FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Jare tumi niche phalo, se tomare bandhibe je niche. Paschate rekhecho jare, se tomare poschate taniche. Inclusive growth is much needed to include common people into the orbit of development. Social and economic justice can be provided only with the inclusion of previously excluded deprived section of people. In this paper an attempt is made to make a conceptual discussion on financial inclusion. Discussion is made on financial exclusion, financial inclusion, approaches adopted by banks, measures taken by other regulatory bodies and various government initiatives for promoting financial inclusion, the impact of financial inclusion on social development. At the end an attempt is also made to make some concluding remarks.

Key words: *Financial exclusion, financial inclusion, Regulatory bodies, social development.*

BACKGROUND OF THE STUDY

The term "Financial Inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. (Wikipedia)

Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low-income segments of society. The importance of an inclusive financial system is widely recognised in policy circles and has become a policy priority in many countries. Several countries across the globe now look at financial inclusion as the means to more comprehensive growth, wherein 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. Initiatives for financial inclusion have come from financial regulators, governments and the banking industry. (Chakrabarty, K. C., Sep 21, 2011). In India the financially excluded sections comprise largely rural masses including marginal farmers, landless labourers, oral lessees, self- employed and unorganised sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens, and women and they are mostly excluded from insurance, bank account, access to free money advice, affordable credit-reliance on extortionate credit, savings, assets, poor financial knowledge and understanding. Keeping in mind the background of the study given above this study is an attempt to make a conceptual discussion on financial inclusion in India.

OBJECTIVE OF THE STUDY

Objectives always provide the route and direction to a study to achieve its ultimate goal. Given the background previously provided, the principal objective of the present study is to make a conceptual discussion on financial inclusion and the principal objectives can be decomposed into the following specific objectives

1. To understand the term "financial exclusion".
2. To comprehend the term "financial inclusion".
3. To highlight the initiatives taken by banks, other regulatory bodies and government for promoting financial inclusion.
4. To explore the impact of financial inclusion on social development.
5. To make some concluding remarks.

LITERATURE REVIEW

Normally, any research work originates from some previous works either on the same area or on some related areas. This work is also not an exception to the above. Following are summaries of literature of the studies, which have been found to have any relationship with the present work arranged as under. Divya (2013)[2] attempts to find out the impact of financial inclusion on daily wage earners located in autonagar, Tenali considering a sample size of 210 wage earners. After analysis of the data collected with the help of a questionnaire she says that financial inclusion is very useful for daily wage earners. Kumar and Venkatesha (2014**)**[3] make an attempt to discuss the overview of financial inclusion using PMJDY in India. According to them financial inclusion through PMJDY is one of the greatest steps ever taken to eradicate poverty and this scheme indeed helped many to come into the main stream of economy and reduce financial untouchability. Dangi and Kumar (2013)[4] focus 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. They conclude 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 forefront staff and managers as well as business correspondents on the human side of banking. Garg (2014)[5] gives a note to bring out issues and challenges for reducing financial exclusion. She concludes that banks should take a step forward to formulate specific plans to enhance Financial Inclusion of unbanked section of the society. At the same time they should device the strategies to reduce their transaction cost to actively participate in the process of Financial Inclusion treating it as Business Opportunity and Corporate Social Responsibility. Sarania and Maity (2014)[6] examine the impact Self-Help Groups (SHGs) on financial inclusion of rural people in the district of Baksa, Assam. They select a total of 180 respondents [(90 participants) and (90 nonparticipants)] for the purpose of the study and the overall results reveal that the SHG-Bank linkage programme increased the degree of financial inclusion among SHG households as compared with non-participants households. Sharma and Kukreja (2013)[7] highlight the basic features of financial inclusion, and its need for social and economic development of the society. They focus on the role of financial inclusion, in strengthening the India’s position in relation to other countries economy. For analysing such facts they gather data for the study 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 they conclude 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. Uma and Rupa (2013)[8] highlight the role of SHGs in financial inclusion. After analysis the primary data collected through random sampling method they conclude that there is a positive relationship between SHGs membership and financial inclusion. According to them after the membership to S H Gs there is enormous increase in the number of bank accounts by members to the extent of 82.7 percent from 17.3 percent before membership. With that, the credit availed by the members and annual repayment of the loan also shows positive trend. Thus SHGs help the deprived section of people to enter into formal financial sector and through that social and economic empowerment. Garg and Agarwal (2014)[9] make an attempt to understand financial inclusion and its importance for overall development of society and Nation’s economy. They focus on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements. They collect the relevant data for this study from various secondary sources. According to them the regulator has to create a suitable regulatory environment that would keep the interest of all the stakeholders. Regulatory bodies, banks and Government should intensively work on creation of awareness by educating people about finance. They also conclude that thus, Innovative products, out of the box service models, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted, Financial Inclusion Program. Deepak and Prakash (2014)[10] try to identify the various initiatives of the RBI in crafting & delivering financial products, oriented towards those groups who are financially excluded. On the other hand they also comprehend the policy schemes of the government considering factors such as poverty, illiteracy (financial illiteracy) and human development index. They make this attempt to outline the fact that financial inclusion is contemplation unless inclusive growth is achieved. They conclude that the RBI despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that much needed banking services have not reached a vast segment of the population, especially the underprivileged sections of the society. They also opine that development of a country like India is possible only when there is an inclusive growth where the poverty & the financially illiterate are brought to the main stream by the RBI & Government through its policies & schemes. Bagli and Dutta (2012)[11] seek to examine the achievement of the Indian states regarding the financial inclusion. They compute a comprehensive measure of financial inclusion for each state applying the methodology of Rotated Principal Component Analysis. For this analysis they consider ten indicators of financial Inclusion. They use the data published by the Reserve Bank of India (RBI) and the Government of India. According to them ranks of the states in accordance with the composite score show that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However, the levels of financial inclusion of the states in India have a low mean and high disparity. This study reveals a strong positive association between the human development and the financial inclusion of the states in India.

FINANCIAL EXCLUSION

Financial exclusion refers to a situation where people faces difficulties in accessing and/or using financial services and products in the mainstream market that are appropriate to their needs, and which enable them to lead a normal life in the society. The poor, rural masses including marginal farmers, landless labourers, self- employed and unorganised sector enterprises, socially under-privileged, disabled, migrants, uneducated, ethnic minorities, senior citizens as well as children, women and unemployed are mostly financially excluded in India.

CAUSES OF FINANCIAL EXCLUSION

A number of factors may be the cause of financial exclusion. A summary of the factors that may be the causes of financial exclusion are as follows. On demand side are low literacy rate coupled with scant financial literacy, low income levels, absence of collateral/ assets, lack of awareness and social exclusion. The supply side factors are distance, costs, timings, complicated procedures, sub-optimal attitude of staff and offering of inappropriate products, etc. The requirements of identity proof and address proof can be a vital cause of financial exclusion.

EFFECTS OF FINANCIAL EXCLUSION

People, who are financially excluded from the formal financial system, miss the opportunity to make them developed. Many times financial exclusion is driving the people to approach informal markets like money lenders, unregistered finance companies, chit funds, etc., which suffer from several imperfections. Banks are missing their businesses. Significant quantities of resources are remaining unutilised or are not utilised in appropriate manner. This may affect the overall growth of a country.

FINANCIAL INCLUSION

"Financial inclusion is 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."

– C Rangarajan, Chairman of Committee on Financial Inclusion

"Financial inclusion is expanding access to financial services, such as payments services, savings products, insurance products, and inflation-protected pensions."

_ Raghuram Committee on Financial Sector reforms (CFSR)

IMPORTANCE OF FINANCIAL INCLUSION

Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. It will help in extending economic horizon to the underprivileged class. Financial inclusion will bring unbanked sections under the banking and non-banking operation/system to enlarge the banking edge. This process will warn the victimised classes from the culture of money markets and money lenders. The economically-deprived section will have a scope to enrich them with more financial empowerment and increase their social prestige, status. Financial inclusion will leverage the scope for inclusive growth and it will tend more non-banking products and offering more business opportunities by building a link between financial institution and untapped potential for future economic expansion.

INITIATIVES TAKEN BY BANKS, OTHER REGULATORY BODIES AND GOVERNMENT

In India different regulatory bodies have taken various measures for financial inclusion. RBI has come out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population (Anuradha Gupta, 2010)

- No Frills Accounts (NFAs): This concept was introduced by RBI in November 2005 to provide access to basic baking services by financially excluded peoples. Under this approach banks open accounts with zero balance or very minimum balance requirement for the under-privileged. In 2012, the banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges.
- Relaxation on KYC norms: In order to ensure that people belonging to the low income groups, both in urban and rural areas, do not face difficulties in opening bank accounts, the KYC (Know Your Customer) procedure for opening accounts is simplified for those accounts with balances not exceeding Rs. 50000 and credits thereto not exceeding Rs. 100000 in a year.
- Introduction of GCC: In 2005 Reserve bank of India, issue guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec.‟2013 under this approach bank also fulfil Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weavers' Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.
- Business Correspondents (BCs) and Business Facilitators (BFs) Model: The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model ensures a closer relationship between poor people and organised financial system.
- Use of Information technology: Banks have been advised to make effective use of Information and Communication technology (ICT) to provide doorstep banking services through the BC

model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in banking.

- EBT through Banks: The Reserve Bank is in consultation with state government has adopted Electronic Benefit Transfer (EBT) by banks to direct transfer of cash benefit/subsidy to the needy people. As per government is concerned, financial inclusion ends with EBT, which means that all its subsidy such as LPG, Fertilisers, wages for MGNREGA workers and other financial benefits payments are transferred electronically into beneficiary account.
- Creation of Funds for Financial Inclusion: Central Government has created Financial Inclusion Fund and financial Inclusion Technology Development fund for meeting the costs of development, and promotional and technology interventions. A fund of Rs. 5000 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.
- Consolidation of RRBs: The Regional Rural banks are consolidated by the Central Government.
- Parameters for performance appraisal of bank staff: RBI has advised to the banks to integrate board-approved FIPs with their business plan and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

IMPACT OF FINANCIAL INCLUSION ON SOCIAL DEVELOPMENT

Social development is the process to bring the people into the process of development. It is the way to make people benefited and also to give an opportunity to recognize them and the way they interact with others in the society. Poverty, illiteracy and Human Development Index are the major determinants of financial inclusion. Poverty is complex and multi dimensional in nature. It is reflected in multiple deprivations like inadequate resources or assets or capital required for a minimum livelihood; lack of access to skill development, education, and health and other facilities and amenities. The marginal farmers, landless labourers and casual worker households are the worst sufferers of these deprivations. Even within the category of the poor, scheduled castes, scheduled tribes, woman-headed households, the elderly and female children are the worst affected. Poverty is a social-economic phenomenon in which a section of society is unable to fulfill even its basic necessities of life. Poverty is about denial of opportunities and fulfillment of human potential. Poverty and inequality are closely related, and inequality appears to have been on the rise worldwide in recent decades at both national and international levels. A country like India cannot claim economic growth when one third of the population is living under below poverty line. The aim of the governmental programmes to eradicate poverty should not merely to increase the income level of individual, household or group but to bring the vulnerable in the development process of the country is essential. During the last two decades, India has lifted more than 100 million of its citizens from extreme poverty; still, it is home to a very large number of people living in abject poverty. The Poverty Head Count Ratio (PHCR) is the proportion of population whose per-capita income/consumer expenditure is below the official threshold(s), that is, 'Poverty Line' set by the National Government. In India, the erstwhile Planning Commission had periodically released poverty estimates on the basis of large sample surveys on household consumer expenditure by National Sample Survey Office under the Ministry of Statistics & Programme implementation. The methodology for poverty estimation has been reviewed frequently by the central government and revised accordingly. As of now, the official Poverty Head Count Ratio (PHCR) estimates are based on the Tendulkar methodology and PHCR estimates using this methodology are available for 1993-94, 2004-5 and 2011-12 separately for rural urban and Total at the all India and State. / UT level. The trend in poverty reduction is evident from the decline in the estimates of number of people below poverty line. The actual reduction in the numbers of poor happened during 2004- 05 to 2011-12, when nearly 138 million people were lifted above the poverty line at all India level.

Fig 1 Number of People below Poverty Line (in millions)

	Rural	Urban	Total
1993-94	328.6	74.5	403.1
2004-05	326.3	80.8	407.1
2011-12	216.5	52.8	269.3

Source: Planning Commission (Now renamed as NITI Aayog)

The 2014 Human Development Report (HDR) presents the Human Development Index (HDI) values and ranks for 187 countries in terms of three basic parameters: to live a long and healthy life, to be educated and knowledgeable, and to enjoy a decent standard of living. If we see the HDI of India from 1980 to 2013 we can see that there is an increasing trend. India's HDI value for 2013 is 0.586, positioning the country at 135 out of 187 countries and territories. When among the BRICKS countries Russia is at 57, Brazil is at 79, China is at 91, and South Africa is at118.

Fig 2 HUMAN DEVELOPMENT INDEX TRENDS

1980	0.369
1990	0.431
2000	0.483
2005	0.527
2008	0.554
2010	0.570
2011	0.581
2012	0.583
2013	0.586

Source: HDR 2014

Fig 3 Human Development Index

Country	HDI 2013		Change in Rank	
	Value	Rank	Over 2012-2013	Between 2008 and 2013
Norway	0.944	1	0	0
United states	0.914	5	0	-2
Germany	0.911	6	0	-1
United kingdom	0.892	14	0	-2
Russian Fed.	0.778	57	0	0
Sri Lanka	0.750	73	2	5
Brazil	0.744	79	1	-4
China	0.719	91	2	10
South Africa	0.658	118	1	2
India	0.586	135	0	1
Bangladesh	0.558	142	1	2
Pakistan	0.537	146	0	-1

Source: HDR 2014

CONCLUSION

Financial inclusion should be the ultimate objective as it is a source of empowerment that allows people to participate more effectively in the economic and social process. Many people in India are deprived of financial services from both formal and semi-formal sources of credit. As a result, dependence on money lenders and other informal sources of finance is increasing. To face this type of threats speedy implementation of financial inclusion is needed. Speedy and effective implementation of financial inclusion necessitates some factors to be handled carefully such as awareness campaigning, appointment and compensation of the business correspondents, attitude of the people, political interference, and staff related matters, government policy, etc. Though there is an increasing trend in the HDI from 1980 to 2013, India's HDI value for 2013 is 0.586, positioning the country at 135 out of 187 countries and territories which is the lowest among the BRICS countries, with Russia is at 57, Brazil is at 79, China is at 91, and South Africa is at118, and India is slightly ahead of Bangladesh and Pakistan. While China improved its ranking by ten places between 2008 and 2013, India's position improved by just one rank. Thus a lot remains to be done.

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