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AN OVERVIEW OF FINANCIAL INCLUSION IN INDIA

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Abstract

Financial inclusion is one of the most imperative aspects in development of economies. It means the process of ensuring access to financial services. It takes into account the participation of susceptible groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. It has the ability to generate positive externalities: and to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot. This paper attempts to present an overview of financial inclusion in India.

Key Words: *Financial Inclusion, Financial system, Economic growth.*

Introduction

Financial inclusion is one of the most important aspects in the present scenario for inclusive growth and development of economies. The financial inclusion term was first time used by British lexicon when it was found that nearly 7.5 million persons did not have a bank account. But financial inclusion concept is not a new one in Indian economy. Bank Nationalization in 1969, establishment of RRBs and introduction of SHG- bank linkage programs were initiatives taken by RBI to provide financial accessibility to the unbanked groups. According to committee on Financial inclusion headed by Dr. C. Rangarajan 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”.

Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc

Financial exclusion in India: India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. About 50 percent of adults' reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB" s and SCB" s has still stood only 48000 in a country to provide service to 6 lakh villages. So there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts. This paper attempts to present an overview of financial inclusion in India.

Objectives of the Study

- To study the importance of the financial inclusion
- To analyze initiatives taken by RBI
- To know the challenges of financial inclusion

Research Methodology

The study is mainly based on secondary data which were collected from various magazines and websites.

Importance of Financial Inclusion

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The on-going reforms also attach a great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth of 8.0% (average) in the last decade but its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. So, in this context, Financial Inclusion can help the society and the economy. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth.

It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot. Increase in the saving habits of the households, enhance agricultural productivity by the way of formal credit and increase the living standard of the people, which will promote inclusive growth in the country. This formal financial network could unleash their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. These efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid (BoP) population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks.

Deeper engagements of the BoP/under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience in terms of financial risk protection to meet macro-economic and livelihood shocks.

Government also immensely benefits by way of efficient and leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged groups of population. As we all know, Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers (DBT) to beneficiaries' bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked - 11 - masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

From the table given below, it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world.

Select Indicators of Financial Inclusion 2011

S. No	Country	No. of Bank Branches	No. of ATMs	No. of Bank Branches	No. of ATMs	Bank Deposit	Bank Credit
		Per 1000 KM		*Per 0.1 Million*		*as % to GDP*	
1	**India**	**30.43**	**25.43**	**10.64**	**8.9**	**68.43**	**51.75**
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

Pradhanmantri Jan Dhanyojana

Indian Prime Minister NarendraModi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPayKisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority". IJOART On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

Initiatives By RBI

- **Basic Saving Bank Deposit (BSBD)** accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.

- **Relaxed and simplified KYC norms** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs.50, 000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address[9].
- **Simplified Branch Authorization Policy**, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centers, subject to certain conditions.
- **Compulsory Requirement of Opening Branches in Un-banked Villages**, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- **Opening of intermediate brick and mortar structure**, for effective cash management, documentation, and redressal of customer grievances and close supervision of BC operations, banks has been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

Financial Literacy Centers (FLCs)

Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013

Challenges

Financial inclusion in a large scale is possible only if the banks join hands with likeminded partners in their initiative. While business correspondent model introduced by RBI enables such partnerships to evolve, the major concerns would be as under: As there is no proven / tested model, the initial take off may be slow till sufficient experience is gathered. It is essential that the programme is viable for all the partners. However, payment of fee / commission, etc. to the business correspondent, has no precedence and will evolve over time. Risk management, operations, registration, credit, etc are a major issues. Cash management by the business correspondents is also an issue which can affect the reputation of the bank. But these are not insurmountable. With experience and over a period of time, these can be sorted out and standards laid down.

Conclusion

Financial inclusion is not a onetime effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders – the Government, financial institutions, the regulators, the private sector and the community at large. From the sporadic attempts of today dispersed across the nation, it should gather momentum and grow in geometric proportions and develop into a focused and effective movement. Thus, with constant efforts we are sure to achieve financial literacy and complete financial inclusion in the near future.

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