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IMPLEMENTATION OF FINANCIAL INCLUSION IN INDIA IS AN OPPORTUNITY TO INTEGRATE INDIAN SOCIETY

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"A good job is the best form of inclusion. Rather than assuming the poor need an increasing array of handouts, they should be empowered to equip themselves and their children to become effective contributors to the economy."

-Raghuram Rajan, R.B.I. Governor

Introduction

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions.

IMPORTANCE OF FINANCIAL INCLUSION:

1. It is a necessary requirement for acquiring growth with equity.
2. It protects the poor from the clutches of selfish or greedy moneylenders.
3. It mobilizes the savings of the poor into the formal financial intermediation and channels them into investment.

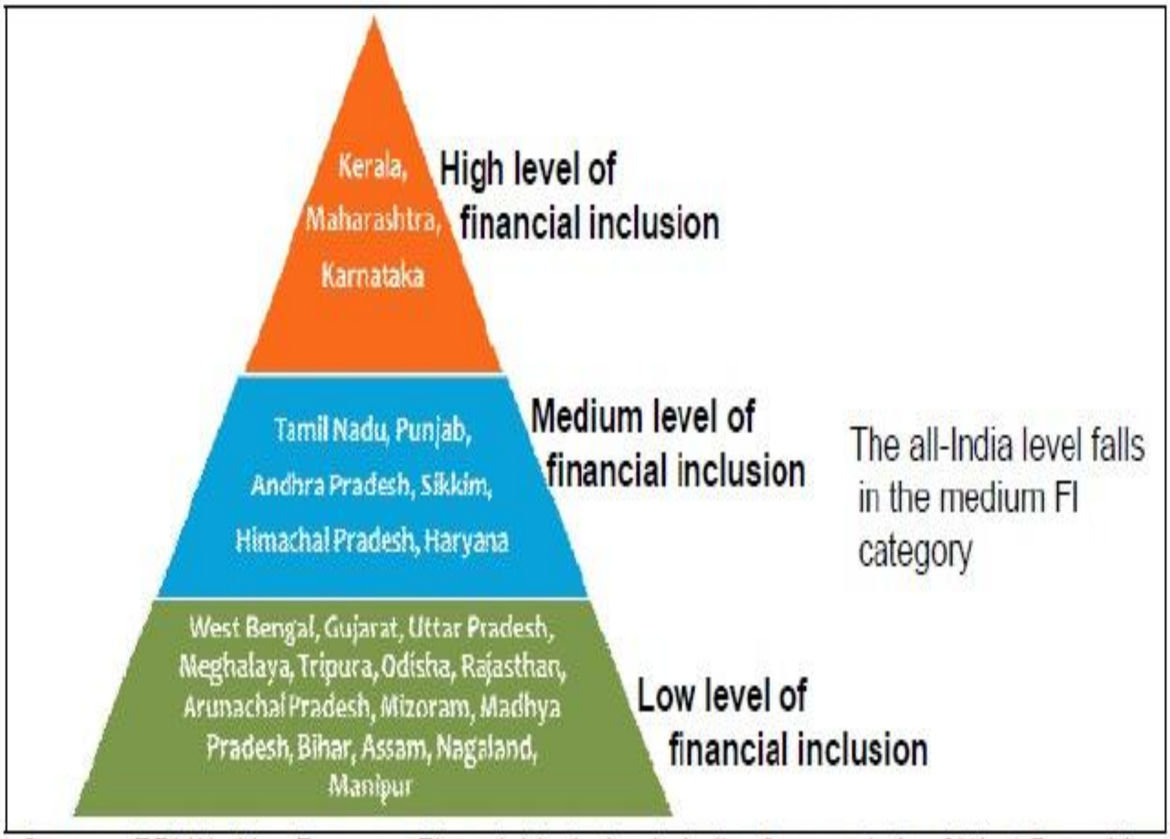
Reasons for financial exclusion

There are a variety of reasons for Financial Inclusion. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barriers. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion. All these result in higher transaction cost apart from procedural hassles. On the other hand, the ease of availability of informal credit sources makes these popular even if costlier. The requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum dwellers.

FINANCIAL INCLUSION IN INDIA:

Financial Inclusion in India has been estimated by various Committees in response to its people access to get benefit from banking services. It is noticed that only 34% of India's population has access to banking services.[1] The Eleventh Five Year Plan (2007-12) visualized inclusive growth as a key feature. It is a task to achieve Inclusive growth in India as it very difficult to bring together 600 million people of rural India into the mainstream. So, one of the best means to achieve Inclusive growth is through Financial Inclusion. In India, the process of Financial Inclusion can be broadly classified into three phases: In the first phase (1960-90), the stress was on channeling of loans or credit to the disadvantaged sectors of the economy. Special prominence was also given on weaker sections of the society. Second phase (1990-2005) emphasized mainly on the reinforcement of financial institutions as part of Financial Sector Reforms. Financial Inclusion was encouraged mainly by the introduction of SHG-bank linkage program in the early 1990's and Kisan Credit Cards (KCCs) in 1998-99 for providing easy and cheap credit to farmers. The SHG-bank linkage program, which was launched by NABARD in 1992, with policy support from RBI, has the motive to provide 'door step' banking to the poor. During the Third phase (2005 onwards), the Financial Inclusion was precisely made as a policy objective and stress was on providing safe facility of savings deposits through "no-frills" accounts.

Chart 1: State-wise index of financial inclusion



Source: *RBI Working Paper on Financial Inclusion in India: A case-study of West Bengal by Sadhan Kumar Chattopadhyay*

[1] http://www.academia.edu/4329521/Role_of_financial_inclusion_for_inclusive_growth

Table 1: Select Indicators of Financial Inclusion, 2011

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 KM		Per 0.1 Million		as % to GDP	
1	**India**	**30.43**	**25.43**	**10.64**	**8.9**	**68.43**	**51.75**
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Swtzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

Recent Measures of the Reserve Bank of India[2] has played a pivotal role for Financial Inclusion. Below are some of the recent steps that RBI has undertaken for financial Inclusion:

Licensing of New Banks:

The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

Discussion Paper on Banking Structure in India –

The Way Forward: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to “Differentiated Banking Licenses”. The subject of licensing ‘small banks and financial inclusion’ has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3-Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex,

[2] ibid

District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

Progress in Financial Inclusion

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

Some Schemes of the Central Government for Financial Inclusion in the Nation:

Financial Inclusion and Swabhimann

Swabhimaan" is a path-breaking initiative by the Union Government and the Indian Banks' Association to bridge economic gap between rural and urban India. This campaign is a big step towards socio-economic equality by bringing the underprivileged segments of Indian population into the formal banking fold for the first time. The vision for this programme is social application of modern technology.

'Swabhimaan' – a financial security programme was launched by the Central Government to ensure banking facilities in habitation with a population in excess of 2000 by March 2012. This nationwide programme on financial inclusion, was launched in February, 2011 with its focus on bringing the deprived sections of the society in the banking network to ensure that the benefits of economic growth reach everyone at all levels.

The key idea is that there is need for village level presence – a customer-facing channel that is close to the customer preferably at a walking distance of not more than three to four kilometers. For this, it is important to have entities which are good at delivering outreach while operating in very difficult remote conditions. Besides giving access to banking, it also enables government subsidies and social security benefits to be directly credited to the accounts of the beneficiaries, enabling them to draw the money from the bank saathi or business correspondents in their village itself.

"This campaign ensures to provide the following services to the Rural India:

- Promises to bring basic banking services to unbanked villages with a population of 2000 and above.
- The movement facilitates opening of banks accounts, provide need-based credit and remittance facilities besides helping in promoting financial literacy in rural India.
- The programme is aimed at increasing the demand for credit among the millions of small and marginal farmers and rural artisans who will benefit by having access to banking facilities.

- This financial inclusion campaign aims at providing branchless banking services through the use of technology.
- Banks provide basic services like deposits, withdrawals and remittances using the services of Business Correspondents (BCs) also known as Bank Saathi.
- The initiative also enables Government subsidies and social security benefits to now be directly credited to the accounts of the beneficiaries so that they could draw the money from the Business Correspondents (BCs) in their village itself.
- The Government hopes that the benefits of micro insurance and micro pension products reach the masses through this banking linkage.
- This programme now makes it possible for the large number of migrant workers in urban areas to remit money to their relatives in distant villages quickly and safely.
- The facilities provided through banking outlets will enhance social security by facilitating the availability of allied services in course of time like micro insurance, access to mutual funds, pensions, etc.
- Banking facilities like Savings Bank, recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques will be provided.
- The Banks are also working together with the Unique Identification Authority of India (UIDAI) for enrolment, opening bank accounts and also to facilitate transfer of government subsidies and other payments.

Financial Inclusion and Mahatama Gandhi National Rural Employment Guarantee Act

That the social transfer payments/ employment guarantee schemes have the capacity to enhance financial inclusion of the poorest of the poor is generally accepted. However, it is necessary to understand the indicators that measure inclusion (conversely, exclusion) and the pre and post-MGNREGA levels of inclusion (exclusion). Although not having a post office (PO)/ bank account is the basic indicator of exclusion, there is a possibility of being financially excluded despite having an account opened in one's name. Thus, an important consideration for the study will be the phase in which the Scheme was implemented in the districts, demand as well as supply of formal, institutional financial services and associated changes in socioeconomic status. Data on usage of bank accounts is often used as a proxy for financial inclusion because data on access to finance and its various dimensions are difficult to collect and extremely limited. Although the usage data may not tell the full story, they can illustrate many aspects of the multidimensional access problem. Rao (2007) is of the opinion that though the financial inclusion covers a wide array of services by the banking sector, one crucial area relates to borrowings from banks by the lower strata of the unorganized segment of the economy. Further, debt owed to institutional and non-institutional sources could be used as barometer of degree of financial inclusion in the two sectors. Thorat (2007) uses the percentage of adult population having bank accounts as a measure of financial inclusion in the payment system. Similarly he uses the percentage of adult population having loan account as a measure of financial inclusion in the formal credit market. Chattopadhyay (2011) uses an index of financial inclusion, which computes the degree of financial inclusion in different states across India - It was developed by calculating a dimension index for each dimension of financial inclusion (three dimensions were considered, banking penetration, availability of the banking services and usage of the banking system.) The index used in the study above draws heavily from the index developed by Sarma (2008). Both the methods mentioned above have been adopted from the methodology used by the United Nations Development Programme (UNDP) for constructing the Human Development Indicators.

Using the dimensional framework given by Basu (2006), our study could also look at analyzing whether financial inclusion under MGNREGA specifically addresses any particular dimension of the problem of access and the manner in which it does so. The banking linked programs and BC model for financial inclusion are a fairly recent development as compared to the Micro Finance Institutions (MFI) and Self Help Group (SHG) movements. This opens up the possibility of an overlap between the two systems and the resulting levels of inclusion could be an outcome of the combined effect of the two. From the point of view of the study, it seems important to separate the effects of the two systems. In conclusion, it is crucial to take heed of the caveat by Zingales and Rajan (2004) that ‘finance cannot create opportunities. It only makes it easier to exploit them’; ‘financial inclusion’ has the potential of being a twofaced friend, helping the poor surface from poverty and, at the same time, being guilty of pushing them back in to the very same troughs.

Financial Inclusion and Pradhan Mantri Jan Dhan Yojana[3]

Pradhan Mantri Jan Dhan Yojana is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi on 28 August 2014.[4] He had announced this scheme on his first Independence Day speech on 15 August 2014.

Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme.[5] By September 2014, 3.02 crore accounts were opened, with around INR 1500 crore (US$240 million) were deposited under the scheme, which also has an option for opening new bank accounts with zero balance.[6]

SBI, India's largest bank had opened 11,300 camps for Jan Dhan Yojana over 30 lakhs accounts were opened so far, which include 21.16 lakh accounts in rural areas and 8.8 lakh accounts in urban areas. On the contrast, even taking together all the major private sector banks, have opened just 5.8 lakh accounts.[7]

The scheme has been started with a target to provide 'universal access to banking facilities' starting with "Basic Banking Accounts" with overdraft facility of Rs.5000[8] after six

[3] http://financialservices.gov.in/banking/jandhan.asp
[4] http://pib.nic.in/newsite/erelease.aspx?relid=109113
[5] http://economictimes.indiatimes.com/news/economy/policy/pm-jan-dhan-yojana-launched-aims-to-open-1-5-crore-bank-accounts-on-first-day/articleshow/41093413.cms
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[8] http://jandhanyojana.net/

months and Rupay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and Rupay Kisan Card. In next phase, micro insurance & pension etc. will also be added.

So, the main purpose of the Jan Dhan Yojana is to provide the financially backward sector of the society a financial security by opening up their own bank accounts in the country and also to provide accidental insurance etc. That is also the main purpose of 'Financial Inclusion'.

For the Jan-Dhan Yojana to succeed the following steps are indicated:[9]

- The business correspondent model should be extended to include entities such as kirana shops, corporates and others. It is obvious that BCs need to be properly remunerated and have the full support of banks. Banks have tied up with common service centres (CSCs) as BCs.
- Insistence on KYC (know your customer) norms has hindered the opening of new accounts even in urban areas. Great significance is, therefore, attached to e-KYCs. The Aadhaar can play an extremely useful role.
- Since mobile banking through phones is to play an increasingly important role in a scenario where physical bank branches will be few, greater co-ordination between mobile telephone companies and banks will be necessary.
- It goes without saying that State governments' support will be crucial.
- Commercial viability will be the key to the programme's success. Past experience suggests that without proper incentives, the facilities on offer will not be used by the really needy. Banks will be saddled with a large number of dormant accounts.

SUGGESTIONS

The financial inclusion is playing a very pivotal role for the upliftment. After having an extensive study of financial inclusion in India, I can come up with several suggestion that how the government will work to boost up 'financial inclusion'.

1. Use of technology in banking sector has developed fast enough and more interestingly the notion that the poor can be brought under the shadow of banking has arrived. Government should implement various instant measures in a more effective manner.

2. Strengthening of Microfinance Institutions, business facilitators & business correspondents, which can give easy access to banking services especially for rural poor.

3. Financial awareness should be enhanced. For that government should timely inform their new schemes, benefits to the people by advertising the same, so that more & more people should be covered financially.

4. More number of rural bank branches should be established in the rural areas.

[9] http://www.thehindu.com/opinion/columns/C_R_L__Narasimhan/the-challenge-of-financial-inclusion/article6345276.ece

5. Credit to the rural poor especially to small & marginal farmers should be given at cheap interest rate. For that Micro finance Institutions or NGOs may be established along with rural banks.

6. Most importantly, equitable distribution of financial services is the key for Inclusive Growth, which Government should take into consideration.

Conclusion

Inclusive Growth depends mainly on equitable distribution of growth benefits and opportunities and Financial Inclusion is one of the most critical parts, which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be assumed by the state that to bring higher growth, there should be inclusive finance irrespective of all sections of people. Unquestionably, the issue of enlarging the geographical and demographic reach creates challenges from the viability or sustainability perspectives and suitable business models are still developing and various delivery mechanisms are being tested with by the numerous government agencies at the central & state level. But, it is felt that the efforts taken are not good enough to meet this overwhelming issue of Financial Inclusion. Financial Literacy and Awareness continue to remain a matter of concern with regard to usage of financial services or products. It appeals for harmonization of all the participants like- Banks, Governments, Civil Societies, and NGOs etc. to reach the objective of Financial Inclusion to create an integrate in the society to achieve theme of SABKA SATH SABKA VIKAS.

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