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Financial Inclusion in India: Shifting the Base towards Crowning Glory

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Abstract

India aims to achieve a growth target of 9% through its 12th five year plan (2012-2017) by emphasizing on faster, sustainable and more inclusive growth, terming it as " financial inclusion " which is emerging as a new paradigm of economic growth. From a total of 403 million bank users in India, almost 40% of the huge Indian population lacks basic services such as saving A/c and credit facilities. RBI is striving continuously to solve this problem by increasing the bank penetration, nationalizing of banks, establishing of Regional Rural Banks and many more.

The great Indian Budget launched a "Pradhan Mantri Jan Dhan Yojna" scheme for comprehensive financial inclusion under which 15 million banks A/c were opened depositing INR 105.9 billion. The Indian Government should develop low cost bank models to encourage its citizens to access to banking services. Ideas can be taken from the FI schemes that western countries have adopted .Research shows that in India, there is only 1 bank branch for every 14000 nationals out of which 18 percent are debit card holders while a meager 2 percent own a credit card. In this research paper we will learn about the impacts of various financial inclusions on our nation's economy.

Keywords: Financial inclusion; Financial exclusion; Income; Banking

Introduction

Financial Inclusion is delivering banking services at affordable prices to that section of society having low income. Financial Inclusion lists out various measures and initiatives by the Government and RBI towards socio-economic growth. India has been divided into three categories on a state wise index mainly high, medium and low income groups. Sadly, a large section of our society is facing the problem of financial exclusion. It is mainly due to socio-economic financial literacy and poor infrastructure. At a global level many countries have adopted the concept of financial inclusion including US, FRANCE, UK. In India, the apex bank RBI under Raghuram Rajan along with some commercial banks has undertaken the initiative to promote financial inclusion. Many projects have been launched like mobile banking, micro financial institutions etc.

Meaning of financial inclusion

Financial inclusion refers to delivery of financial services at an affordable cost in a fair, transparent terms and conditions to vast sections of disadvantages, weaker, low income groups' including household enterprise, small medium enterprise and trade INR Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion.

Where, NFA - No frills bank account

OFIs- financial Institutions

MFI- Micro financial Institutions

IT- Information Technology.

Objectives of Study

As our main aim is to analyze the impacts of various financial inclusions on our nation's economy, this paper will address the following objectives:

- To understand the concept and extent of financial inclusion.
- To find out steps taken by bank in area of financial inclusion.
- To find out the implications of financial inclusion.

Methodology

The secondary data has been collected from various sources in order to analyze the role of Reserve Bank and Govt. of India in promoting Financial Inclusion. The descriptive and empirical studies have been used to analyze the role of RBI in achieving complete financial inclusion in India by 2015. Special references of some articles have been also used to find out the need, scope, and recent projects in this direction in India.

Literature Review

During the recent past, banks have played an important role in making people meet their needs. Many studies have been carried out to know about the role of banks in financial inclusion for sustainable development. Many RRB'S and commercial banks have joined hands for the development of nation. We have attempted to review some important studies:

Choubey [1] has evaluated that commercial banks have failed to fill serious gaps and deficiencies in farm credit which the RRB can manage to do. He emphasized on the fact that NABARD would be required to pay special attention to depoliticisation of agricultural credit and Government credit agencies. He suggested that NABARD may help in raising agriculture and rural sector productivity at a faster rate.

Farhat Husain [2] analyzed the development of commercial banks in India and has also shed light on reorientation of credit policy and resource mobilization for regional development.

Finance Minister Parnab Mukherjee [3] exclaimed that financial inclusion is the key determinant to sustainable and inclusive growth

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which will unlock the vast hidden potential of savings, consumption and investment propensities of the poorer sections of society. It will help to transact the national forum for financial inclusion in which all people have access to appropriate and have defined products and services in order to manage their money effectively. It is achieved by both financial literacy and financial capability on the part of consumer. It also helps in the financial access of product and services.

Sendhilvelan and Karthikeyan [4] concluded with a view to ensure financial inclusion of everyone by publicizing the facility of "no frills" account in both rural and urban banks and shifting from the concept of 'anytime, anywhere banking' to 'anytime, anywhere and to everyone banking'.

Rana Mitra [5] stressed on the fact that instead of being confined to the four walls, bank policies should touch the doorsteps of the common man having more inclusive capitalist growth strategy bordering the principles of *laissez faire*. The relevance of allying the policies with masses to transform them into reality has been highlighted upon.

Ghorude [6] indicated that the problem of poverty cannot be solved by distributing loans to some people since India is suffering from huge and diverse problems of micro financing. Social, political and economic inclusion also needs to be done to obtain inclusive growth. This can be strengthened by developing a micro entrepreneurship with organizational and community support.

Muthiah Manoharan and Krishnaveni Muthiah [7] stated that a major constraint to the growth of financial services like loans, insurance is due to limited access to the vast majority of the population in the rural area and unorganized sector studied that were ten villages of Vadipatti panchayat of Madurai District. Many villagers were not happy using these financial services mainly due to language differences, documentation and other conditions.

Dhiraj, Sumanjeet [8] highlighted that financial inclusion is beneficial to reduce the poverty line. They emphasized on opening of bank accounts and active participation for financial inclusion. Credit Counseling centers and literacy centre are the initiatives for the same.

Swapan K Roy [9] emphasized that The Government of India has taken many initiatives for the banks to serve the poor hassle-free and the pros and cons of financial inclusion in India. Many branches have been set up in rural areas so as to bring a large segment of the society under the umbrella of financial inclusion.

Purvi, Medha [10] discussed about the importance of good quality financial services for rural areas as their funding will lead to economic growth. They have also thrown light on the initiatives taken by Government and Reserve Bank of India for strengthening financial inclusion in the country. No frills accounts should be publicized and technology should be brought in to make transactions more users friendly.

Measuring Financial Inclusion

Financial Inclusion Index is one of the measures to see the level of financial inclusion. This index is based on three basic dimensions of an inclusive financial system–banking penetration, availability of the banking services and usage of the banking system. Banking penetration is definitely the most critical parameter for measuring the depth financial inclusion and is measured as a ratio of bank accounts to the total population.

Financial Inclusion Issues and Challenges

Financial inclusion is a long term strategy, but to achieve its objectives we need to keep in mind the key areas it should address:

a. It should provide access to basic financial services like banking.

b. The usage of financial services should address the needs of the poor.

c. The financial products should be affordable.

d. Quality of product and services must be enhanced.

Defining Technology, Financial Inclusion and Security Market

Recent developments show that technology plays an important role in improving financial inclusion because of the following reasons:

a. It helps to reduce cost of the product

b. Reduces transaction cost

c. Improves quality of the product

d. Helps in increasing choices and flexibility to customer

Various benefits to the clients have also been identified like easy access to banking services, faster loan processing, reduced transaction costs, improved quality of information, increased outreach, reduction in operational costs, and increase in customer satisfaction [11].

ICT has been used to create ―branchless banks through mobile banking, automated teller machines (ATM), point-of-sale (PoS) networks, and so on, where clients can access various financial services. According to Beck, Levine and kunt [12]the use of ICT can be used to cut down the costs of coordination, communication, and information processing, and to enable efficient service provision at lower costs. ICT is a strategic tool that enables users to be efficient and effective. It promotes the dual objectives of microfinance-sustainability and outreaching the poor. Although ICT can help MFIs to reduce transactional costs, expand their market and provide affordable and flexible services to customers, many of them continue to rely on inefficient manual data processing systems that can create ambiguity.

Importance of Financial Inclusion

In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent against development. Based on Demand: Lack of awareness, low incomes/assets, social exclusion and illiteracy also act as barrie INR From supply side: distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are the common reasons for exclusion. On the other hand, the ease of availability of informal credit sources makes these popular even if it costs more.

The importance can be verified by the fact that if poor are not connected to our formal financial system, their growth and improvement will not take place even as top line growth prevails. There can be fraud money saving schemes and lack awareness of investing. That is the reason why financial inclusion is important for any country for its growth. However, if a customer is well educated financially, he can make better choices regarding various products that can fulfill his individual needs. This will result in overall growth of the country as access to financial services at affordable cost will improve life of the poor.

Financial Exclusion

Financial Exclusion signifies inability of access by certain segments of society to low cost, fair and safe financial products and services from main stream provide INR It is mainly a denial or inaccessibility to some basic financial services due to various factors like social & economic position, financial literacy, distance in traveling, hours of operation, etc.

Consequences of financial exclusion

Consequences of financial exclusion vary depending on the nature and extent of services denied. It may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates, and increased unemployment, etc. The small business houses may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money. Thus the above barriers should be overcome and reaching out to the people lying at the bottom of the pyramid has become the order of the day.

Financial exclusion in India

As per the report by 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. Report shows that there is only one bank branch per 14,000 persons. Just 18% are debit card holders and less than 2 percent are credit cards holders. There is only one bank branch over the 12.5 villages. The most common reason for not having a bank account is lack of enough money and hours based wage system.

Product based approach: Reserve bank of India has been liberal and supportive while designing policies so as to enable financial institutions to come up with innovative products for enabling a common man to benefit out of the financial inclusion plan. Some products developed for fulfillment of this approach are No-Frills Account (NFA'S), Kisaan Credit Card, General Purpose Credit Cards, etc.

Bank led approach: The bank provides the framework, accounting services and support to the group to manage their deposits and lending. This model follows the approach of savings first, lending later. The banks do not have a risk in such lending as the borrower's reputation and peer pressure in the group would reduce the risk of bad loans considerably. However the model has some issues that affect the program like Inadequate outreach in many regions, Delays in opening of SHG accounts and disbursement of loans, Impounding of savings by banks as collateral, Non-approval of repeat loans by banks even when the first loan was repaid and multiple memberships.

Regulatory approach includes: Simplified KYC Norms, Simplified bank saving account opening and Bank branch authorization

Technology based approach includes: Mobile banking, ATM based banking, Branchless banking

Government initiatives: The Government has taken various initiatives indirectly through the regulators, Government promoted schemes through its various ministries like :

i. Induction of SHG-2:- The original SHG as initialized by NABARD had certain limitations. This led to NABARD preparing a strategy to revitalize the SHG movement leading with the induction of SHG-2 model.

ii. Women SHGs Development Fund: - The Union Budget 2011-2012 proposed a "Women's SHG's Development Fund" with a corpus of INR 5 billion. The Government created this fund to empower women and promote their SHGs. The responsibility of managing the fund is of NABARD. It managed the same through two of its major microfinance funds, namely Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).

iii. Swarnjayanti Gram Swarozgar Yojana (SGSY):- It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

Recent Project for Financial Inclusion

Swavalamban: It is a co-contributory pension scheme launched on September 26, 2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of INR 1000 to INR 12000 per year in their pension account during financial year 2010-2011, the central Government will contribute a sum of INR 1000 per annum. Swavalamban scheme totaled to 40 lakhs subscribers by March 2014.

Swabhiman: The central Government has launched in a way to achieve financial inclusion programme Swabhiman on February 10, 2011 in which five cr. households of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 cr. no frills account till march 2011.

Suggestions

a. To develop low cost bank branch model: India has the need to develop low bank branch model possibly similar to post office.

b. To promote financial product and services: Reserve bank and Government should give suggestion to the Government to how to promote financial product and services of banking through every means like educational institutions.

c. Telecom companies: They should be allowed for payments of credit and online banking services.

d. Need of financial institutions to be revised and strengthened: The financial systems based on community like chit funds need to be motivated because they provide useful savings and credit functions and result in local growth and their development.

e. Low income families to be served aggressively through financial inclusion: They should not only serve aggressively but also ways should be shown to improve the lifestyle of the poor people of society and around the world.

Conclusion

It is duty of every citizen to ensure that all Indians will have bank accounts and everybody should take part in achieving 100% financial inclusion in India. Setting up financial literacy centers and credit counseling at a pilot basis launching a financial literacy campaign etc. are some initiatives currently under way of furthering Financial Inclusion. After all, we need to accelerate the base towards crowning glory.

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