Financial Inclusion – An Overview

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Abstract- Strong and vigorous financial institutions are the pillars of economic growth, progress and success of modern economies. Lack of accessible, affordable and appropriate financial service has always been a global problem. Therefore, the significance of an inclusive financial system is widely accepted not only in India but has become a policy priority in many countries. Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged. So, RBI has been constantly encouraging the banking sector to develop the banking network both through setting up of new branches, installation of new ATM's, implementation of EBT and also through BC model by leveraging upon the information and communication technology (ICT). This article focuses on the RBI and GOI initiatives and policy measures, current status and future prospects of financial inclusion in India on the basis of facts and data provided by various secondary sources. It is concluded that financial inclusion shows positive and valuable changes because of change in strength and technological changes. Therefore, adequate provisions should be inherent in the business model to ensure that the poor are not driven away from banking. This requires training the banks forefronts staff and managers as well as business correspondents on the human side of banking.

Key words: Financial, RBI Initiatives, GOI Policies.

FINANCIAL INCLUSION – AN OVERVIEW

Introduction

Poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political system. The large numbers From Rural and semi-Urban are required to be provided with much needed financial assistance in Order to sail them out of their conditions of poverty. Accordingly, there is felt a need for policy Support in channelling the financial resources towards the economic uplift men of resource poor in any developing economy. Access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. By giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, their by enhancing them to interrupt the chain of poverty.

Review of literature

(Dr. Joji chandran,2008) 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.

(Thorat, 2006) financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups.

(Leeladhar, 2005) observed that despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged section of the society, into the fold of basic banking services.

Origination of Financial inclusion Notion in India

In India, the concept of financial inclusion was first incorporated in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam village turn out to be the first village in India where all households were provided banking facilities. Norms were relaxed for those people who were planning to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the underprivileged with a outlook to help them access easy credit. In January 2006, the Reserve Bank allowed 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 per cent financial inclusion campaign on a pilot basis. As an outcome of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala declared 100 per cent financial inclusion in all their districts. Reserve Bank of India s visualization for 2020 is to open nearly 600 million new customers' accounts and service them through a diversity of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas remain to be an obstruction to financial inclusion in many states and there is inadequate legal and financial structure.

Factors Affecting Access to Financial Services some of the major factors affecting access to financial services is:

Psychological barriers and Psychological and cultural barriers- Many people willingly excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barriers can be easily noticed when older people find it difficult to use ATMs which is the most convenient from of banking today.

Legal identity- Lack of legal identity like voter Id, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

Level of income - Low income people generally have the attitude of thinking that banks are only for the rich people.

Various terms and conditions - Since banks are profit making organizations they discourage the non-profitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

Structural procedural formalities - It is very difficult for people to read terms and conditions and account-filling forms due to lack of basic education.

Limited literacy- Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non- profit organizations), MFIs and business correspondents etc. People do not know the importance of various financial products like insurance, finance bank accounts, cheque facility etc.

Place of living- Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in under-developed areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

Social security payments- In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

Types of occupation- Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

Attractiveness of the product- Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

Financial Inclusion: An Overview

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. For example, in a developed country non-payment of utility bills through banks may be considered as a case of financial exclusion, however, the same may not(and need not) be considered as financial exclusion in an underdeveloped nation as the financial system is not yet developed to provide sophisticated services. Hence, while making any cross country comparisons due care needs to be taken. A World Bank report states, "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." It recognizes the fact that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. It makes the point that creditworthiness of the customer is critical in providing financial services. The report also stresses the distinction between 'access to' and 'use of' financial services as it has implications for policy makers. 'Access' essentially refers to the supply of services, whereas use is determined by demand as well as supply. Among the non-users of formal financial services a clear distinction needs to be made between voluntary and involuntary exclusion. The problem of financial inclusion addresses the 'involuntarily excluded' as they are the ones who, despite demanding financial services, do not have access to them. "Financial Inclusion may be defined as the process of 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".

Objectives
- To study the major initiatives and policy measures taken by RBI and GOL for financial inclusion.
- To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion.

What is financial inclusion?
Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable. It is in fact, one of the essential conditions for reduction of poverty and socioeconomic inequalities in the society. By financial inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income group who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. Among the key financial services that are of great relevance here are risk management or risk mitigation services vis-a-vis economic shocks. Such shocks may be an income shock due to adverse weather conditions or natural disasters, or an expenditure shock due to health emergencies or accidents, leading to a high level of unexpected expenditure. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families.

Financial Inclusion in India
Financial inclusion (FI) means 'extending the reach of the financial sector to section of the society as well as to geographical regions that were neglected in the past'. The potential for growth in the primary and SME sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganised sector is a constraint to the growth impetus. The access enlarges livelihood opportunities and empowers the poor to take charge of their lives.

Status of financial inclusion in India
The Government of India's National Rural Financial Inclusion plan (NRFIP) has set a target to achieve complete financial inclusion by 2015. The plan aims to serve fifty percent of the financially excluded (280 million) population by 2012 through regional and semi- urban branches of commercial and regional rural banks. To help to achieve these goals, two funds of about US$ 125 million each have been allocated – The financial inclusion fund and the financial inclusion technology fund. The achievement region wise and rural/ urban area wise is depicted below.

Mile Stones in Financial Inclusion Initiatives
- Aug.2005- relaxing the KYC norms for opening small account and simplifying the procedures.
- Nov.2005- introduction of new concept of 'No frills Account' with nil or very minimum balance. Later changed to BSBDAS IN 2012 with zero minimum balance, facility of ATM/Debit card free of charge on deposit service and up to 4 withdrawals, with small OD to meet emergency.
- Jan.2006- permission granted by RBI to banks to appoint business facilitators and business correspondents (BCS) Excluding NBFCS, other's can be engaged as BCs, who can leverage on the penetrative Network of mobile companies.
- To address the issue of outreach and credit delivery in rural and remote areas, commercial banks were advised to implement CBS to make effective use of ICT. Using biometrics to enhance the confidence of illiterates and roping in of RRBs to scale up Financial Inclusion initiatives have been attempted.
- Aadhar Card issued by UIDAI have been included as an eligible document for meeting KYC norms and in Sep 2013, e-KYC services were allowed to be provided by banks, paying way for account opening of all the people.
- Banks have been mandated to open at least 25% of the branches in the rural centers.
- With financial inclusion gaining momentum, banks were geared their presence by opening

branches in all unbanked villages in the country with population more than 2000.

Initiatives for financial inclusion in India

The broad strategy for financial inclusion in India in recent years comprises the following elements: (1) Encouraging penetration into unbanked and backward areas and encouraging agents and intermediaries such as NGOs, MFIs, CSOs and business correspondents (BCs);

(2) focusing on a decentralised strategy by using existing arrangements such as state Level Bankers' committee (SLBC) and district consultative committee (DCC) and strengthening local institutions such as cooperatives and RRBs;

(3) Using technology for furthering financial inclusion;

(4) Advising banks to open a basic banking 'no frills' account;

(5) Emphasis on financial literacy and credit counselling; and

(6) Creating synergies between the formal and informal segments.

Realizing these facts, of financial inclusion 2016 aims at the following

To ensure that the large banking network created is utilized for extending credit products which will make business more viable for banks.

To ensure that the large number of accounts opened seem an equally large volume of transactions taking place and a large number of people reap the benefit of getting linked to the formal financial systems.

To address issues relating to FI & Financial Literacy. RBI constituted a Financial Advisory committee (FIAC) headed by Deputy governor Dr. K.C. Chakrabarty, exclusively mandated for this.

To address the issue of urban poverty, places like Mumbai- Dharavi have been brought under the planning and review mechanism of the lead bank scheme.

Routes to Financial Inclusion

In all fairness, our policy-makers have been cognizant of the role of the financial system in promoting growth as well as equity. In the early 1990s, banking sector reforms were spearheaded by the venerable Mr. M. Narasimham, Chairman of the court of governors of the administrative staff college of India. By implementing the recommendations contained in his reports, the government initiated a silent revolution in the banking sector. However, we now need a second wave of these reform efforts to promote financial inclusion.

Way forward to meet the Dreams of Financial Inclusion

Wider access helps both consumers & producers to increase welfare and productivity and is especially powerful for the poor as it provides them the opportunity to build savings, make investments, avail credit and more importantly insure themselves against income shocks and emergencies. Although substantive measures are in place additional policy tweaks and initiatives are required by individual banks which are outlined below.

Behavioural Economics

Time and again many do not subscribe to a beneficial plan/ product, for example, when pension plan was introduced, 90% of the employees do not enroll. Hence it is imperative that the Govt. Makes financial services mandatory. Again simplification of procedures will encourage more people to use banking services.

Use of Technology

To meet the needs of modern economy go beyond simply beefing up infrastructure like handled devices, smart cards, better vendors and service providers. These would help to remote areas. Financial inclusion will work on the ACTA model- accounts, cash in cash out, transactions and adjancies which will help build a revenue stream.

Infrastructure

Establishment of rural infrastructure is a perquisite for financial inclusion and banks need to contribute towards setting up connectivity and ensuring power supply. Banks to endeavour to bond with rural community by initiating programs to adopt schools, conduct vocational courses for rural youth and so on.

Enhancing Financial Literacy

Financial education in the school curriculum to educate children about benefit of banks and banking services would help in prompting financial inclusion at a faster pace.

Collaboration of stockholders

Collaborative efforts off all stakeholders like RBI, other financial regulators, banks, Govt., NGOs, Civil societies etc., are needed in their mission of universal financial inclusion.

Initiatives by RBI

The reserve bank of India has recognized financial inclusion as a thrust area and initiated a series of policy measures in recent years. The bank's annual policy statement for 2005-06, while recognizing the concerns in regard to banking practices that tend to exclude, rather than attract, vast sections of the population, urged banks to review their existing practices to align them with the objectives of financial inclusion. With a view to achieving greater financial inclusion, the RBI has asked to make available a basic (no-frills) banking account with either nil or very minimal balances or charges to vast sections of the population. This has been an important step forward. Similarly, banks are encouraged to provide a general- purpose credit card (GCC) facility at their rural and semi-urban branches. The facility is aimed at providing revolving credit to the cardholder to meet his/his financial requirements, up to Rs. 25,000. In 2007-08, two funds, i.e., the Financial Inclusion Fund (FIF) for promotional interventions and the Financial Inclusion Technology Fund (FITF) for meeting the cost of technology adoption, were also established with NABARD.

CONCLUSION

With a vision to attain inclusive growth, the Government, RBI and the implementing agencies are required to place mind and hearts together to develop methods and measures to take forward financial inclusion. Though the BC model at the initial stage may not be commercially feasible due to high transaction costs for banks and customers, the proper use of technology can help in reducing this. The need is to develop and apply scalable, platform-independent technology solutions which, if implemented on a large scale, will bring down the high cost of operation. Proper and efficient technology, thus, holds the key for financial inclusion to take place on an accelerated scale. So, there should be implementation of ICT (ATMs Smart cards, and Mobile banking). In India, only 55 per cent of the populations have deposit accounts and 9 per cent have credit accounts with banks. The numbers showing access to other financial services are even more unsatisfactory. Less than 20 per cent of Indian population has life insurance coverage and only 10 per cent have access to any other kind of insurance coverage. The number of credit cards has remained stagnant at around 20 million for last 5 years.

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