Volume 03, Issue -01, Jan-Jun 2017, ISSN : 2454- 8545

FINANCIAL INCLUSION IN INDIA: AN OVERVIEW

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Abstract :

Financial inclusion is emerging as the new paradigm of economic growth; it refers to delivery of banking services to masses, ranging from privileged to the disadvantaged people at an affordable and receiver friendly way dwelling in urban and remote locations. This paper explores the overview of financial inclusion in India, initiatives taken in overcoming barriers towards financial inclusion, and the role of financial inclusion in economic development. The purpose of this paper is to analyze the current status of financial inclusion , to critically analyze the Government, RBI and banks initiative on Financial inclusion and literacy in India. The data for the present study has been collected primarily from secondary sources. The secondary data was acquired from reports, journals, NABARD auxiliary Statements, State Level Committee Reports of banks, Census 2016, Economic Surveys. The major finding of the study is that financial inclusion has enough scope for economic growth, uplifting living standard of people. The paper discuss about tackling this disparity between people by ways of financial inclusion through micro finance models and it also analyses how that leads to the economic development of a country. The paper is based on original analysis and interpretation of the data available.

Keywords: Financial inclusion, sustainable growth, inclusive growth

1. Introduction

Financial inclusion is the new paradigm of economic growth which plays a major role in driving away poverty. It refers to delivery of banking services to masses, including privileged and disadvantaged people at affordable terms and conditions. It not only enhances overall financial intensity of agriculture, but also helps in increasing rural non-farm activities which lead to the development of rural economy and improve economic condition of people. Reserve Bank of India and Government play an important role in promoting financial inclusion for economic growth. Government and RBI have taken various steps to increase banking penetration in the country, nationalization of banks, establishment of RRBs, Micro credit facilities, introduction of SHG, and strategy of one person- one account for accessing financial market. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost.

2. Financial Inclusion in India

Financial inclusion is integral to the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population for deposit mobilization and credit intermediation. The term 'financial inclusion' refers to delivery of financial services at an affordable cost in fair and transparent terms and conditions to vast sections of disadvantaged, weaker and low income groups including household enterprises, small medium enterprises and traders. It not only enhances overall financial intensity of agriculture,

but also helps in increasing rural non-farm activities which lead to development of rural economy and improve economic condition of people. According to World Bank's Global Financial Inclusion Survey (2012), only 35% of adults in India had access to a formal bank account and only 8% borrowed from institutional and formal sources. India Central Bank set up the Khan Commission in 2004 to look into Financial Inclusion, and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic" no-frills" banking account. In India, Financial Inclusion first featured in 2005. Mangalam Village became the first village in India where all households were provided banking facilities. The primary aim of Financial Inclusion is to extend the scope of financial system activities to include people with low income. It includes micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self-help groups, entrepreneurial credit etc. Thus, financial inclusion is needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

The essential contents of financial inclusion are:-

- Remittance
- Insurance Financial Counselling
- Credit Bank accounts
- Savings

Constraints of Financial Inclusion

- The three big challenges are-high cost, lack of robust technology, and lack of awareness.
- The banks are facing with high operating costs in extending financial service to the remote areas.
- High maintenance cost of the accounts

3. Financial Inclusion Initiative

- **No-Frills Account (NFAs)**

This concept was introduced by RBI in November 2005 to provide access to basic banking services by financially excluded people. Here, banks open accounts with zero balance or very minimum balance requirement for the underprivileged. From 2012, no-frill accounts would be opened as Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, and overdraft limits at minimal charges.

- **Kisan Credit cards (KCCs)**

Under this scheme, banks issue smart cards to farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2012-13, public and private sector banks issued 1.2 million smart cards as KCCs.

- **Self Help Group - Bank Led Initiative (SLBP)**

The SLBP or Self Help Group – Bank Linkage Program has been the major institutional based innovation in India for enabling access and covering the gap of reaching financially excluded population of the country in the last two decades. In this model, the banks involve themselves with a group of local people, with the idea of enabling them to pool their savings. The same is deposited with the bank against which the bank also provides a certain amount of credit facility. The group takes a decision whether to lend to any member of the group or not. The bank provides the framework, accounting services and support to the group to manage their deposits and lending. Thus the model has an approach of savings first, lending later.

- **General Purpose Credit Cards (GCC)**

In 2005 General Purpose Credit Cards (GCC) were launched, which facilitate credit up to Rs.25000/-without any collateral requirement for rural and semi urban people, based on assessment of household cash flows. As per the RBI's revised guidelines in December 2013, bank can also fulfil Non-farm entrepreneurial credit requirement, of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weavers Card etc.) and no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity, and is otherwise eligible for classification as priority sector.

- **Business Facilitators (BFs)/Business Correspondents (BCs)**

This model is based on information and communication technology (ICT). The intermediaries or BC/BFs are technologically empowered by banks to provide the last mile delivery of financial products and services. Initially created by banks themselves and later with improvisations and RBI policy support, the model on the back of innovative technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, the banks.

- **Bank branch authorization**

RBI has permitted banks to open branches without taking authorization. This would enable the government, regulator and the banks to speed up the drive for financial inclusion and thus make available the financial services to the un banked population of the country.

- **Mobile Banking**

One of the most remarkable developments in terms of innovation in order to harness the full power of technology is that banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m-Paisa by Vodafone and Airtel Money.

- **Kiosk / ATM based banking**

The state government has taken initiatives for providing kiosk based model for access to financial services. Banks also have used technology to enable their ATMs provide 24x7 banking services.

- **Branchless Banking**

Banks have come up with a concept where there would be an online system with chat facility assisting the person to make use of various electronic machines for depositing and withdrawing cash and cheques. This concept is currently limited to urban and semi-urban areas due to limitation in terms of initial cost for banks and literacy / knowledge for the rural population.

- **Aadhaar Enabled payment services**

In this system, Indian citizen having an Aadhaar number updates his/her account with the same. All accounts having aadhaar number updated are reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiaries account. This not only reduces the delay in the benefits being received by the end user, but also reduces chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database empowers a bank customer to use Aadhaar as his/her identity to access various financial services.

- **Women SHGs Development Fund**

The Union Budget 2011-2012 proposed a 'Women' SHGs Development Fund with a corpus of Rs. 500crore. The Govt. of India 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).

- **Swarnjayanti Gram SwarozgarYojana (SGSY)**

A centrally sponsored scheme which 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.

- **National Rural Livelihood Mission (NRLM)**

This was established in June 2010 by the Ministry of Rural Development (MoRD), Govt. of India. It is based on the success of Indira KrantiPatham (IKP), a poverty alleviation program being implemented in Andhra Pradesh.

- **Swavalamban**

A co-contributory pension scheme launched on 26th September 2010 for workers of unorganized sector, where the central government will contribute a sum of Rs.1000 per annum. For workers of unorganized sector to contribute a sum of Rs.1000 to Rs.12000 per year in their pension account during financial year2010-2011. Swavalamban scheme totalling to 40 lakhs subscribers by March 2014.

- **Swabhiman**

The central government has launched Swabhiman programme on 10th February 2011 in which, five crore household of 73000 villages would be provided access to banking services in unbanked areas by opening 50,000,000 crore no frills accounts till March 2012.

- **PFRDA (Pension Fund Regulatory & Development Authorities)**

Government had set up regulatory body for the pension sector on 23rd August 2003. PFRDA's efforts are an important milestone in the development of the sustainable & efficient voluntary defined contributor based pension system of India. PFRDA also works for financial literacy and awareness campaigns as a part of its strategy to protect the interest of subscribers under Swavalamban scheme.

- **Jan DhanYojana**

The flagship financial inclusion programme of Government, launched Jan DhanYojana in August 2015, where banks have opened 12.54 crore accounts as on 31 January 2015. Out of this, 7.5 crore accounts were opened in rural areas and the rest in urban branches. Government data show that a total of 11crores cards have been issued until January, and Jan Dhan accounts have about Rs 10,500 crore deposits.

4. Overcoming Barriers

In a country like India where products like cell phone, water filter and cable TV has been made popular by MNC's for the bottom of the economic pyramid, it is possible to offer solutions through process innovation to tackle both supply side and demand side issues.

Supply Issues

- **No frills Banking**

With the objective of mobilizing savings, the RBI, through its policy statement in 2005-06, propagated the concept of 'no frills' accounts.

- **Business facilitator model**

The supply side issue of reaching the masses can be overcome by the business facilitator model with the help of NGOs and self-help groups. These organisations will be effective in overcoming the language barrier and will be a great facilitator in building trust regarding the formal financial system.

Demand Issues

- **Awareness as a tool for empowerment**

Exposure to technology, media, language proficiency, and occupation and education level is seen to be the greatest factors influencing the awareness and choice of financial products in the supply side. In these,

Volume 03, Issue -01, Jan-Jun 2017, ISSN : 2454- 8545

level of education is seen as a major factor in empowering and facilitating social inclusion as well as financial inclusion.

- **Enabling Technology in creating identity**

Information technology is overcoming the hurdles of exclusion by covering application processing, credit scoring, and credit record and follow up. The concept of financial inclusion can work wonders for the bottom of the economic pyramid, with initiatives like UIDAI contributing towards the unaddressed area. The customers with one Id proof enabled by UIDAI will ensure that the offers and facilities being offered by the government reach the deserving and target customers. This will ensure increased regulation in the entire financial process from document verification, application processing, and maintenance of relation between the authority and the customer, and overall inclusion in credit, insurance, remittances and so on.

5. Role of Financial Inclusion in India

Financial Inclusion is imperative for inclusive growth of India, with more than 25 % of its population living in rural area. Government's onus towards their growth and development is huge and inclusive finance, if targeted and attained in the right manner, will provide an apt solution to severe problems of poverty and unemployment.

Providing access to financial services has significant potential to help lift poor out of the cycle of poverty. Financial inclusion promotes thrift, develops culture of saving and enables efficient payment mechanism by strengthening the resource base of financial institutions for efficient payment mechanism and allocation. Weaker sections and low income groups are typically more vulnerable to financial exclusion as their major problems arise from the need for finances. The formal banking services, by exploiting economies of scale and making judicious use of targeted subsidies may reduce or remove market imperfections and facilitate financial inclusion of the poor, ultimately leading to higher incomes. The access to financial services by the poor would lead to their consumption smoothing and investments in health, education and income generating activities; thus expanding growth opportunities for them. This will lead to financial stability, asset building, and economic mobility and empowerment of the low income group people.

6. Conclusion

Financial inclusion is seen as a prerogative to economic empowerment. A socially inclusive society results in ultimate economic empowerment where there will be regularity of income and reduction in dependence on money lenders and unorganized sector. The paper concludes that, financial inclusion has enough scope for economic growth, raising living standard of people, equality etc. on the basis of above initiatives and projects. The study reveals that financial inclusion plays a major role in driving away the poverty from the country. In India, a day will come when all Indians have their bank accounts, and everybody will take part in financial inclusion. In a large democratic country like India, with widespread geography the progress of people, efficiency of various schemes, standard of living can also be traced through usage of bank accounts unlike the traditional ways consumer index, etc is what the this paper aims to say.

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