RESEARCH PAPER | Management | Volume : 4 | Issue : 4 | Apr 2014 | ISSN - 2249-555X

Financial Inclusion in India: An Overview

KEYWORDS: Financial Inclusion, Financial Literacy, Rural Upliftment, Financial Empowerment

Dr.S.Rajamohan
Professor, Alagappa Institute of Management
Alagappa University, Karaikudi - 630 004.
Tamilnadu, India.

K.Subha
Ph.D Research Scholar, Alagappa Institute of Management, Alagappa University
Karaikudi - 630 004.Tamilnadu, India.

ABSTRACT *Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest rural people consist in the world. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the theoretical of financial inclusion in India.*

INTRODUCTION

Even in the globalization era accessing the financial products and services is considered to be a dream to the rural poor, weaker section of the society and illiterate people. There are socio economic factors disturbing the people in many ways while trying to get the financial access. The factors are such as remoteness location, no awareness among the public about various financial products, literacy, poor standard of living and so on. These reasons lead to the people to exclude themselves from the financial activities. For such kind of people a new initiative has been taken by the Reserve Bank of India with a new concept called Financial Inclusion. Though, the financial Inclusion is the core objective of many developing nations even now in India the financial exclusion and the poverty has been prevailing. With a view to reduce the financial exclusion and poverty.

NEED OF FINANCIAL INCLUSION

The need for incorporating financial inclusion in India hopes to bring social inclusion which is much felt in order to improve the econometrics of India. The Government of India's Committee (NABARD2011) on Financial Inclusion (released by NABARD) in India reports on financial inclusion as the "process of ensuring to be critical" to solving this challenge. Financial products / services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities for life and non life insurance services. The following list is the denotation / connotation of financial inclusion in India. Financial services have failed to adequately reach poorer populations for a number of reasons, which includes inadequate infrastructure, perceptions that lending to the poor is too risky to be commercially viable, inhibiting regulatory/ legal environments and limited understanding of governmental Situation and awareness of financial services by the poor.

1. Affordable credit
2. Savings bank account
3. Payments & Remittance
4. Financial advice
5. Credit/debit cards
6. Insurance facility
7. Empowering SHGs (self help groups)

Financial inclusive system facilitates efficient allocation of productive resources as well potentially reduce the cost of capital incurred. An all-inclusive financial system (Stephen Sinclair, et al. 2011) enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services like easy day-to-day management of finances, safe money transfer etc. The govt. of India as well as the banking industry has recognized this imperative and has undergone certain fundamental changes over the last two decades. There have been much technological advances that have transformed the banking industry from traditional brick and mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines, debit and credit-cards, internet banking, online money transfer etc. The moot point, however, is that access to such technology and services are restricted to only certain segments of society. There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services.

OBJECTIVES OF FINANCIAL INCLUSION

There are objectives being behind the financial inclusion. The objectives are such as mobilization of savings, Larger Market for the financial system, Sustainable Livelihood and the like.

Mobilization of savings

For achieving the harmonious economic development each and every sections of the society leading to a lessening of inequality in terms of earnings and savings, the financial inclusion serves as a boom for the underdeveloped and developing nations. If the weaker segments of the society are provided the banking services with reasonable facilities definitely the households would come forward to save their small savings. In so doing, the banking sector can be helped to the capital formation and growth of the economy.

Larger Market for the financial system

To serve up the necessities and wants of the bigger segment of society there is an imperative need of superior marketplace for the financial system which opens up a new road for the new players in the financial sector and can lead to the growth of banking sector.

Sustainable Livelihood

Poverty abolition is the crux objective of the financial inclusion. Since, it bridges the gap between the poor segment of society and the sources of livelihood, the means of income which can be generated for them if they get loans and advances. Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for

Volume : 4 | Issue : 4 | Apr 2014 | ISSN - 2249-555X

the low income households. Above all there are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

INITIATIVES TAKEN BY THE VARIOUS INSTITUTIONS FOR THE FINANCIAL INCLUSION

In India, financial inclusion concept has introduced in 2005 by K.C. Chakraborthy, the chairman of Indian Bank. The village called Mangalam became the first village in India where all households were provided banking facilities. Where, the banking Norms were also relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank of India allowed the commercial banks to make exercise of the services of non-governmental organizations, micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These Peace Corps could be used as business facilitators and business correspondents by the commercial banks. The bank asked the commercial banks in different regions to start a 100 percent financial inclusion campaign in a pilot basis. As a result of the campaign lot of changes has been made in the regions like Pondicherry, Himachal Pradesh and Kerala announced 100 percent financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be barriers to financial inclusion in many states and there is inadequate legal and financial structure.

STRATEGIES FOLLOWED FOR THE FINANCIAL INCLUSION

The Reserve Bank of India has advised all public and private sector banks to prepare and submit their board approved financial inclusion plans (FIPs) to be rolled out in 3 years from April 2010 to March 2013. These FIPs contained self-set goals in respect of opening of rural element and mortar branches, use of business correspondents (BCs), coverage of unbanked villages through various modes, opening of no-frills accounts, providing Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc. In India, RBI has initiated several measures to achieve the greater share in the financial inclusion, such as facilitating no- frills accounts and GCCs for small deposits and credit. Some of these steps are:

Opening of no-frills accounts

No-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Use of technology

Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the Business correspondents. Where, the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT

Banks have been advised to implement (Excess Profit Tax) EBT by leveraging (Information and Communications Technology) ICT based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

General Credit Card

With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks" customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization

To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

Opening of branches in unbanked rural centres

To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25percent of the total number of branches to be opened during a year to unbanked rural centres.

Engaging business correspondents (BCs)

In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

CONCLUSION

In the global arena India has to look upon a remarkable place for its inclusive growth. For that it considered that the financial inclusion is the key for inclusive growth. Moreover, there is a long way to go for the financial inclusion to reach to the core poor. According to K.C.Chakrabarty RBI Deputy Governor "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". Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperative. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

REFERENCE 1. Dr. Anupama Sharma and Ms. Sumita Kukreja, "An Analytical Study: Relevance of Financial Inclusion For Developing Nations," Research Inventy: International Journal Of Engineering And Science, ISSN: 2278-4721, Vol.2, Issue 6, March 2013, Pp 15-20. | 2. Reserve Bank of India (2006a), "Financial Inclusion and Millennium Development Goals", Address by Usha Thorat, Deputy Governor of the Reserve Bank of India, January 16. | 3. Reserve Bank of India (2006b), "Economic Growth, Financial Deepening and Financial Inclusion", Speech by Rakesh Mohan, Deputy Governor of the Reserve Bank of India, November 20. |