service for all social strata and groups with appropriate and valid financial services, at affordable cost, based on the principle of opportunity equality and commercial sustainability. Small and micro businesses, peasants, urban low-income groups, impoverished groups, the disabled, the aged and other special groups are the focus of the financial inclusion in China."

II. LITERATURE REVIEW

Peter J. Morgan and Long Q. Trinh (2017), in their study on determinants and impacts of financial literacy in Cambodia and Vietnam include the both the concept of literacy as well as financial inclusion. Financial literacy covered financial knowledge, financial attitude, and financial behavior while financial inclusion included determinants like formal saving, informal saving, both formal and informal saving and no saving. Study highlighted that more than 70% people are believe in informal saving and no saving belong the Cambodia which is quite higher than Vietnam.[1]

[1] ADBI Working Paper Series No.754 2017

OECD international survey of adult financial literacy competencies (2016) in their study major fourteen countries of the world covered. In literacy major three determinants included like financial knowledge, attitude and behavior while in measurement of inclusion include factors like aware about at least five products, recently choose financial product and turned to family and friends. Result revealed that average 89% are aware of at least five products, 59% recently choose financial products and 11% turned to family and friends among all countries.[2]

CRISIL Inclusix Report: an index to measure India's progress on financial inclusion computed index **(2015)**. In this report CRISIL used three major dimensions Branch Penetration, Deposit Penetration, Credit Penetration. This study measures the extent of financial inclusion at a geographical level, starting with the district and aggregating across state, region and national levels. The report highlighted that Surat is found to be most populous district in Gujarat whereas CRISIL Inclusix score 37.8 out of 100 which is quite lower compare to other district of state.[3]

NISM Report on Financial Literacy and Financial Inclusion in India **(2014)**. The study conducted among five zones of India including Union Territories. There were three parameters used like financial attitude, behavior and knowledge to conclude the level of financial literacy among households. For computation financial inclusion index different financial products like saving related banking products, banking, credit, insurance, capital market, pension, commodity futures market related products included. The report also highlighted that according to geographically mix and financial literacy around 30% from urban areas and 20% from rural areas while financial inclusion result emphasized that major households financial included belong to urban area.[4]

Dr. M.K. Dekate and Mr. Ramraj T. Nadar (2014) in their study highlighted that government adopt technology in delivering banking services like ATM availability, DBT, USSD mobile banking, setting up of ultra-small branches, business correspondence model, SHG link model and NBFC model which is a road map to achieve financial inclusion growth in rural and urban household.[5]

Charan Singh and et al in their Paper, Financial Inclusion in India: Select Issues (2014),there are three major dimensions are included like Branch Penetration, Credit Penetration and Deposit Penetration with services of mobile phones, banking technologies, India post office, fair price shops and business correspondents (BCs) for better result of Inclusion.[6]

Zuzana Fungáčová (Bank of Finland) and Laurent Weill (University of Strasbourg and Bank of Finland) (2014), in their study on Understanding financial inclusion in China studied financial inclusion by using three determinants like formal account in financial institution, formal savings, formal credit. They found that in their country majority of people have formal account and formal savings but only few have formal credit. Study reveals that BRICS countries facing financial exclusion due to the reason of lack of money while other reasons related to documentation, lack of trust, religious reason as well as expensiveness.[7]

Pallavi Gupta and Bharti Singh (2013) in their research "Role of Literacy level in financial inclusion in India: Empirical Evidence" considered three dimension to measure financial inclusion like banking penetration, availability of banking services and usage of banking services among states of India. They also investigated that there is a Large variation in the correlation between the Financial Inclusion Index and literacy rate in different states which indicates the financial exclusion in India is not mainly due to the lower literacy rates and also suggested that government concentrate on behavioral factors rather than literacy rate.[8]

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[2] OECD/INFE International Survey Of Adult Financial Literacy Competencies_2016

[3] CRISIL-Inclusix-Volume-III

[4] NISM Repor 2014

[5] Tactful Management Research Journal

[6] IIMB Working Paper_474

[7] Suomen Pankki_Finlands Bank_Bank of Finland

[8] Journal of Economics, Business and Management, Vol. 1, No. 3

Mohammad Shafi & Ali Hawi Medabesh (2012) Financial Inclusion in Developing Countries: Evidences from an Indian State used major three determinants for measurement of financial inclusion like access to formal payment system, access affordable credit, access to insurance and access to money advice but result focused on state J & K which defined that more than 50% of adults remain unbanked. While the people who have bank account remain accessible only by 6% among them. So financial inclusion is lower in J & K and followed by some policy recommendation.[9]

Mrs. Giovanna Priale Reyes (2010) in their study Financial Inclusion Indicators for Developing Countries: The Peruvian Case use both quantitative and qualitative indicators for measurement of financial inclusion. Quantitative indicators includes determinants such as access of number of branches, ATMs and number of agents, geographical distribution as well as use by number of depositors, borrowers per 10,000 population . The qualitative instruments include perception of financial system in rural areas and urban areas. Result also showcase of lower financial inclusion in Peru.[10]

III. OBJECTIVES

- To Measure the levels of access and usage of formal financial services among adult (15+ Age).
- To compare the access and Usage of formal Financial Services in Year 2011 and 2014 as per global financial inclusion index in individual country.
- To compare the formal way of access and usage level of financial services between two countries as per global financial index.

IV. RESEARCH METHODOLOGY

The secondary data collection method is used. The secondary data has been collected from World Bank website and three major dimensions have been used for the comparison of China and India financial inclusion. The data of Year 2011 and 2014 is used for the analysis.

Table 1 **COMPARATIVE DATA OF CHINA AND INDIA**

Particulars	**CHINA**	**INDIA**
Account (% age 15+)		
All Adults	78.9	53.1
Women	76.4	43.1
Adults belonging to the poorest 40%	72.0	43.9
Young adults (%ages 15-24)	74.2	43.2
Adults living in rural areas	74.3	50.1
Financial Institution Account (% age 15+)		
All Adults	78.9	52.8
All Adults, 2011	63.8	35.2
Mobile Account (% age 15+)		
All Adults	-	2.4
Access to Financial Institution Account (% age 15+)		
Has debit card	48.6	22.1
Has debit card, 2011	41.0	8.4
ATM is the main mode of withdrawal (% with an account)	51.2	33.1
ATM is the main mode of withdrawal (% with an account). 2011	33.4	18.4
Use of Account in the Past Year (% age 15+)		
Used an account or receive wages	17.7	4.0
Used an account to receive government transfers	9.5	3.6
Used a financial institution account to pay utiity bills	15.1	3.4
Other Digital Payment in the Past Year (% age 15+)		
Used a debit card to make payments	17.3	10.7
Used a credit card to make payments	13.8	3.4
Used the Internet to pay bills or make purchases	19.2	1.2
Domestic Remittances in the Past Year (% age 15+)		
Sent remittances	15.5	9.9
Sent remittances via a financial institution (% senders)	34.3	-
Sent remittances via a mobile phone (% senders)	10.1	-
Sent remittances via a money transfer operator (% senders)	15.0	-
Received remittances	17.6	9.8

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[9] International Business Research; Vol. 5, No. 8, 2012

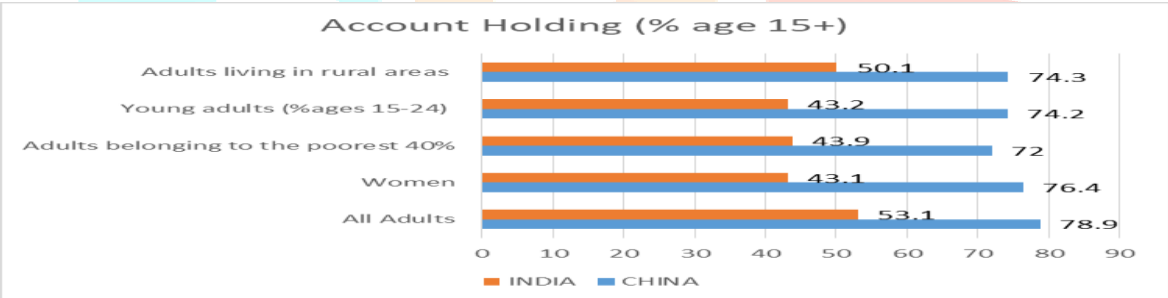
[10] Superintendency of Banking, Insurance Companies and Private Pension Funds of Peru (SBS)

Received remittances via a financial institution (% senders)	27.3	-
Received remittances via a mobile phone (% senders)	6.0	-
Received remittances via a money transfer operator (% senders)	12.3	-
Savings in the Past Year (% age 15+)		
Saved at a financial institution	41.2	14.4
Saved at a financial institution,2011	32.1	11.6
Saved using a savings club or person outside the family	2.5	8.8
Saved any money	72.1	38.3
Saved for old age	38.7	9.9
Saved for a farm or business	21.9	7.0
Saved for education or school fees	29.9	16.0
Credit in the Past Year (% age 15+)		
Borrowed from a financial institution	9.6	6.4
Borrowed from a financial institution,2011	7.3	7.7
Borrowed from family or friends	25.1	32.3
Borrowed from a private informal lender	1.1	12.6
Borrowed any money	36.3	46.3
Borrowed for a farm or business	7.0	9.0
Borrowed for education or school fees	4.9	9.7
Outstanding mortgage at a financial institution	8.5	3.7

****Data include Population in Millions**
China Country (age 15+ 1,112.6 , GNI Per Capita ($ 6,560),
India Country (age 15+ 887.9 , GNI Per Capita ($ 1,570)
Source: http://datatopics.worldbank.org/financialinclusion/CountryTableau/CHN.PNG,
http://datatopics.worldbank.org/financialinclusion/CountryTableau/IND.PNG

V. DATA INTERPRETATION

Figure 1



In China 15+ age populations in 1000 million while in India 15+ age Population is more than 800 million, out of them more than 70% of population are adults belonging to poorest 40% category, living in rural areas and women are also belonging to 75% of population. India less 55% are adults, female ratio, young adults and adults belonging to poorest 40% ratio is below 50% of population.

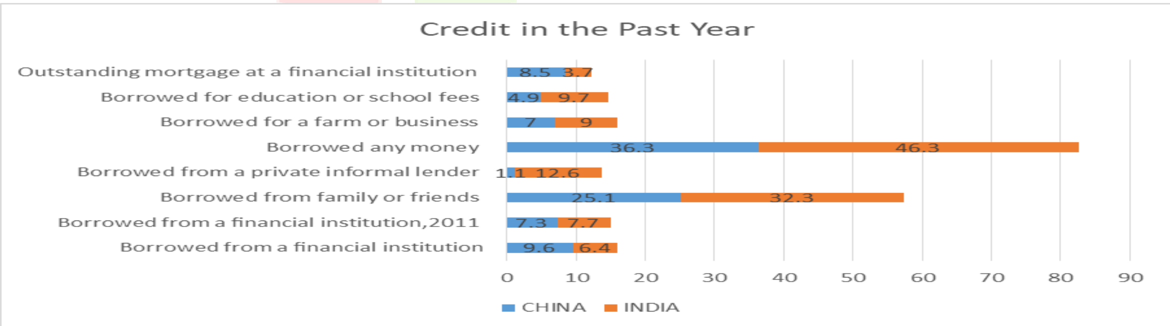


Figure 2

In India and China both money borrowed by people for indeed education or school fees and more than 25% money they borrowed from the family and friends (Informal way of borrowing). In India people still uses private informal lender for borrowing money that is 12% while in China only few people use it. The major source are in accessible in both the country that is money borrowed from the financial institution.

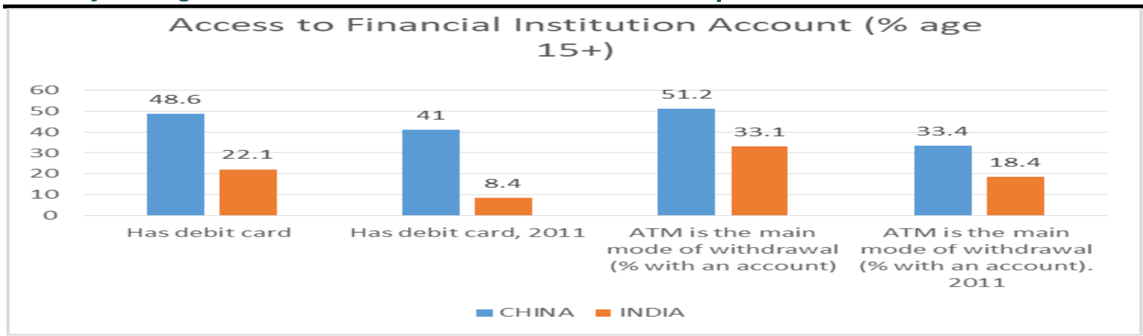


Figure 3

In China More than 45% financial institution have debit card and out of them 51% use in ATM as a mode of withdrawal while in India Less Financial Institution Account and also 22% of them have debit card and 33% out of them used for the ATM withdrawal

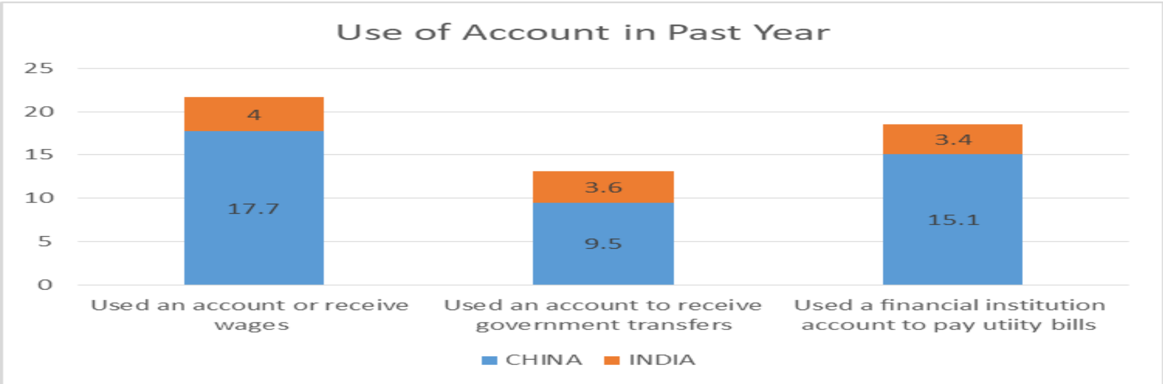


Figure 4

In China and India both less than 20% are used account in past year for receive wages, for government transfers and for utility bill payments.

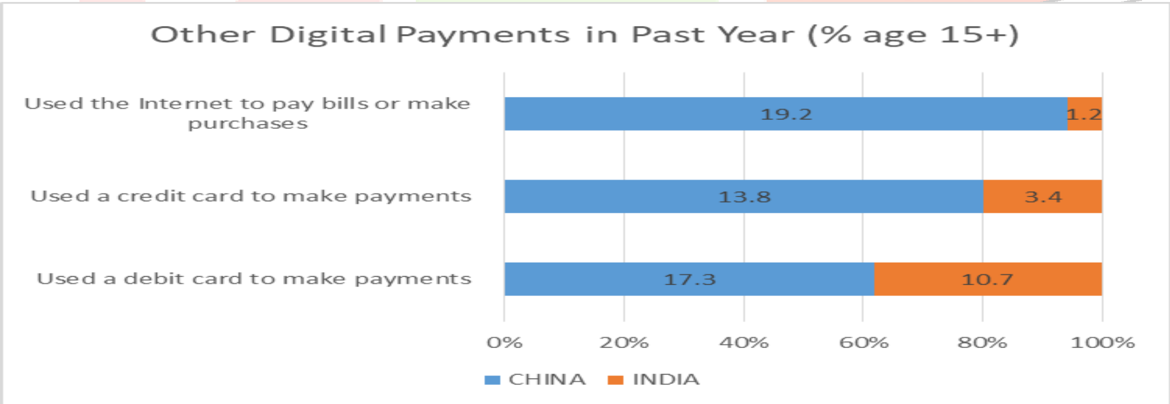


Figure 5 In India only few people used digital payment mode like credit card and debit card for bill payments, purchases while in China average 15% are used this mode of payments.

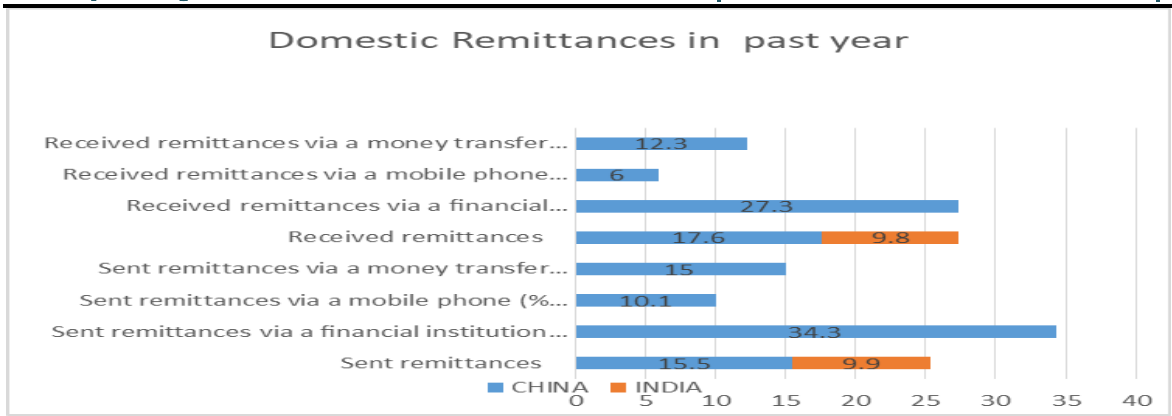


Figure 6

In China, Majority of people are received and sent remittances via money transfer, mobile transfer, via financial institution while in India only received and sent domestic remittances only by normal mode but not used advanced mode of remittances.

VI. CONCLUSION

There are many challenges among developing countries for financial inclusion but apart from that study reveals that 15+ adults have formal account in bank 78% and 53% in China and India respectively. However, there are only 48% and 22% of adults use debit as well credit card in China & India respectively. For received wages, government transfers, utility bills formal account usage it too low in both the countries. For domestic remittances and other digital payments average 10% usage in both the countries. In comparison formal way of saving used by Chinese adults are 41% which more than four times higher than the country India. This study shows that for formal tools only few percentage of adults approaches financial institution like average 10% while apart form that more than 25% of adults used informal way of borrowing money i.e friends and relatives.

Thus, as per three dimensions formal saving, formal credit and formal payment as well as accessibility country India has low financial inclusion compare to China.

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