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A Study on Financial Inclusion in India

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Abstract: *The term "Financial Inclusion" has remained a buzzword in the past few years among the banking industry. The term is related with increasing the spread of financial services to those who are not aware of or who are not in a position to avail financial services due to remote areas or lack of technology etc. In India, the reforms done in past few years are consistent with the growth and development of poor and disadvantageous groups. The slogan "SABKA SAATH SABKA VIKAS" by P.M. Modi is true in this sense which aims at Balanced Development of all people. It will be possible only when the issues related with corruption and huge gap between poor and rich will be reduced. The term financial inclusion focuses on providing the financial services such as banking and insurance to all people at affordable rates. There are few problems coming in the path of financial inclusion but it is sure that if some co rrective measures are adopted by the authorities, then financial inclusion can be achieved in India to the fullest. This will ultimately fulfill the objective of the campaign Inclusive Growth and Balanced Development. Financial Inclusion, broadly defined, 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. 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.*

Keywords: Financial Inclusion, Financial Services, Social Development

I. Introduction

Financial inclusion may be defined as the process of ensuring access to financial services and timely andadequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion, according to the Finance Minister's 2006-07 budget speech, was defined as "the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost".

Financial inclusion means extending basic banking services at affordable prices to the low income and disadvantaged groups. The Purpose of Financial Inclusion is to connect the excluded with the formal banking system in order to help them obtain an understanding of the financial services available and equipping them with the confidence to make informed financial decisions.

Financial Inclusion, broadly defined, 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. Financial inclusion protects low income group's financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system bydeveloping a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. On the other hand, an underdeveloped financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population and generally strengthens this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions tend to increase households' abilities to insulate themselves from a variety of shocks and may enhance consumer confidence. Wider access to financial services also tends to distribute economic opportunities more broadly, particularly among poorer households and businesses.

1.1 Objectives

To explore the inter-connectivity between financial inclusion and governance of RBI.

1. To know the strategies implemented by Reserve Bank of India to strengthen the financial inclusion.
2. To examine the performance of different banks towards financial inclusion.
3. To know the measures initiated by a bank to strengthen the financial inclusion.

II. REVIEW OF LITERATURE

A lot of research has been done on Financial Inclusion in India by various scholars. Various journals and sites have been referred for the purpose of this study. The term Financial inclusion was first introduced in 2005 by K.C. Chakraborthy, then Chairman of Indian Bank. Various studies done so far as follows:

Roy (2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

Divya Joseph (2014) had studied the level of financial inclusion and financial literacy in India. She tried to check the relationship between type of bank accounts and the amount of deposits coming into the banks.

Dr. V.K. Aggarwal(2014) in his study concluded that Financial inclusion is facing a lot of hurdles like illiteracy, lack of advanced technology in remote areas etc. are the reasons for slow growth of financial inclusion in India. He suggested that Government should formulate revived strategies to boost inclusive growth through financial inclusion.

Purvi Shah and Medha Dubhashi (2015) has tried to study the role of financial inclusion as a means of inclusive growth. They found that only 41 per cent adults have a formal account, with only 37 percent of women having formal account against 46 per cent of men; the gender gap widens further because of varying degrees of income inequalities observed among the developing countries

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic Progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and poverty reduction strategy. Roy (2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. Oya Pinar Ardic et al (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks. The findings indicate that there is fifty-six percent of adults in the world do not have access to formal financial services. V.Ganeshkumar (2013) noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

2.1 RBI Role in Financial Inclusion

- **Simplified KYC Norms:** In order to ensure that low income group (poor people) does not face difficulty in opening the bank account due to procedural hassles, the KYC (Know Your Customer) norms have been simplified. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.
- **Access to Local Vernacular Language:** The RBI asked banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.
- **Financial Education:** It was advised by RBI that Financial Literacy Centres (FLCs) and all the rural branches of SCBs should scale-up financial literacy efforts through conduct of Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of 'Financial Literacy' and 'Financial Access'

- **Licensing of New Banks:** It aims at giving further lift to financial inclusion efforts. Innovative business models, aimed at furthering financial inclusion efforts, would be looked into strictly in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Subbarao).
- **Other Rural Intermediaries:** Banks were permitted by RBI to use other rural organizations like non- government organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.
- **Regulator:** All banks had been advised to submit board approved three years Financial Inclusion Plan (FIP). These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened,coverage of un-banked villages with population above 2000 and as well as below 2000, , KCCs, GCCs issued and others. RBI has been monitoring these plans continuously.
- **Branches in Un-banked Villages:** RBI has directed all banks to allocate at least 25% of the total number of branches to be opened in un-banked (Tier 5 and Tier 6) rural centres.

III. BANKING TECHNOLOGY

A self-sustaining solution wherein cashless payments are enabled through payment transfers by a mere swipe of the card using Point of Sales device at each prospective transaction points (like retail stores, equipment vendors, commuting medium like buses etc.). By having such terminals, the user would just be required to swipe his/her card to effect the payment thereby reducing the number of cash transactions in the system, hence also reducing the demand for currency in the system. Currently, ATM and deposit taking machines operate separately in the market. If these two machines can be clubbed into one and introduce features like document scanning, finger print reader/ iris detector and camera then it can offer all the banking services automatically. Biometric identification of users, voice commands and narration for all facilities will make the machine more users friendly. Also, these machines can be initially employed in urban areas as people might be technology friendly and trust in such machines. Then, after successful implementation, it can be tried in rural areas as well. This machine provides a unique opportunity to act as a small ecosystem of money wherein the cash deposited by some can be used for withdrawals by others and hence will require less replenishment of cash as compared to a regular ATM.

3.1 Financial Inclusion in India

Post-independence, the major focus of the Government and the Reserve Bank of India was to develop a sound banking system that could support planned economic development through mobilization of resources and channel them into productive sectors. Accordingly, the Government and the RBI use the banking system as an important agent of change.

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. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms. The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply the reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers.

GOI (2008) defines 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. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income. Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role for increasing the use of formal sources for availing loan/ credit. Measures initiated by the government include, opening customer service centres, credit counselling centres, Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme.

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. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans.

3.2 Need for Financial Inclusion in India

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for following most important reasons:

1. Creating a platform for inculcating the habit to save money – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings.

2. Providing formal credit avenues – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside.
3. Plug gaps and leaks in public subsidies and welfare programmes – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their Bank Accounts rather than subsidizing products and making cash payments.
4. Reducing the income inequalities: the income inequalities can be decreased by financial inclusion. As it will circulate more money in the banking system, the banks will be able to provide more loans to the people in need of loan for investment purpose.
5. Boosting the economic growth and development: the overall growth of economy depends upon the level of money supply in the banks, and hence the Financial Inclusion can play a vital role in the economic growth and development in the long run.
6. To promote social security schemes for all: social security schemes such as pension scheme or subsidies on different products can be implemented with the help of financial inclusion. Moreover, the role of financial inclusion is vital in reducing the black marketing which was done earlier in the fields where subsidy was not given through bank accounts.

3.3 Role of Government till date in Increasing Financial Inclusion

Government of India constituted a Committee to enhance financial inclusion in India on 22 June 2006. The Committee presented its report in January 2008. CFI has initiated a mission called National Rural Financial Inclusion plan. It has set targets to increase FI in the country across regions and across institutions (banks, rural regional banks etc). It has suggested measures to address both, supply and demand constraints in increasing financial inclusion. The measures to address supply constraints aim to provide finance (via banks, microfinance etc). Demand constraints imply that despite the supply people do not come forward because of number of factors. The report suggests measures to address demand constraints in all the other forms of capital as well. To address human capital it stresses on health and education; for natural capital - enhance access to land which could provide collateral; for physical capital- improve infrastructure; social capital- develop institutions like gram panchayats etc.

IV. CONCLUSION

Finally, it can be said that India is at moderate level of financial inclusion as compared to other countrieson different grounds. Various studies examined that there is a close relationship between financial inclusion and development. But due to the constraints like financial literacy, poverty, advanced technology etc., the inclusive growth is not possible. Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Literacy is a prerequisite for creating investment awareness, and hence innately it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion, although it can help to achieve better results in poverty alleviation. The views from the study should be of help to policymakers and bankers as they consider innovative approaches to improve the participationof financial inclusion drive.

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