A Study on Financial Inclusion in Indian perspective and inclusive growth

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Abstract: Reserve bank of India and government play an important role in promoting financial inclusion for economic growth. The issue of financial inclusion is emerging as the new paradigm of economic growth. Financial inclusion plays a major role in driving a way the poverty from the country. Financial inclusion refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. 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. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. The three major aspects of financial inclusion are (i) Access financial market (ii) Access credit market (iii) Learn financial matters. This paper is prepared on the basis of secondary sources. This paper consists of definitional concepts, scope, need, role of financial inclusion etc.

Keywords: Financial inclusion, role, RBI initiatives.

INTRODUCTION

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. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. 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.

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of underprivileged and low income groups. By financial inclusion we mean 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. It is important to recognize that in the policy framework for development of the formal financial system in India, the need for financial inclusion and covering more and more of the excluded population by the formal financial system has always been consciously emphasized.

1. Financial inclusion may be defined as the process of ensuring access to financial services, 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).

Household Access to Financial Services
Contingency planning
1. Retirement Savings
2. Buffer Savings
3. Insurable Contingencies

Access----Credit services
1. Business Livelihood
2. Emergency Loans
3. Housing Loans
4. Consumption Loans

Wealth Creation services
1.Savings and Investments based on household's level of financial literacy and risk perception

(Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman Dr RaghuramRajan))

OBJECTIVES OF THE STUDY

The following are the Specific Objectives of the study:

- To understand the significance and need for financial inclusion.
- To study the importance of financial inclusion in inclusive growth.
- To know the RBI initiatives towards financial inclusion.

METHODOLOGY

This paper is prepared on the basis of various secondary sources. The secondary data has been collected from RBI reports, World Bank reports, other previous research studies, articles, magazines and other journals.

REVIEW OF LITERATURE

Radhika Dixith & Munmun Ghosh(2013) opined in their study ‘ Financial Inclusion for inclusive growth of India - A study of Indian states’ It needs to be understood by the state that in order to bring orderly growth, order needs to be developed with regard to inclusive finance. The percentage of financial inclusion in the different states of the country varies differently.

Challa Radha kumara & M. R. Geetha Bala(2013) have experienced in their study‘ Financial Inclusion for bridging Rural-Urban divide for Balanced Economic Growth’ – A case study, highlights that the implementation of the policy towards achieving the cent percent Financial Inclusion is proceeding in the required direction as laid down by the RBI. In general the villagers expressed tremendous fulfilment over the governmental efforts for taking the banking and other financial services to their villages, only for bettering their lives. The customers also expressed total satisfaction over employing one among them as the Business Correspondent for operating the CSPs.

Uma .H.R & Rupa.K.N(2013) in their study ‘The role of SHGs in Financial Inclusion-A case study’ found that the number of bank accounts, credit availed and repayment of credit showed positive increase with the membership of SHGs. The Global Financial Inclusion Data base(2012)found that the women are particularly disadvantaged, when comes to the access to financial services.

SCOPE OF THE STUDY

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There can be multiple levels of financial inclusion and exclusion. At one extreme, are the ‘super included’, i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, are the financially excluded, who are denied access to even the most basic of financial products. In between are those, who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers. In India, there are approximately 400 million people in nearly six million villages and semi-urban areas are waiting for small loans and other banking services. There is scope for lending Rs.45000 crore to these people. Against this potential, only about 20 million have been served so far by the organized financial sector, with total disbursements of about Rs.3,900 crore.

NEED FOR INCLUSIVE GROWTH

India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is important and is one of the biggest challenges for India. The challenge is to take the levels of growth to all section of the society and to all parts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms in education, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

The main thrust areas for need of inclusive growth can be studied as follows:

- Removal of poverty and unemployment
- Removal of income inequalities
- Agricultural Development
- Reduction in regional disparity
- For social sector development
- Protecting environment

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.

ROLE OF FINANCIAL INCLUSION

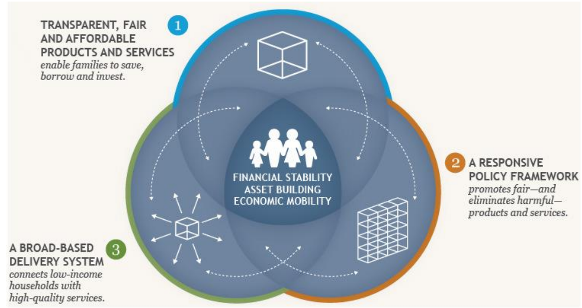
Financial Inclusion is imperative for inclusive growth of India, with more than 25 % of its population living in abject poverty government's onus towards their growth and development is huge, and inclusive finance is one such measure which if targeted and attained in right manner will provide an apt solution to the severe problems of poverty and unemployment. Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty. Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation.

FINANCIAL INCLUSION FOR INCLUSIVE GROWTH OF INDIA-A STUDY OF INDIAN STATES

Poor are typically more vulnerable to financial exclusion this is simply because their major problems arise from the need for finances. The formal banking services, by exploiting economies of scale and making judicious use of targeted subsidies may reduce or remove market imperfections and facilitate financial inclusion of the poor, ultimately leading to higher incomes. The access to financial services by poor would lead to their consumption smoothing and investments in health, education and income generating activities, thus expanding growth opportunities for them. Inclusive growth if targeted systematically may lead to financial stability, asset building and economic mobility and empowerment of the low income group of people.

Following (Figure.-2) is the diagrammatic presentation of how inclusive finance can be used for the same.

Figuer.2



Source: Ford Foundation, US Strategies; How High-Quality Financial Services Help Low-Income.

The above mentioned diagram clearly prescribes the three dimensional approach which is required for financial inclusion and its outcomes. Thus if we are talking about inclusive growth with stability, it is not possible without financial inclusion. However one need to understand that inclusive finance is a long run phenomenon which cannot be achieved overnight, especially with regard to developing country like India where the access to financial products is constrained by several factors such as lack of awareness, unaffordability, high transaction costs, and inconvenient, inflexible and low quality of products.

EXTENT OF FINANCIAL INCLUSION IN INDIA

Several countries across the globe now look at financial inclusion as the means for a more comprehensive growth, wherein, each citizen of the country is able to use his/her earnings as a financial resource that they can put to work to improve their future financial status and simultaneously contribute to the nation's progress. Financial inclusion has always been accorded high importance by the Reserve Bank and Government of India to aid the inclusive growth process for the economy, the history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups and other micro finance services - all these were initiatives aimed at taking banking services to the rural masses. The brick and mortar infrastructure expanded; the number of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ in 2012.

Table-1 provides a glimpse of the manifold expansion of bank branches in India with their percentage distribution in rural areas as well.

Table 1

BANK BRANCHES

Year	Rural	Semi-Urban	Urban & metropolitan	Total	Rural share (%)
1969	1,833	3,342	3,087	8,262	22
1970	3,063	3,718	3,350	10,131	30
1975	6,807	5,598	6,325	18,730	36
1980	15,105	8,122	9,192	32,419	47
1985	30,185	9,816	11,384	51,385	59
1990	34,791	11,324	13,637	59,752	58
1995	33,004	13,341	16,022	62,367	53
2000	32,734	14,407	18,271	65,412	50
2005	32,082	15,403	20,870	68,355	47
2010	32,554	21,053	34,834	88,441	37
2011	33,813	23,236	36,750	93,799	36
2012	35,653	25,542	38,698	99,884	36

Source: RBI

Source: RBI

It can be clearly observed from the above given data that there has been tremendous growth in the spread of banking network in the country since 1969. However despite this wide network of bank branches spread across the length and breadth of the country, the extent of financial exclusion in India is staggering.

RBI Policy Initiatives

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

Financial Inclusion Initiatives

- Advised all banks to open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.
- Relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address9.
- Simplified Branch Authorization Policy, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.
- Compulsory Requirement of Opening Branches in Un-banked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- Opening of intermediate brick and mortar structure, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened,

BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

- Banks have been advised that their FIPs should be disaggregated and percolated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- In June 2012, revised guidelines on Financial Literacy Centres (FLCs). Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

Recent Measures

- 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, 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.

New World Bank Group Report on Financial Inclusion

Low-income populations benefit the most from technological innovations such as mobile payments, mobile banking, and borrower identification based on fingerprinting and iris scans, according to a new World Bank Group report. That's because those innovations make financial services cheaper and easier to access for the poor, women, and rural residents, especially those living in remote, less populated regions without brick-and-mortar bank branches, according to the report, *Global Financial Development Report 2014: Financial Inclusion*.

The report, the second in a series, is the most comprehensive study yet on financial inclusion, a topic that has gained worldwide attention. More than 50 countries have committed to explicit targets to increase financial inclusion. And last month, World Bank Group President Jim Yong Kim set targets toward universal financial access for all working-age adults by 2020.

To allow consumers to take full advantage of those innovations, also including e-mobile wallets and other e-money accounts, the report recommends that regulators encourage competition among financial service providers and improve the legal, regulatory and institutional environment. That will also minimize the chance that credit is overextended among people not qualified to receive it.

"Policy makers need to strike a balance between providing incentives for the new technologies and requiring them to be open to competition," said Martin Cihak, lead author of the report and lead economist in the World Bank's research department. "Competition policy is a key part of consumer protection, because healthy competition among providers gives more power to consumers."

The report includes several datasets, including an updated version of the Global Financial Development Database. The database includes more than 100 financial system characteristics such as the access, efficiency, and stability of financial markets and institutions for more than 200 economies. The report is a part of a broader commitment to provide knowledge and operational support to developing economies. The World Bank Group currently has financial inclusion projects with public and private partners in more than 70 countries.

CONCLUSION

Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the 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 sections of the society, into the fold of basic banking services. These banks are playing a significant role in ensuring sustainable development through financial inclusion. However, there is a long way to go for the financial inclusion to reach to the core poor and according to K. C. Chakrabarty, Deputy Governor of RBI, "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. It is important to recognize that in the policy framework for development of the formal financial system in India, the need for financial inclusion and covering more and more of the excluded population by the formal financial system has always been consciously emphasized. It is essential to effective implementation of government policies and programmes and RBI initiatives to achieve cent percent financial inclusion in India.

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