Financial Inclusion and India—Challenges, Opportunities

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Abstract
In recent times Financial Inclusion and Inclusive Growth has drawn and held attention of administrators, policy makers, bankers and the normal layman as the importance of inclusive financial system has become a policy priority in many countries. The Nations across the globe look at financial inclusion as a method of comprehensive growth which provides equal opportunity and means for the people to use earning or a standard help is provided for better standard of living. Each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation’s progress. After 6 decade of Independence India is giving a thought to include inclusive growth which is considered to be the real growth for the economy. For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if it’s weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India’s position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Introduction
Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report “Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services.” The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It is been surprising fact that India ranks second in the world in terms of financially excluded households after China. For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making huge amount of profits or the complexities involved in providing finance to the weaker section. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. Thus the term Financial Inclusion can be defined 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.

Meaning:
Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and
transparent manner by mainstream institutional players. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development.

Definitions:
Financial inclusion may be defined 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 Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). 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 (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Objective of Study:
1. To study the need and importance of financial inclusion for economic and social development of Indian society.
2. To study the extent of financial inclusion in India.
3. To understand the extent of access to banking services in rural areas bank branches and the number of ATM opened in those areas.
4. To make a note on the road blocks to financial inclusion.

Research Methodology:
Research methodology is partly descriptive, partly exploratory and partly casual. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

Need for Financial Inclusion
According to the United Nations the main goals of inclusive Finance are as follows:
1. 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.
2. 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.
3. Financial and institutional sustainability as a means of providing access to financial services over time.
4. 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).

There has been a many objectives related to the need for financial inclusion such as

1. Economic Objectives:
   - For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nation.

2. Mobilisation of Savings:
   - If the weaker sections are provided with the facility of banking services the savings can be mobilised which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.

3. Larger Market for the financial system:
   - To serve the requirements and need of the large section of society there is a surgent need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
4. **Social Objectives:**
   - Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.

5. **Sustainable Livelihood:**
   - Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.

6. **Political Objectives:**
   - There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

**History of Financial Inclusion Concept In India:**
In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, 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.

**Survey Reports On Financial Inclusion**
A financial inclusion survey was conducted by World Bank team in India between April-June, 2011, which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The survey suggest in developing countries India lags behind in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies as can be seen from the table 1. The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global Findex sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money. Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centres. Table - 1: Key Statistics on Financial Inclusion in India: A Survey Source: Asli Demirguc - Kunt and Klapper, L. (2012): „Measuring Financial Inclusion”, Policy Research Working Paper, 6025, World Bank. Thus a lot has to be done at to done to bridge the gap between the formal financial institutions and the rural people needs. To make them aware of the fact about the facilities available for their benefit and which can help India to turn out to a developed nation from a developing nation. As can be seen from the below table-2 that the financial inclusion plan has shown a tremendous growth in the past two years. Banks are gaining momentum in areas like opening up of new banking outlets in rural areas, deploying new business correspondents (BC”s), opening of new frills accounts, granting more credit through KCC(Kisan Credit Card) AND GCC”s(General Purpose Credit Card). Table -2 : Progress of SCBs in Financial
Forthcoming Plan of Banks For Financial Inclusion

The Reserve Bank had advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April 2010 to March 2013. These FIPs contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no-frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

1. **Opening of no-frills accounts:**
   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.

2. **Relaxation on know-your-customer (KYC) norms:**
   KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3. **Use of technology:**
   Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC An Analytical Study: Relevance Of Financial Inclusion...20 model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

4. **Adoption of EBT:**
   Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

5. **GCC:**
   With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks’ customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

6. **Simplified branch authorization:**
   To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without the need to take permission from RBI in each case, subject to reporting.

7. **Opening of branches in unbanked rural centres:**
   To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

8. **Engaging business correspondents (BCs):**
   In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible
individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

**Conclusion**

For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor “Even today the fact remains that nearly half of the Indian population doesn’t have access to formal financial services and are largely dependent on money lenders”. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society.