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A STUDY ON FINANCIAL INCLUSIONS IN INDIA

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Abstract

Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty. Lack of access to financial services in most of rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension service create the need and scope of financial inclusion. Financial inclusion is new paradigm of economic growth. Promotion of financial inclusion has been an important social and financial need across countries. Lack of access to finance for vulnerable and weaker sections of the society has been recognized as a serious threat to economic progress especially in developing countries. The aim of financial inclusion is delivery of banking and financial services in a fair, translucent and impartial manner at reasonable cost to the vast sections of disadvantaged and low income group. The Government of India (GOI) and the Reserve bank of India (RBI) have been making concerted efforts to promote financial inclusion. This paper focuses on the progress of financial inclusion in India, initiatives taken by RBI and government of India and its challenges.

Keywords : *Financial Inclusion, Inclusive Growth, Progress, Policy Initiatives.*

INTRODUCTION

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 deposit mobilization and credit intermediation. 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." 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. Promotion of financial inclusion has been an important social and financial need across countries. Lack of access to finance for vulnerable and weaker sections of the society has been recognized as a serious threat to economic progress especially in developing countries. The Government of India (GOI) and the Reserve bank of India (RBI) have been making concerted efforts to promote financial inclusion as one of the important national objectives. Major efforts made in the last five decades include nationalization of banks, building up of robust branch network of scheduled commercial banks, regional rural banks (RRBs) and co-operatives, lead bank scheme, introduction of mandated priority sector lending targets, formation of Self-help groups, permitting Business Correspondents/Business Facilitators to be appointed by banks to provide door step delivery of banking services, zero balance BSBD (Basic Saving Bank Deposit) accounts, etc.

CONCEPT AND DEFINITION OF FINANCIAL INCLUSION

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. 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. **According to committee on Financial inclusion headed by Dr. C. Rangarajan defined 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."*** 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.

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 Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players."Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc. **In short Financial Inclusion is:**

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion

Where, NFA - No frills bank account

OFIs - Other financial Institutions

MFI - Micro financial Institutions

IT – Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

REVIEW OF LITERATURE

Thorat (2006) Financial inclusion means the provision of affordable financial services, *viz.*, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded.

ices to the entire population without discrimination is the prime objective of the public policy.

Dr. Joji chandran (2008) Sustained growth of the nation and its continued prosperity depend critically on universal financial services covering all people. Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity.

Mandira Sarma and Jesim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.

Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and poverty reduction strategy. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

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, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

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.

Demirg-Kunt A., Klapper L., Singer D., Van Oudheusden P.,(2014) discussing the Global Findex Database 2014, 62% of adults worldwide have an account at a bank or another type of financial institution or with a mobile money provider, up from 51% in 2011. Between 2011 and 2014, 700 million adults became account holders while the number of those without an account dropped by 20% to 2 billion.

OBJECTIVES OF THE STUDY

The main objectives of our study are delineated below as:

- To explore the need and significance of financial inclusion for economic and social development of society.
- To analyse the current status of financial inclusion in Indian economy.
- To study the Financial Inclusion Schemes like PMSBY, PMJJBY, PMJDY, SSA, APY, Suraksha Bandhan Scheme.

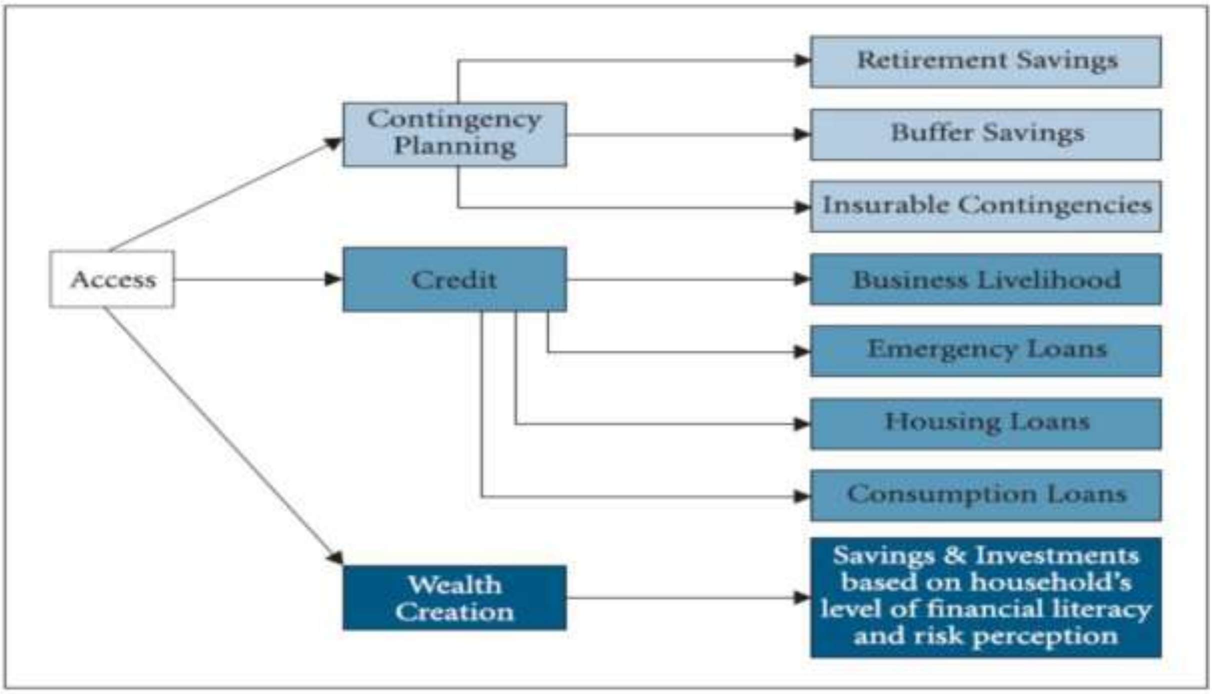
RESEARCH METHODOLOGY

The objective of the paper is to access the Indian experience in the field of Financial Inclusion. The secondary data has been used from various sources to analyze the promotion of Financial Inclusion. The descriptive and empirical studies are used to analyze financial inclusion in India by 2015. Research methodology is partly descriptive and partly exploratory. 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 Reports of NABARD etc.

FINANCIAL INCLUSION IN INDIA

Despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic and political discourse in India even after six decades of post economic independence era. Though economy has shown impressive growth during post liberalization era of 1991, impact is yet to percolate to all sections of the society. Census, 2011 estimates that only 58.7% of the households have access to banking services.

Figure 2: Household Access to Financial Services



Source: A Hundred Small Steps a Report of the Committee on Financial sector reforms by **Raghuram G. Rajan**

FINANCIAL INCLUSION : MILESTONES

- **2006**: In January, banks were allowed to enlist non-profit Bank Mitr (Business Correspondent) as agents for delivery of financial services, acting in the capacity of 'last-mile infrastructure'.
- **2008**: In April, it was determined that BCs should be located not more than 15 kilometres from the nearest bank branch, so as to ensure their adequate supervision. This was a very restrictive rule that severely limited the expansion of this model.
- **2008**: The RBI issued operative guidelines for mobile banking and amended the same in December 2009 to ease the various transaction limits and security norms.
- **2009**: Individual for profits were allowed to participate as BCs, and this category included kirana store , gas stations, PCOs etc. Further, BCs were allowed to operate up to 30 kilometres from the nearest bank branches.
- **2009**: Banks were allowed to apply 'reasonable' service charges from customers to ensure viability of the BC model, and to pay a 'reasonable' commission/fee to theBCs to incentivize them.
- **2010**: In June the RBI and TRAI were able to reach an initial agreement regarding the rollout of mobile banking, whereby TRAI would deal with all interconnection issues and RBI would handle the banking aspects such as KYC checks, transaction limits etc.
- **2010**: In September, all companies listed under the Companies Act (1956) were allowed to act as BCs, with the exception of non-bank financial companies.

- **2010**: The same directive determined that the distance rule was open to and optional relaxation in certain cases, based on the decision of the State Level Bankers' Committees. Document verification falls under the domain of the banks, to ensure adherence to KYC norms. This does slow down the account opening process.
- **2011**: In January, TRAI announced its intent to fix mobile tariffs for financial services as against their current market pricing, with a view to ensuring affordability.
- **2011**: RBI issued guidelines for opening Aadhaar Enabled Bank Accounts to facilitate routing of MGNREGA wages and other social benefits in to the accounts using EBT.
- **2012**: RBI permitted Aadhaar letter as a proof of both Identity & Address for the purpose of opening of bank Accounts
- **2012**: GoI introduced Sub Service Area (SSA) approach for opening of banking outlet and for Direct Cash Transfer.
- **2012**: Aadhaar Payment Bridge System (APBS) was introduced for centralized credit of Social Benefits. Guidelines on Direct Benefit Transfer issued by GoI.
- **2013**: To ease the account opening process RBI permitted to use e-KYC. TRAI issued guidelines on USSD based mobile banking services for FI.
- **2014**: RBI issues guidelines for scaling up of Business Correspondent model.

Table 1: Financial Inclusion Plan-Summary Progress of all Banks including RRBs

	March 2011	**March 2012**	**March 2013**	**March 2014**	**Progress 2011-2014**
Banking outlets -Total	1,16,208	1,81,753	2,68,454	3,83,804	267,596
BSBDAs Total (No. in mn.)	104.7	138.5	182.1	243.0	138.3
KCC (in millions)	27.11	30.24	33.79	39.9	12.79
GCC (in millions)	1.70	2.11	3.63	7.4	5.7

Source: Annual Report of RBI (Various Years)

The number of banking outlets has gone up to nearly 3,83,804. Out of these, 2,68,454 banking outlets were opened during 2013. This shows bank connectivity has improved. • More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million. Numbers of Kisan Credit Cards outstanding have gone up from 27.11 million in 2011 to 39.9 million in 2014. Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2014, banks had 7.4 million GCC accounts. Numbers of General Credit Cards outstanding have gone up from 1.70 million in 2011 to 7.4 million in 2014.

Table 2: Pradhan Mantri Jan - Dhan Yojana
(Accounts opened as on 01.07.2015, Figures in millions)

	Number of Accounts			**No of Rupay Debit Cards**	**% of Zero Balance Accounts**
	Rural	**Urban**	**Total**		
Public Sector Bank	70.7	58.7	129.4	120.4	51.70
Rural Regional Bank	25.1	4.4	29.5	21.2	51.53
Private Banks	4	2.8	6.8	6.1	48.53
Total	99.8	65.8	165.6	147.7	151.76

Source: GoI PMJDY Progress Report

In 2008 the Rangarajan Committee stated that the essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services". In 2014 the RBI Governor Raghuram Rajan declared that financial inclusion was about (i) the broadening of financial services to those who do not have access to financial services, (ii) the deepening of financial services for people who have minimal financial services and (iii) greater financial literacy and consumer protection".

From 2010 to 2013 the Government of India had initiated the Swabimaan program. In 2013 a new scheme, called Pradhan Mantri Jan-Dhan Yojana has been launched by the new administration in place.

The PMJDY aims to ensure access to various financial services like basic savings account, need based credit, remittances facility, insurance and pension to the lower-income groups. According to the GoI, the results obtained by first phase of the Swabhimaan plan were disappointing: while banks had achieved their targets, it had limited reach and impact. It is estimated that 75 million households were still excluded from formal financial services, 60 million in rural areas and 15 million in urban zones. The financial inclusion policy of the new PMJDY program has then been conceived and is based on six objectives that are scheduled to be achieved in two phases:

Phase I (15 August 2014 - 14 August 2015)

1. Universal access to banking facilities (within 5km distance of each village);

2. Providing basic banking accounts for saving and remittance and RuPay Debit Card with in-built accident insurance cover of Rs. 100,000;

3. Financial Literacy Program

Phase II (15 August 2015 - 15 August 2018)

4. Overdraft facility of up to Rs. 5000 after 6 months of satisfactory performance of saving/credit history (a credit guarantee fund would be created for coverage of defaults in overdraft accounts.);

5. Micro-insurance;

6. Unorganized sector pension schemes like Swalamban.

To achieve these targets the Indian authorities rely on previous initiatives towards financial inclusion and new ones conceived under this new scheme.

GOVERNMENT OF INDIA, INSTIGATOR OF FINANCIAL INCLUSION

The Government of India has been the central actor in financial inclusion initiative, which has remained at the center of the public priorities despite the change of government and of political majority.

This is the case of instance with the national pension scheme (NPS): in 2004, the GoI decided to move from a defined benefit pension system to a defined-contribution pension system. With effect from 1st May, 2009 NPS has been provided for all citizens of the country including the unorganized sector workers on voluntary basis. The pension scheme is administered on behalf of the government by the Pension Fund Regulatory and Development Authority (PFRDA). Other schemes launched by the GoI include:

(i) Swavalamban scheme launched in October 2010 and closed in May 2015 (replaced by Atal pension Yojana scheme on June 1st 2015)

(ii) Swarnajayanti Gram Swarojgar Yojana (SGSY), launched in December 1999 was a centrally sponsored scheme that followed the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to bank. SGSY was formed from a merger and restructuring of the Integrated Rural Development Program (IRDP) and allied skills generation programs, namely Training for Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWRCA), Supply of Toolkits in Rural Areas (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS)

(iii) National Rural Livelihood Mission (NRLM) launched in June 2010 by the Ministry of Rural Development expanding nationwide the poverty alleviation program Indira Kranti Patham to take over from the SGSY scheme. With the support of international institutions like theWorld Bank, this scheme combines handholding, training and capacity building and credit linkage.

(iv) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), enacted as an Act in the Parliament in September 2005, 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.

(v) Aadhaar Unique Identi_cation Authority in India (UIDAI), is an initiative to provide an individual identification number to every citizen of India which will serve as a proof of identity and address, anywhere in India and enable people to have access to services such as banking, mobile phone connections and other government and non-government schemes.

(vi) Credit Guarantee Fund Trust for Micro and Small Enterprises, created in 2000 (initially called Credit Guarantee Fund Scheme for Small Industries (CGFSI) and renamed in 2006) aims to guarantee the availability of bank credit to MSMEs by reassuring the lender that in the event of a MSE unit (which availed collateral free credit facilities) failing to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 85% of the credit facility. The scheme is open to new as well as existing Micro and Small Enterprises, with a maximum credit cap of Rs. 10 million.

(vii) The Jan-Suraksha scheme was announced in February 2015 by Finance Minister and launched in May by Prime Minister. It involves the creation of a universal social security system for all Indians, especially the poor and under-privileged through three key parts: Pradhan Mantri Suraksha Bima Yojana (accident insurance), Prahan Mantri Jeevaan Jyoti Bima Yojana (life insurance) and Atal pension Yojana (pension scheme).

(viii) The mobile banking may be expanded as a part of the financial inclusion drive to target 7 .5 crore bank accounts by 2018.

(ix) The two-phase financial inclusion programme has been constructed by the government wherein an overdraft facility of Rs. 5,000 would be provided to 15crore people by August, 2018.

(x) The banks are also encouraged to offer a general-purpose credit card (GCC) facility at their rural and semi-urban branches. The credit to the cardholder will be up to Rs. 25,000.

Recent Project for Financial Inclusion ADHAR : Millions of people have lack of proper proof as driving license, Pan card , credit cards etc. so that they face difficulties to access public services like bank account, ATM facility, loan
facilities etc. The project ADHAR (The brand name of UID) serve the KYC guidelines for the people who have lack of Identity. Thus, UID(Unique Identification Number) could act as a tool to drive financial inclusion for the rural an poor people.

SWAVALAMBAN: A co-contributory pension scheme launched on September 26,2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government will contribute a sum of Rs. 1000 per annum.Swavalamban scheme totaling to 40 lakhs subscribers by March 2014.

SWABHIMAN: The central government has launched in a way to achieve financial inclusion programme Swabhiman on February 10, 2011 in which five crore household of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 crore no frills account till march 2012.

PFRDA (Pension Fund Regulatory & Development Authority's): Government has set a regulatory body for the pension sector on August 23, 2003. PFRDA's efforts is 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.

CONCLUSION

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. The Government of India and the RBI have been making efforts to promote financial inclusion as one of the important national objectives. Even though various measures have been taken and more flow of credit to various sectors of the economy is made, still majority of the rural population have not come under the purview of financial inclusion. Financial inclusion efforts like Pradhan Mantri Jan-Dhan Yojana (PMJDY) policy and recent schemes like the DBT program are a move in the right direction. Therefore, there is a need for coordinated action between the banks, the Government and other related institutions to facilitate access to bank accounts amongst the financially excluded.

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