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A STUDY ON FINANCIAL INCLUSION IN INDIA WITH REFERENCE TO BANKING INDUSTRY

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Abstract

Financial Inclusion, broadly defined, 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. Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions.

Key Words: Financial Inclusion, Financial Services, Social Development.

Introduction

Financial inclusion may be defined 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, according to the Finance Minister's 2006-07 budget speech, was defined as "the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost".

Financial Inclusion, broadly defined, 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. Financial inclusion protects low income group's financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. On the other hand, an underdeveloped financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population and generally strengthens this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions tend to increase households' abilities to insulate themselves from a variety of shocks and may enhance consumer confidence. Wider access to financial services also tends to distribute economic opportunities more broadly, particularly among poorer households and businesses.

Objectives

· To explore the inter-connectivity between financial inclusion and governance of RBI.

1. To know the strategies implemented by Reserve Bank of India to strengthen the financial inclusion.
2. To examine the performance of different banks towards financial inclusion.

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3. To know the measures initiated by a bank to strengthen the financial inclusion.

Review of Literature

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic

Progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. Michael Chibba (2009**)** noted that Financial Inclusion is an inclusive development and poverty reduction strategy. 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. 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. The findings indicate that there is fifty-six percent of adults in the world do not have access to formal financial services. 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. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

RBI Role in Financial Inclusion

Simplified KYC Norms: In order to ensure that low income group (poor people) does not face difficulty in opening the bank account due to procedural hassles, the KYC (Know Your Customer) norms have been simplified. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

Access to Local Vernacular Language: The RBI asked banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.

Financial Education: It was advised by RBI that Financial Literacy Centres (FLCs) and all the rural branches of SCBs should scale-up financial literacy efforts through conduct of Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of 'Financial Literacy' and 'Financial Access'

Licensing of New Banks: It aims at giving further lift to financial inclusion efforts. Innovative business models, aimed at furthering financial inclusion efforts, would be looked into strictly in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Subbarao).

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Other Rural Intermediaries: Banks were permitted by RBI to use other rural organizations like non-government organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.

Regulator: All banks had been advised to submit board approved three years Financial Inclusion Plan (FIP). These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, coverage of un-banked villages with population above 2000 and as well as below 2000, , KCCs, GCCs issued and others. RBI has been monitoring these plans continuously.

Branches in Un-banked Villages: RBI has directed all banks to allocate at least 25% of the total number of branches to be opened in un-banked (Tier 5 and Tier 6) rural centres.

Banking Technology

A self-sustaining solution wherein cashless payments are enabled through payment transfers by a mere swipe of the card using Point of Sales device at each prospective transaction points (like retail stores, equipment vendors, commuting medium like buses etc.). By having such terminals, the user would just be required to swipe his/her card to effect the payment thereby reducing the number of cash transactions in the system, hence also reducing the demand for currency in the system. Currently, ATM and deposit taking machines operate separately in the market. If these two machines can be clubbed into one and introduce features like document scanning, finger print reader/ iris detector and camera then it can offer all the banking services automatically. Biometric identification of users, voice commands and narration for all facilities will make the machine more users friendly. Also, these machines can be initially employed in urban areas as people might be technology friendly and trust in such machines. Then, after successful implementation, it can be tried in rural areas as well. This machine provides a unique opportunity to act as a small ecosystem of money wherein the cash deposited by some can be used for withdrawals by others and hence will require less replenishment of cash as compared to a regular ATM.

Financial Inclusion in India

Post-independence, the major focus of the Government and the Reserve Bank of India was to develop a sound banking system that could support planned economic development through mobilization of resources and channel them into productive sectors. Accordingly, the Government and the RBI use the banking system as an important agent of change.

Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms. The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other

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hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers.

GOI (2008) defines 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. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income. Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role for increasing the use of formal sources for availing loan/ credit. Measures initiated by the government include, opening customer service centres, credit counselling centres, Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme.

According to the Planning Commission (2009), 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 household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans.

Conclusion

Finally, it can be said that India is at moderate level of financial inclusion as compared to other countries on different grounds. Various studies examined that there is a close relationship between financial inclusion and development. But due to the constraints like financial literacy, poverty, advanced technology etc., the inclusive growth is not possible. Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Literacy is a prerequisite for creating investment awareness, and hence innately it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion, although it can help to achieve better results in poverty alleviation. The views from the study should be of help to policymakers and bankers as they consider innovative approaches to improve the participation of financial inclusion drive.

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