RESEARCH PAPER | Management | Volume : 5 | Issue : 8 | August 2015 | ISSN - 2249-555X

Financial Inclusion-An Overview

KEYWORDS Economic growth, Financial Services, Financial inclusion,Financial system.

MANJIT KAUR

PHD STUDENT AT PUNJABI UNIVERSITY, PATIALA-147001 PUNJAB, INDIA

ABSTRACT *Economic growth and development is directly linked to financial intermediation and access to formal financial system. Financial development helps eradicating poverty by inducing savings and credit facilities to the poor. Number of studies reveal that financial exclusion i.e. lack of access to financial services restricts growth and development. So inclusive growth is advocated and visualized through financial inclusion.*

On review of the existing literature it is observed that as of now a considerable success has been achieved as access to formal banking is concerned. The present paper attempts to present an overview of efforts towards ensuring financial inclusion during last 10 years.

The study is based on secondary data collected from various websites such as official website of RBI, Department of Financial Services & PMJDY and journals and newspapers.

The study attempts to highlight the demand and supply side boosters of financial inclusion as infused by Government of India and Reserve Bank of India. The study reveals that Jan-Dhan Account is to be made strongest link to ensure the success of PMJDY (Financial Inclusion Plan).

Introduction

'Poverty anywhere is a threat to prosperity everywhere' is a common thought today. To ensure more economic and sustainable development, an economy needs to come up as inclusive society where everyone in the society has a particular role to play in designing economic development process. Financial inclusion is one of the perimeters of sustainable development as it helps building domestic savings, financial resilience and stimulates business and entrepreneurial drives. Financial inclusion helps mitigating low income groups' exploitation by the usurious money lenders. Financial inclusion which is a process of ensuring access to financial services by weaker section and low income groups has become a policy priority worldwide. Financial inclusion process ensures grass root nutrition for country like India to tackle problems like poverty, financial exclusion, ignorance etc. In India where nearly 72% population lives in villages (600000 villages), only 5% villages (30000 villages) have access to any formal financial services (according to census, 2011). So in India financial inclusion is the need of the hour.

Financial inclusion in India

Though today India has paved the way for a 100% financial inclusion campaign, the concept of financial inclusion is not new to it. Reserve Bank of India and Government of India has been making concerted efforts to make Indian financial system more inclusive. Starting with nationalization of banks in 1969 and 1980s, priority sector lending requirements, establishments of RRBs, Service Area approach, launching Lead Bank scheme- all these innovative steps had been taken to extend formal financial access to the disadvantaged masses. But expectations were not met because these measures were more to enthuse supply side , while demand side was not given that boost. Then in 2005, KC Chakraborty, the chairman of India Bank introduced the concept of financial inclusion in its present sense. Consequently, various measures such as relaxed regulatory norms, simplified branch authorization, simplified KYC norms, simplified bank account opening forms, business correspondent and business facilitator model, ICT based banking, SHG-Bank linkage programs have been implemented to strengthen supply side of financial inclusion process. And to boost the demand for formal financial services, excluded population is being addressed through financial literacy centers. Pradhan Mantri Jan-Dhan Yojna program has been launched by Prime Minister Narender Modi to ensure at least one member in every household in the country has a bank account. The yojna is aimed at providing universal access to banking facilities, basic banking accounts with overdraft facility and RuPay debit card to all households as fundamental right, conducting financial literacy programs, creating credit guarantee fund, facilitating micro insurance and unorganized sector pension schemes. The objectives of the Yojna are expected to be achieved in two phases up to August, 2018.

A trend setter phenomenon:

Indian Jan-Dhan Model is gaining global attention. The Financial Action Task Force, a global anti-terror financing agency has approved a paper on Indian Jan-Dhan Model and appreciated its success while adhering to KYC norms. RBI has allowed opening of small accounts on the basis of self attestation in the presence of bank officials just to further the process of financial inclusion. Many countries like Russia, Spain and Netherlands are facing the similar challenge of extending formal financial services to the excluded masses. Even US is having 30% of its population uncovered. Countries want to make up the situation without compromising on KYC norms. India's optimum KYC route is an attractive way out. The US, Spain, Russia and the Netherlands have supported the model and are extending efforts to adopt it.

Financial Inclusion- A Road to success:

RBI has advocated a bank led model for financial inclusion with a thrust on leveraging technology. Banks are allowed to adopt solutions which can be easily scaled up and customized as per their requirements. To address the twin issues of demand and supply of financial services, RBI is facilitating a two way approach.

Volume : 5 | Issue : 8 | August 2015 | ISSN - 2249-555X

- **Bank Mitr (Business Correspondent/Business Facilitator) Model:-**

To facilitate branchless banking RBI has allowed banks to take services of Self-Help Groups (SHG), Non-Government Organizations (NGOs), Micro-finance Institutions (MFIs),retired teachers, retired bank employees, retired Government/Military personnel etc., kirana shops, PCOs agents of small saving schemes of GOI, petrol pump owners etc. as intermediaries in providing financial and banking services. To overcome issues around BCs' model, it is being made more viable and sustainable through brand visibility. They are being provided with proper training about basic banking, insurance and pension products and also on customer handling. Required infrastructure like computers, Micro ATM, Bio Metric scanners, printers, web cam and internet connectivity is provided to them at the fixed location so that urban and rural sub service areas can be served well. Consequently no. of villages covered by BCs has increased from 34,174 in 2010 to 3,337,678 in 2014.

- **Simplified branch authorization:-**

RBI has relaxed the branch opening norms for banks to further the financial inclusion process. Banks need no prior RBI permission for opening branches in centers with population less than 1lakh. Banks have been advised to open at least 25% of their new branches in unbanked rural areas. The numbers of branches in rural areas has increased from 33,378 in 2010 to 46,126 in 2014.

- **Mobile banking:-**

As per RBI directions banks are providing ICT (Information communication technology) based banking services through BCs. These services have CBS (core banking services) connectivity. Airtel Money, Vodafone m-pesa and Idea Money are such products being provided by telcos. Airtel, Vodafone and Idea the three telcos which have been authorized by RBI to provide mobile banking services through BCs and they control over 80000,70000 and 8000 agents respectively. Around 60% of these BCs are in rural areas. ATM network is getting broadened to serve the purpose technically.

ATM Network

Number of ATMs of Public Sector Banks:

As on	Off-site ATMs	On-site ATMs	Total ATMs
31.03.2011	19739	29756	49495
31.03.2012	24181	34012	58193
31.03.2013	29411	40241	69652
31.03.2014	44504	65920	110424
31.12.2014	50247	74463	124710

(Source rbi.org)

Number of ATMs of Scheduled Commercial Banks:

As on	Off-site ATMs	On-site ATMs	Total ATMs
31.03.2011	33823	40690	74513
31.03.2012	48141	47545	95686
31.03.2013	58254	55760	114014
31.03.2014	76676	83379	160055
31.12.2014	83290	93119	176409

(Source rbi.org)

- **Opening of Basic Saving Bank Deposit Account:-**

Under PMJDY, to ensure each household should have at least one basic saving bank deposit account, BSBDAs are being opened with ATM card (RuPay debit card and RuPay KCC) and inbuilt overdraft facility. As per RBI estimates by 31.01.2015, 12.54 basic savings accounts have been opened out of which 7.50 crore in rural areas and 5.04 crore in urban areas. 11.07 crore RuPay Debit cards have been issued till 31.01.2015 and deposits of Rs. 10499.62 crore has been mobilized through these accounts.

- **E-KYC approach:**

The KYC norms have been simplified to ease out the account opening process. Customers can open bank accounts by way of self certification in presence of bank officials and these accounts are being made e- Aadhar linked in order to reduce the risk of identity fraud, documentary forgery and have paperless KYC verification.

- **Aadhar linked DBT:-**

To revive dormant accounts and ensure to have sufficient no. of transactions for banks to find them viable, DBT (Direct Benefit Transfer)through Aadhar has been resorted to. This facilitates timely delivery of benefits at the doorstep of beneficiaries and as well as minimizes the chances of leakages in the system. A McKinsey (2011) study estimated that connecting every Indian household to a digital payment system and automating government payment flows can save $22 billion a year, 80% of it from reduced leakages. (www.Pmjdy.com).

- **Financial literacy centers:-**

To accelerate savings and converting them into investment, people need to be made aware of the advantages of access to formal financial services. The tripod of financial stability through financial inclusion is not complete without financial literacy. While financial inclusion works from supply side, financial literacy feeds the demand side by helping them gaining an understanding of financial services available and equipping them with the confidence to make informed financial decisions. To disseminate financial literacy Financial Literacy Centers (FLCs) are being established by banks in concordance with their Financial Inclusion Plans(FIPs).As per RBI 942 Financial Literacy Centers have been set up as at the end of 2014 and a total of 3.8 million people have been educated through awareness camps, choupals and seminars as at the end of 2014.

- **Pradhan Mantry Jan Dhan Yojna:-**

Pradhan Mantri Jan Dhan Yojna is 6 pillars financial inclusion plan. This plan has been launched by Prime Minister Narender Modi on 28 August, 2014. The yojna is aimed at providing universal access to banking facilities, basic banking accounts with overdraft facility and RuPay debit card to all households as fundamental right, conducting financial literacy programs, creating credit guarantee fund, facilitating micro insurance and unorganized sector pension schemes. Credit guarantee fund has been set up to provide guarantee against defaults in overdrafts in basic savings accounts. 5.9 million BSBDAs and 39.9 KCCs have availed overdraft facility up the end of 2014. Three social security schemes pertaining to insurance and pension sector have been launched by PM Narender Modi on 9th May, 2015. Pradhan Mantri Suraksha Bima Yojna is to be administered through General Insurance Companies and Pradhan Mantri Jivan Jyoti Bima Yojna through Life Insurance companies. Atal Pension Yojna relates to old age income security.

Achievements of PMJDY:

✓ **Accounts opened as on 31.01.2015**

In Rural areas	In Urban areas	Total

7.50 crore	5.04 crore	12.54 crore

- ✓ 11.07 crore RuPay Debit cards have been issued till 31.01.2015 and deposits of Rs.10499.62 crore has been mobilized.
- ✓ Out of total requirement of 1,26,837 Business Correspondents, 1,23,805 have been deployed.
- ✓ 1,80,96,130 number of accounts were opened in one week which has been recognized by Guinness World Records and a certificate to this effect has been awarded to Department of Financial Services.

(Sources: financialservices.gov.in)

Financial Inclusion Process Implications:-

There are certain problems on the way to 100% financial penetration in the economy. These include unreliable telecom network and infrastructure issues in tribal and hilly areas of country which makes it difficult to set up Bank Mitr in these areas. Another issue is to keep the accounts alive as most of the accounts opened are dormant due to lack of awareness among people. Despite these problems every possible effort is being made to achieve first phase objectives of the Plan in time but coverage of some of the areas may spill over to Phase-II.

Way forward:

The plans carved out for financial inclusion are to be monitored continuously and flaws are to be eliminated. Jan-Dhan Account link has to be made stronger by transferring maximum number of benefits through it. To achieve financial inclusion goals, RBI need to liberalize its norms for banking intermediaries and allow telecom joint ventures with banking licenses to use their networks to provide banking services. On the whole active and collaborative support of all stakeholders would be essential to make Indian banking 'Inclusive'.

REFERENCE

Chapalgaonkar S.M. and Joshi S.S. (2014), "Financial Inclusion: Moving From Access To Usage", Journal of Accounting and Finance, March, pp.49-54 | 'Economic times' newspaper | http://financial services.gov.in | www.moneycontrol.com | http://www.pmjdy:gov.in | https://www.rbi.org.in/scripts/BS_Speeches