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FINANCIAL INCLUSION IN INDIA

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Abstract
This paper is an attempt to comprehend and distinguish the significance of financial inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are very much essential for overall economic growth of a country. The real rate of financial inclusion in India is also very low & about 40 percent of the bank account holders use their accounts not even once a month. But; In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 percent, respectively. Reflecting the high economic growth and a moderation in population growth rate the per capita income of the country also increased substantially in the recent years.

INTRODUCTION

Amartya Sen (2000)[1] convincingly argued that 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 systems. Today the term 'Bottom of the Pyramid' refers to the global poor most of whom live in the developing countries. These large numbers of poor 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 channeling the financial resources towards the economic upliftment of resource poor in any developing economy. The consensus is that finance promotes economic growth but the magnitude of impact differs. Financial inclusion is intended to connect people to banks with consequential benefits. Ensuring that the financial system plays its due role in promoting inclusive growth is one of the biggest challenges facing the emerging economies. We therefore advocate that financial development creates enabling conditions for growth when access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth a reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables, economically and socially excluded people to integrate better into the economy and actively contributes to development and protects themselves against economics shocks.

FINANCIAL INCLUSION

Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. The review of literature suggests that the most operational definitions are context-specific, originating from country- specific problems of financial exclusion and socio-economic conditions. Thus, the context- specific dimensions of financial exclusion assume importance from the public policy perspective. The operational definitions of financial inclusion, have also evolved from the erlying public policy concerns that many people, particularly those living on low income, cannot access mainstream financial products such as bank accounts and low cost loans, which in turn imposed real costs on them – often the most vulnerable people (H.M. Treasury, 2007)[2]. Thus, over the years, several definitions of financial inclusion / exclusion have evolved. In Indian context, Rangarajan Committee (Report of the Committee on.)

Financial inclusion in India (2008)[3] defines it as: "Financial inclusion may be defined as the process of ensuring access to financial services and timely & adequate credit where needed by Vulnerable groups such as weaker sections & low income groups at an affordable cost." The financial services include the entire gamut, savings, loans, insurance, credit payments etc. By providing these services, the aim is to help them come out of poverty.

REVIEW OF LITERATURE

Yadav (2009)[4] claimed that, to achieve Financial inclusion there is need to gear up for upgrading quality of services & also to create customers financial literacy & counseling.

Chattopadhyay (2011)[5] to studied financial inclusion west in Bengal & this resulted that 38% of respondent fill that they do not have sufficient income to open bank account.

Rachana (2011)[6] concluded that there is lot of opportunity for the commercial banks to explore the rural unbanked areas. Though RRBs and PACS have good coverage but most of them are running into losses. Again the number of Kisan Credit

Cards issued and the amount of credit granted under it is also showing a declining trend. Commercial banks should seize this opportunity rather than looking at it as a social obligation.

According to Gaikwad (2012)[7] the bank of Maharashtra is in the very best pursuit of 100 percent financial inclusion by promoting 'Financial inclusion with measures like', 'No Frill Accounts', 'simplified account opening', 'KYC procedure' apart from meeting priority sector targets with over 54 percent of the branches located in rural and semi-urban areas.

Ammannaya (2013)[8]**,** studied shows that financial inclusion of all citizens will have helpful for nation, increasing saving & investment.**Peddada (2013)**[9] says that, overall financial inclusion will bring social harmony & political stability in the country."

INITIATIVES FOR FINANCIAL INCLUSION IN INDIA

The Broad strategy for financial inclusion in India in recent years comprises the following elements : (i) encouraging penetration into unbanked and backward areas and encouraging agents & intermediaries such as NGO's, MFI's, CSO's and business correspondents (BCs); (ii) Focusing on a decentralized strategy by using existing arrangements such as state level Banker's committee (SLBC) and district consultative committee (DCC) and strengthening local institutions such as cooperatives and RRBs. (iii) Using technology for furthering financial inclusion (iv) advising banks to open a basic banking 'no frills' accounts; (v) emphasis on financial literacy credit counseling; and (vi) creating synergies between the formal & informal segments.

FINANCIAL INCLUSION AND INCLUSIVE GROWTH IN INDIA

From an annual average growth rate of 3.5 percent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 per cent in the 1980's & 1990s. In the last four years (2003-04 to 2006-07), the Indian economy grew by 8.8 percent. In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 percent respectively. Reflecting the high economic growth and a moderation in population growth rate the per capita income of the country also increased substantially in the recent years. Despite the impressive numbers, growth has failed to be sufficiently inclusive, particularly after the 1990s. Agriculture sector which provides employment to around 60 per cent of the population lost its growth momentum from that point through there has been a reversal of this trend since 2005-06. The percentage of India's population below the poverty line has declined from 36 percent in 1993-94 to 26 percent in 1999-2000. While India has witnessed unprecedented economic growth in recent past. Its development has been lopsided with the country trailing on essential social and environmental parameters of development. The approach paper to the eleventh plan indicated that the absolute number of poor is estimated to be approximately 300 million in 2004-05. Accordingly, the 11th five year plan has adopted "faster and more inclusive growth" as the key development paradigm. The importance of this study lies in the fact that India being a socialist, democratic republic, it is imperative on the policies of the government to ensure equitable growth of all sections of the economy with only 34% of population engaged in formal banking, India has 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low & about 40 percent of the bank account holders use their accounts not even once a month. It is universally opened that the resource poor need financial assistance at reasonable costs and that too with uninterrupted pace. However, the economic liberalization policies have always tempted the financial institutions to look for more and more greener pastures of business ignoring the weaker sections of the society. In India, the financially excluded sections comprise largely rural masse comprising marginal farmers, landless laborers, oral lasses, Self-employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities & socially excluded groups, senior citizens & women. Some of the important causes of relatively. Low extension of institutional credit in the rural areas are risk perception, cost of its assessment and management, lack of rural infrastructure, and vast geographical spread of the rural areas with more than half a million villages, some sparsely populated (Mohan, 2006)[10]. It is essential for any economy to aim at inclusive growth involving each and every citizen in the economic development progression. It is in this context that financial inclusion should be aimed at inclusive growth in the Indian context.

ISSUES AND CHALLENGES

India currently faces several issues and challenges in the area of financial inclusion for inclusive growth. Salient among them are started has below:

1. Spatial Distribution of Banking Services :Even through after often emphasized policy intervention by the government and the concerted efforts of Reserve Bank of India and the public sector banks there has been a significant increase in the number of bank offices in the rural areas; but it is not in there with the large population

living in the rural areas. For a population of 70 percent only 45 percent of bank offices provide the financial services.

2. Regional Distribution of Banking Services: The analysis by the authors brings to the fore that there has been uneven distribution of the banking services in terms of population coverage per bank office in the six regions viz. Northern, North-eastern, Eastern, Central, Western & Southern regions of the country.
3. Bank Branches Bank branches are required to be increased as it has a direct impact on the progress of financial inclusion. It is clearly established that as the bank branches increase number of bank accounts also increase significantly.
4. Poverty:Poverty level is having direct relationship with the progress of financial inclusion. The authors have established in their study that as the poverty level decrease financial inclusion also increase. As such, there should be multifold strategic approach in such poverty dominated areas for financial inclusion.
5. SC/ST Population : It is ascertained by the authors study that in the areas of scheduled castes / scheduled Tribes population the progress of financial inclusion is slow which indicates that the efforts for financial inclusion has to be increased significantly in such areas in order to bring in social and economic equity in the society.
6. Overcoming Banker's Aversion for Financial Inclusion: Even though no banker openly expresses his aversion for the financial inclusion process overtly it can be noticed that they are averse to it in view of the cost aspects involved in opening of no frill accounts.

POLICY PERSPECTIVE

Financial Inclusion has become a buzzword now but in India it has been practiced for quite some time now. RBI has made efforts to make commercial Banks open branches in rural areas. Priority sector lending was instituted to provide loans to small and medium enterprises and agricultural sector. Further special banks were set up for rural areas like Rural Co-operative Banks, Regional Rural Banks. The government also set up National Level institutions like NABARD, SIDBI to empower credit to rural areas and Small & medium enterprises. Appendix-I presents the banking structure in India and one can see the emphasis on having banks in the rural sector.

Despite the rural policy-push, above statistics suggest majority of the population continues to be financially excluded. The efforts were further intensified by RBI & its Annual Policy (2005-06) mentioned.

RBI will implement policies to encourage banks which provide extensive services while dis incentivizing those which are not responsive to the banking needs of the community, including the under privileged.

The nature, scope and cost of services will be monitored to assess whether there is any denial, implicit or explicit, of basic banking services to the common person. Banks are urged to review their existing practices to align them with the objective of financial inclusion.

THIS RBI FOCUS LED TO A FEW KEY DEVELOPMENTS

No-frill accounts :- In November, 2005, RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. Normally, the savings account requires people to maintain a minimum balance and most banks now even offer various facilities with the same. No-frills account requires no (or negligible) balance and is without any other facilities leading to lower costs both for the bank and the individual. The number of no-frills account has increased mainly in public sector banks from about 0.4 million to 6 million between March 2006 & March 2007. The number of No-frill accounts in private sector banks also increased from 0.2 million to 1 Million in the same period. No significant increases were there in foreign banks. This is understandably so as majority of rural & sub-urban bank offices are in public sector banks.

Usage of Regional Language

The banks were required to provide all the material related to opening accounts, disclosures etc. in the regional languages.

Simple KYC Norms

In order to ensure that persons belonging to low income group both in Urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles. The KYC procedure for opening accounts has been simplified for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year.

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Easier Credit Facilities

Banks have been asked to consider introducing general purpose credit card (GCC) facility up to Rs. 25,000/- at their rural & semi Urban branches. GCC is in the nature of revolving credit entitling the holder to withdraw upto the limit sanctioned. The limit for the purpose can be set based on assessment of household cash flows, the limits or sanctioned without insistence an security or purpose. The interest rate on the facility is completely deregulated. A simplified mechanism for one-time settlement of overdue loans up to Rs. 25,000/- has been suggested for adoption. Banks have been specifically advised that borrowers with loans settled under the one time settlement scheme will be eligible to re-access the formal financial system for fresh credit.

Other rural intermediaries

Banks were permitted in January 2006 to use other rural organizations like Nongovernmental organizations, self-help groups, micro-finance institutions etc. for furthering the cause of financial inclusion.

Using information Technology

A few pilot projects have been initiated to test how technology can be used to increase financial inclusion. Usha Thorat in her speech (June 19, 2007) pointed to a few measures.

Smart Cards for opening bank accounts with biometric Identification

Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.Some state Governments are routing social security payments as also payments under the National rural Employment Guarantee scheme through such smart cards. The same delivery channel can be used to provide other financial services like low cost remittances and insurance.The use of IT also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up. (www.rbi.org.in)

CONCLUSION

Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. With only 34% of population engaged in formal banking, India has 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their account not even once a month. Financial inclusion has far reaching consequences, which can help many people come out of object poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope at activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out at poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.

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