Volume-6, Issue-1, January - 2017 • ISSN No 2277 - 8160 IF : 3.62 | IC Value 80.26

Original Research Paper Economics

FINANCIAL INCLUSION IN INDIA: A critical evaluation

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KEYWORDS :

Introduction:

Finance and financial systems play a very vital role in the functioning of any economy. Experience suggests that for sustainable growth and development, a vibrant and strong financial system is required .Financial systems of the economy are like a lubricant in the economy, it is life blood, without which we cannot conceive the modern economy. Financial system are not only life blood but also ligaments for connecting various parts of economy. If financial systems fail, whole economy collapses. Various economic crises are points in example.

For an economy like India, this is even more important. India is a country with huge potential, with large resources and with neglected manpower. India is also a country with second largest population after China. This is also the country with largest number of poor. A very large size of population is living below poverty line. One of the reasons for their poverty is that they are excluded from the mainstream of the economy. Growth in India is not inclusive. So money is generated but large numbers of people are not part of this wealth generation process. Not only that we find many leakages in the transfer of resources from government to poor people because of exclusion of these people from financial systems. If we want to solve the problem of poverty than the first prerequisite is to bring these people within the financial umbrella. Without financial inclusion we cannot remove poverty and development cannot become self-sustainable. Non- inclusion of poor in the financial systems can affect them in a number of ways ie. (i) many people find it difficult to get a job because they do not have a bank account (ii) due to lack of inclusion, savings and Borrowings becomes difficult, they could not take advantage of many government schemes (iii) owning or obtaining assets becomes difficult; (iv) life insurance , medical insurance and other facilities to protect them from unforeseen contingencies cannot be availed by them (v) exclusion from mainstream society.

Issue of financial inclusion involves the questions of demand and supply of financial system and products. In India, there is lack of demand for financial products because of low financial literacy, lack of income or low income and on supply side suffers because of deficiency of institution and branches in rural areas, non- availability of proper financial product, apathy of staffs and the transmission mechanism.

Objectives of the study:

1. Mapping the time path of financial inclusion in India
2. Analysing financial reforms for financial inclusion in India
3. Analysing recent financial innovation for financial inclusion.

Extent of financial inclusion in India:

Several indicators have been used to assess the extent of financial inclusion. The most commonly used indicator has been the number of bank accounts per 1000 adult persons. Some other indicators are number of bank branches per million people, number of ATMs per million people, amount of bank credit and amount of bank deposit.

CRISIL INCLUSIX index is developed to measure financial inclusion in India. This is an index having value between 0 and 100. Zero means complete exclusion and mean full inculsion.it focuses on three parameters 1.branch penetration 2. Deposit penetration 3. Credit penetration. Then a combined index of these three is prepared. Index value of less than 25 represents low level of inclusion, between 25 and 40 below average and between 40.1 and 55 above average and value more than 55 is an indicator of high level of financial inclusion. The all India CRISIL Inclusix score in 2011 was 40.1 which is puts India in the category of above average financial inclusion. If we go into the details of this index then it comes out that deposit inclusion is the driving factor of this financial inclusion.

Definition of Financial Inclusion :

There are various aspects of financial inclusion. Following definitions captures the essence of financial inclusion.

The Rangarajan Committee (2008) has defined Financial Inclusion as "Financial Inclusion is 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".

Raghuram Rajan committee on financial sector reforms defines financial inclusion as "expanding access to financial services, such as payment services, savings account, insurance products and inflation protected pensions."

Another important definition is given by CRISIL. It defines financial inclusion as "the extent of access by all sections of society to formal financial services, such as, credit, deposit , insurance and pension services".

Thus financial inclusion can be defined as access by society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services.

Now with the advent of modern technology, it has become very easy to bring people within the ambits of financial systems. New financial innovations are possible and in fact they are happening very quickly.

Indian Approach to Financial Inclusion can be divided in two categories - the minimalist approach and the expanded approach :- (a) The minimalist approach for financial inclusion focuses on the provision of a bouquet of basic financial products and services; whereas, (b) The expanded approach for financial inclusion focuses not only on the provision of the basic banking products but also other important ancillary financial products, which would also entail focus on consumer protection and education, particularly financial literacy for the new entrants to the formal financial system **(Khan, 2012).**

The history of financial inclusion in India is very old. The origin of western type commercial Banking in India can be termed as the beginning of formal financial inclusion in India. The origin of commercial bank in India dates back to the 18th century., the evolution of financial inclusion in India can be studied into three different periods.

Phase I: Early phase of primitive Indian banks to Nationalization of Banks in 1969 :

The story of banking starts from Bank of Hindustan established in 1770. From Bank of Hindustan in 1770. In 1786 General Bank of India was set up. Since Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, it became a banking canter. Three Presidency banks were set up under charters from the British East India Company- Bank of Calcutta, Bank of Bombay and the Bank of Madras. These worked as quasi central banks in India for many years. The Bank of Calcutta established in 1806 immediately became Bank of Bengal. In 1921 these 3 banks merged with each other and Imperial Bank of India got birth. Imperial Bank of India was later renamed in 1955 as the State Bank of India. In 1904 to promote rural and agriculture sector, co-operative banks were set up. In 1934 through the Reserve Bank of India Act, RBI was established to promote develop and regulate the financial sector in India.

Though commercial banks of western types developed during this phase but banking in indigenous form had been known to India earlier also. Shroff's, Seth's, Sahukars, Mahajan's And Cheettis performed the banking activities in India. They were generally family enterprise. They did not get deposits from general public. They deployed their own capital. They granted loan against some collateral. Many instrument used by them are now formalised in modern financial systems like hundis etc. During this phase limit and reach of financial systems was limited.

Phase II: From Nationalization of India banks in 1969 up to advent of liberalization and banking reforms in 1991 :

Nationalisation of 14 banks in 1969 and 6 more in 1980 was a defining moment in the history of financial inclusion in India. Before that banks were reluctant in opening branches in rural areas. But after nationalisation under lead bank scheme and service area approach, rapid expansion of bank branched took place. This helped in bring a large section of society in the financial system. Not only that before 1969, bank neglected rural areas for giving credit. After nationalisation this has changed. After nationalisation agriculture and rural areas were termed as priority sector and it was made mandatory for all public sector banks to lend 40% of their total bank credit to priority sector. As a result advances to priority sector as a percentage of total credit increased from 15%in 1969 to 36.4%in 2012-13. After bank nationalisation social banking was also promoted. In 1972 differential interest rates scheme was impleme-nted. Under the scheme, public sector banks give loans at a concessional interest rate of 4% to the weaker section of society. Another milestone for financial inclusion during this phase is IRDP 1980.IRDP was very innovative programme and it helped in bringing a very large section within the umbrella of financial systems. Regional Rural Banks were set up in 1970 with the specific objective of providing credit and deposit facilities to small and marginal farmers, agricultural labourers and artisan.

Phase III: From Indian Financial and Banking Sector Reforms 1991 onward :

After 1991 India ushered in a new era. Under the influence of neo-liberal policies, economic reforms were implemented in India. Through these reforms, role of state was redefined and economic policies were reoriented towards the dominant role of private sector in achieving objectives of socio economic planning. during this phase large number of financial innovation took place. Many financial products were launched by private sector; they also created some awareness in general public for financial planning through advertisement etc. Entry of private sector in the financial sector gave a major Phillip to financial inclusion in India. Private bank, Private insurance companies, diversification of insurance sector , implementation of agricultural insurance , health insurance , medical insurance, new type of funds like pension funds are some of the new development in financial sector for financial inclusion. kisan credit card, general purpose credit card, self-help groups , MGNREGA, Small Banks , Payment Bank are some other important developments for promoting financial inclusion in India.

After 1991 RBI has taken many measures to promote financial inclusion in India. The RBI, in November 2005, asked all Banks to reach out the villages, all habitations with population in excess of 2000, as per the 2001 census, either through the Bank Branches or through Business Correspondent (BCs). However, since 2011-12, the population benchmark is reduced to 1600 and above. The RBI asked Banks to provide the 'zero-balance' facility in the basic banking accounts along with ATM-cum-Debit Cards without extra charge.

To promote financial inclusion RBI set up Mor Committee on Comprehensive Financial Services for Small Businesses and Low Income Households in September 2013. The recommendations of the committee included provision of bank accounts to all citizens, setting up state finance regulatory commissions and creation of a new entity in the financial system - payment banks.Following recommendations, RBI has issued two new full bank licenses and, in November 2014, released final rules for setting up small banks and payment banks. Small banks will provide both deposits and loans, but geared towards un-served and underserved segments such as small businesses and marginal farmers. Payment banks will offer a limited set of products, mainly demand deposits and remittances and transfers, and will not provide lending services.

To bring unbanked in banking sector, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched on August 28, 2014. On the inauguration day itself, 1.5 crore bank accounts were opened. Accounts opened so far under this scheme are as follows: (as on 14.12.2016) in Rural areas 15.84 crore, Urban areas 10.14 crore accounts and Total number of accounts are 25.98crore, out of these 20.40 crore are RUPAY cards and number of AADHAAR seeded account is 14.30 crore, total balance in accounts was rupee 74123.12 crore and of these 23.22 % of total accounts were zero balance accounts. This must be recognised as a remarkable achievement. Financial instrument available for financial inclusion are very limited in India. Majority of population of India is poor and financially illiterate. Mere opening of bank account will not solve the problems of poor people. Inclusion has to be wide and deep, for that inclusion of insurance in financial inclusion strategy is very critical. and PMJDY takes care of this aspect of financial inclusion. The new PMJDY a provides for insurance but is limited to accident and life. Some other insurance scheme already under implementation are Rashtriya Swasthya Bima Yojana (RSBY) Launched in 2008, which aims to provide health insurance coverage to all below poverty line families in India. The Agriculture Insurance Company was launched in 2002 with the sole motive of promoting insurance cover to farmers in India.

The PMJDY has complemented efforts of the Reserve Bank of India (RBI) of promoting financial inclusion through facilitating opening of bank accounts. The PMJDY is very innovative. Through this inclusion concept has widened in scope and in contents. This provides not only zero-balance bank accounts but also accident insurance cover of 1 lakh, along with an overdraft facility of Rs 5,000 available for account holders. Thus a move from deposit and loan account to insurance. Giving people more security

Strategy to financial inclusion :

The right kind of strategy depends upon the problems and the opportunity faced by sector which it sought to address. In India major hurdles in the financial inclusion are following: 1. Right kind of financial products are not available for poor and rural people. These areas suffer from acute financial exclusion. 2. Many areas do not have adequate bank branches to deposit their money. So absence of physical bank branches is another problem. Where banks are available they find these people un-bankable 3. Lack of financial awareness and literacy. Modern information technology throws large number of opportunities. In our strategy for inclusion we can take advantage of developments in information technology.

For financial inclusion of poor, we can adopt a multidimensional strategy focusing on bank led inclusion which includes setting up more branches in unbanked areas and making people bankable through the schemes of self-help groups. The Business Correspondent model is also very important. BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the banks themselves and later with improvisations and RBI policy support, the model on the back of innovative technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, i.e., the banks. Secondly right kind of products should be innovated and made available to general public, particularly financially excluded people. In this regard RBI has played a very proactive role by making policies liberal. RBI has arranged for no frills account with zero balance and with the facility of debit card and cheque book, internet banking and overdraft limit with minimal charges. For farmer's kisan credit, for general public credit cards are made available. Most of the Indians are financially illiterate. For them transfer of knowledge is required. Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Last but not the least Technology Based approach can bring financial inclusion very fast. In fact our focus should be on this approach. With the help of this approach financial inclusion can be achieved in a very short time and at a very minimum cost. This involves use of Mobile Banking, Kiosk / ATM based banking , internet banking, third party payment systems , app based banking, Aadhaar Enabled payment. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under schemes.

Conclusion:

Financial inclusion is a very important tool to remove poverty. This will also help in reducing regional and income disparities. India has made some progress on this front but still there are long miles to cover. Information technology can play a major role in covering this distance. now a days many financial innovations are possible because of information technology. New kinds products can be devised to bring poor and unbanked in the systems. Internet and mobile technology has made it possible to bring maximum number of people in the system within a very short period of time. And government is doing its bit by giving many concessions, suitable policies and frameworks.

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