FINANCIAL INCLUSION IN INDIA: A ROAD MAP TOWARDS FUTURE GROWTH

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ABSTRACT

Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the people. However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion stands for delivery of appropriate financial services at an affordable cost, on timely basis to vulnerable groups such as low income groups and weaker section who lack access to even the most basic banking services. In this paper, the researcher attempts to understand financial inclusion and its importance for overall development of society and Nation’s economy. This study focuses on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements.

Key words: Financial Inclusion; Financial Exclusion, Financial Services, Financial Viability; Profitability, Financial Condition.


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1. INTRODUCTION

Financial inclusion is now a common objective for numerous central banks. The banking sector takes a lead role in promoting financial inclusion. With the arrival of banking technology and realization that poor are bankable with good business prospects, financial inclusion initiatives will strengthen financial deepening further and provide resources to the banks to expand credit delivery. The banking technology initiatives meant for financial inclusion should be collaborative and innovative with an objective to reduce the transaction costs. Thus, financial inclusion along with the Governmental developmental programmes will lead to an overall financial and economic development in our country.
and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

2. LITERATURE REVIEW

(Massey, 2010) said that, role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion.

(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.

(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. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the in- vestment opportunities in an India.

JDY Mission Document (2014), In the year 2014, our Hon’ble PM launched the Pradhan Mantri Jan Dhan Yojana in which his sole motive was to bring 100% financial inclusion in India. This yojana has been divided into two phases for its implementation. The first phase will range from 15th August, 14 to 14th August, 15 in which universal access to banking facilities, providing basic banking accounts for saving & remittance, Rupay debit card with inbuilt accidental insurance of Rs 1 Lakh and training on financial literacy will be will be provided. The second phase will range from 15th August, 15 2015 to 15th August 2018 in which an overdraft facility of up to Rs 5000/- after six months of satisfactory performance of saving / credit history, creation of Credit Guarantee Fund for coverage of defaults in overdraft A/Cs, Micro-Insurance, Unorganized sector pension schemes like Swavalamban etc will be taken care of.

PM dedicates Digital Village (2015) Prime Minister Shri Narendra Modi dedicated the „ICICI Digital Village to the nation at an event which was organized to celebrate the ICICI Group’s 60 years of partnering India in its progress. ICICI Bank announced that it created the „ICICI Digital Village at Akodara in Sabarkantha district of Gujarat to enable villagers to use technology in various aspects of life including banking, payments, education and healthcare among others. Here, financial transactions are cashless, text books are paperless, children can read books on LED monitors and Tabs, patients can avail the facility of telemedicine and wi-fi connectivity is available across the village for access to the villages’ own website.

3. OBJECTIVE OF STUDY

- To understand the financial exclusion and financial inclusion.
- To analyse the current status of financial inclusion in Indian economy.
- To highlight the need of financial inclusion towards the economic growth of a nation.
- To study the major initiatives and policy measures taken by RBI and GoI for financial inclusion.
- To suggest the future prospects of financial inclusion

4. CONCEPT OF FINANCIAL EXCLUSION

Before understand financial inclusion we should have knowledge about financial exclusion. The word of financial exclusion first time used in 1993 by Leyshon and thrift who were concerned about limited access on banking services as a result number of bank branches were closed. In1999, Kempson and whyley defined financial exclusion in border sense which refers to those people who have excluded access to mainstream financial services and product till date numbers of analysts added their views to define financial exclusion.
In India, The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as restricted access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. So basically, financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

5. CONCEPT OF FINANCIAL INCLUSION

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 Nationalisation 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 Financial inclusion does not stand for delivery of financial services for all at all cost. But it means that the delivery of financial services and products at affordable costs of excluded sections of population and low income groups. It plays a crucial role to remove away the poverty from the country. Financial inclusion is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, living and better income. It provides path for inclusive growth. Financial inclusion can be described as the provision of affordable financial services, viz saving, credit, insurance services, access to payments and remittance facilities by the formal financial systems to those who are excluded. So, financial inclusion refers to access to vast range of financial product and services at affordable cost. It not only includes banking products but also other financial services such as loan, equity and insurance products.

6. DEFINITIONS OF FINANCIAL INCLUSION

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 Chakraborty (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.

7. INITIATION OF FINANCIAL INCLUSION CONCEPT IN INDIA

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks.

The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.
8. NEED OF FINANCIAL INCLUSION

According to the United Nations the main goals of inclusive finance are as follows:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are “bankable,” including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
- Financial and institutional sustainability as a means of providing access to financial services over time
- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

9. VARIOUS APPROACHES TO ACHIEVE FINANCIAL INCLUSION

In India, various measures taken by banks, GOI and RBI for financial inclusion plan.

**Product Based Approach:** Reserve bank of India has been proactive, liberal and supportive while making policies so as to enable financial institutions to come up with innovative products for enabling a common man to get the benefit of the financial inclusion plan. Some products developed for fulfillment of this approach have been mentioned in this paper.

**No- Frills Account (NFAs):** This concept was introduced by RBI in November 2005 to provide access to basic baking services by financially excluded peoples. Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

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

**General Purpose Credit Cards (GCC):** In 2005 Reserve bank of India, issue guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec.”2013 under this approach bank also fulfill Non-farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver’s Card etc) There will be 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. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

**Saving account with Overdraft facility:** Banks have been advised to provide overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

10. BANK LED APPROACH

**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 up 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 to whether to lend to any member of the group. 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. 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.

**Business Facilitators (BFs)/Business Correspondents (BCs):** The BC/BF model is a model which based on information and communication technology (ICT). In this model the intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the 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, i.e., the banks.

11. **REGULATORY APPROACH**

**Simplified KYC Norms:** Under current KYC norms, a customer has to provide number of documents for opening an account as per RBI guidelines. However, the people living in rural areas face problem in fulfilling these norms. To enable banks to tap in this huge opportunity of rural banking in unbanked areas and to meet the objective of financial inclusion, RBI has relaxed a number of norms for accounts opened by people who plan to keep balances not exceeding Rs.50,000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100,000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.

**Simplified bank saving account opening:** The account opening form has been simplified to ease the opening of account by the poorer sections, street hawkers and other migratory labours of the society. iii. Bank branch authorization: RBI has permitted banks to open branches without taking authorization, thus deviating from its normal norms, in tier 3 to 6 city, towns, or villages. This would enable the government, regulator and the banks to speed up the drive for financial inclusion and this make available the financial services to the unbanked population of the country.

12. **TECHNOLOGY BASED APPROACH**

**Mobile Banking:*** One of the most remarkable developments in terms of innovation in order to harness the full power of technology, the 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-Pesa by Vodafone and Airtel Money.

**Kiosk / ATM based banking:** In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches.

**Branchless Banking:** Some of the leading banks have come up with this 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. However this initiative is in a very initial stage and has a limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and hence this concept is currently limited to urban and semi-urban areas.

**Aadhaar Enabled payment services:** In this system, any Indian citizen having an Aadhaar number updates his account with the same. All accounts having aadhaar number updated are to be reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiary’s account. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database is expected to empower a bank customer to use Aadhaar as his/her identity to access various financial services. A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are credited to their Aadhaar enabled bank accounts.

13. **KNOWLEDGE BASED APPROACHES**

Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

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Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

RBI had issued guidelines on the financial literacy Centres (FLC) on in June 2012 for setting up FLCs. It was advised that the rural branches of scheduled commercial banks should increase efforts through conduct of outdoor Financial Literacy Camps at least once a month. Accordingly, 718 FLCs had been set up as at end of March 2013. A total of 2.2 million people had been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

14. GOVERNMENTS INITIATIVES

The government has taken various initiatives indirectly through the regulators, government promoted schemes through its various ministries. Some such initiatives have been listed below.

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.

Women SHGs Development Fund:- The Union Budget 2011-2012 proposed a “Women’s SHG’s Development Fund” with a corpus of Rs. 500 crore. The GoI 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 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.

National Rural Livelihood Mission (NRLM):- Established in June 2010 by the Ministry of Rural Development (MoRD), GoI. It is based on the success of Indira Kranti Patham (IKP), a poverty alleviation program being implemented in Andhra Pradesh. The key strategies of NRLM are to a. Implement the program with greater emphasis on federations of SHGs b. Provide flexibilities to states for designing specific action plans for poverty alleviation, c. Introduce interest subsidy for encouraging repayments of loans and provide multiple doses of credit d. Improve training and capacity building efforts by setting up skill training institutes in each district e. Facilitate market linkages and f. Improve monitoring and evaluation process.

The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):- This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. As the payments are made through the bank/post office accounts, in 2010-11, nearly 10 crore bank/post office accounts have been opened.

Aadhaar- Unique Identification Authority of India (UIDAI):- The GoI has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the GoI. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhaar number will also enable people to have access to services such as banking, mobile phone connections and other government and non-government services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrollment with Aadhaar without going to a bank. The individual will be able to access such bank accounts through a micro-ATM network with large geographic reach.

15. BENEFITS OF FINANCIAL INCLUSION

- At the micro level: For individuals, formal financial institutions provide opportunities to better manage and increase savings. Individuals can also borrow to meet emergency cash needs, such as for hospital visits and funerals, lump-sum expenses such as weddings or funerals or to accumulate assets, such as a bicycle or a cart. Borrowers can also use a loan to fund education or health needs, such as school or medical fees. All these things can make people more productive and happier, boosting the economy as well as the standard of living. There are similar benefits for small entrepreneurs and firms. Loans from financial institutions

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allow them to overcome cash constraints to set up and pursue new businesses. These loans not only provide the funds for working capital needs but also for business expansion. Formal financial institutions also lower the reliance of individuals and firms on moneylenders and other sources of credit in the informal sector that often charge very high rates of interest and can have unreasonable collateral requirements.

- **At the macro level:** It helps mobilize savings that would otherwise be sitting idle and allows them to be invested in more productive areas, improving economic growth potential. At the same time, improvements in labour skills through better education and health care, as well as the set-up of new businesses raise economic productive potential. Lower interest rates charged in the formal sector also improve the sustainability of an individual or firm’s financial condition. A report looking at the full impact of financial inclusion on economic growth potential, estimates that a 10ppt increase in financial inclusion (measured as an account with a formal financial institution as defined in the Global Findex Survey) could raise income per worker by 1.3% on average, with increases in financial inclusion resulting in improvements in total factor productivity and capital per worker.

- **Reducing inequality:** Several experiments suggest that the impact on poverty reduction is significant but varies depending upon the type of instrument used (World Bank, 2014). Individuals have seen a significant improvement in consumption, savings and productive investment through access to basic accounts with financial institutions. Insurance also appears to have a positive impact on growth and poverty reduction through more productive investment in better seeds and more expensive tools, for example. India’s recently announced Jan Dhan Yojana promises to pay benefits directly into bank accounts. The government scheme will also provide overdraft facilities and debit cards to those who sign up. It is expected to help improve fiscal policy through lower leakage of benefits such as grain, fuel and fertilizer subsidies. This could reduce India’s subsidy bill, which is now close to 2% of GDP. Reserve Bank of India (RBI) Governor Raghuram Rajan expects the “link between poor public service, patronage and corruption” to be broken through financial inclusion.

### 16. CHALLENGES TO INCREASING FINANCIAL INCLUSION

While the reasons for lack of financial inclusion vary between countries and regions, a number of common themes emerge. Broadly there are five main barriers to financial inclusion, they are as follows:

- **Natural barriers:** A number of ‘natural’ barriers to financial inclusion often prevent poor people from accessing even the most basic formal financial services. Simply being too poor or the geographic distance to a bank can be a huge deterrent for a poor person. According to a study, globally 25% of ‘unbanked’ adults cited costs (this rises to 31% in SSA), 20% reported that the bank is too far away while 13% reported lack of trust in the bank. Transaction costs, both for banks and poor people, are another major barrier to financial inclusion.

- **Lack of financial infrastructure:** Lack of financial infrastructure is the second major barrier to financial inclusion. Governments have a key role to play by facilitating banks’ access to borrower information. This can be achieved either by passing laws and regulations that enable banks to share information or by directly setting up public credit registries. Public credit registries are databases established and managed by the central banks that capture information on both individual and commercial borrowers and their credit status. Public registries can be important in the early stages of financial development, but they can reduce the attractiveness of private bureaus. Private credit bureaus refer to information-sharing arrangements maintained by private financial institutions.

- **Restrictive regulations:** Restrictive regulations are the third barrier to formal financial inclusion for the poor. The Global Findex data highlights that 18% of adults in the developing world cite ‘lack of necessary documentation’ as the reason for not having a formal account. Stringent KYC documentation requirements imposed by national regulators on banks in order to comply with guidelines around the prevention of money laundering and combating the financing of terrorism can block poor households from entering the financial system. According to a study, globally, each additional document required to open an account reduces...
the number of accounts by 153 per 1,000. More often than not, poor people do not have any form of formal identity documentation.

- **Governance failures** - Weak public-sector institutions that exemplify governance failure can be detrimental to financial inclusion. Improvements in public-sector governance can have a positive impact on the equitable use of and access to financial services. This applies both to banks’ direct relationships with individuals and to any joint ventures they might make with correspondents, microfinance institutions or mobile providers.

- **Lack of suitable products** - The final challenge to financial inclusion is creating attractive financial products. Financial products need to be tailored to meet the needs of the poor. Products need to be affordable, available within reasonable physical proximity and regulated to protect consumers. Banks may need to adopt a different approach towards the poorer segments of society. Although banks have some products that are suitable for addressing the needs of the poor, quite often the poor either have limited knowledge or an incorrect understanding of the products and are reluctant to use them.

### 17. CONCLUSION

Even though enough efforts are being made by all stakeholders viz Regulator, Government, Financial Institutions and others, the efforts are not yielding the kind of result expected. For achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper financial inclusion regulation in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful. Miles to go before we reach the set goals but the ball is set in motion!

### 18. RECOMMENDATIONS

- The government of India, RBI and commercial banks should plan a coordinated campaign in partnership with the trainers and professionals to educate customers about the basic financial products, services.

- Promote the practice of agency banking microfinance institutions & business correspondents so that they can reach the excluded people and make them understand the importance of getting involved in the formal banking system and using the financial products.

- Such policies should be implemented in which financial institutions strive for achieving synergies with the technology providers so that they can reach the population at large and cover as many deprived people as possible and also handle low value, large volume transactions efficiently and effectively.

- Relaxations being provided on the requirements of individual identity proofs for opening bank accounts should be strictly adhered to by the financial institutes for these act as major stumbling blocks and thus restrict the underprivileged to have access to formal financial channels.

- Any government or social security payments or payments under all the government schemes should be strictly routed through the service area bank account. This will make people in rural areas to compulsorily have an account in their service area branch to avail the government benefit.

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