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Financial Inclusion – A Tool of an Economic Development

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Harish.N

Lecturer in Economics, Adarsha College, 12th Cross, 1st Block, R.T.Nagar, Bengaluru, Karnataka-560032

ABSTRACT *Financial inclusion of all individual and all sections of population is very vital from the point of view of ensuring inclusive growth of National economy. Financial inclusion delivers financial services at an affordable cost to the vast sections of disadvantaged and low income groups. The commercial banks, RRBs and District Central Co-operative Banks fulfills the purpose of total financial inclusion. This article mainly focuses on Scope of Financial inclusion to access to financial products and services, Regularity initiatives –liberalization of SHGs to open accounts in banks, use of IT, simpler KYC regulations etc., and conclusion.*

The financial services include the entire gamut-savings, loans, insurance, credit payments etc., the financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, poor background. By providing these services, the aim is to help them come out of poverty. So far, the focus has only been on delivering credit and has been quite successful. Similarly success has to be seen in other aspects of finance as well as financial inclusion.

Financial Inclusion-is a key element of social inclusion necessary in fostering inclusive growth participated by and benefiting all population segments. Financial inclusion combats poverty by opening up blocked advancement opportunities for the disadvantaged poor unleashing their creative energies for lifting themselves out of poverty in terms both of income and other measures of human development. Financial inclusion is aimed to providing banking/ financial services to all the people in affair transparent and equitable manner at affordable cost. The banking system today has been transformed from a brick and mortar life infrastructure to a system well supplemented by other channels like ATMs , credit and debit cards, online banking, online money transfer, green channel etc. however, the point is that these services remained restricted to a selected few. These are large population who lack access to even the most exclusion.

Financial Exclusion – means the denial of access to the most basic financial services/ products. In the narrow terms it is the restrictive access to financial services, through merely banking services for deposits and withdrawal of money. Reasons for Financial Exclusion- In remote hilly, desert and sparsely populated areas the physical and communication infrastructure are insufficient. As a result access to financial services / institutions are severely restricted.

Barriers of Financial Inclusion

The barriers of financial inclusion on demand side illiteracy, low income, pre-owned collateral assets and social exclusion. The reason for exclusion from the supply side are long distance of branch from the residence, un-adjustable timing of the branch, complicated procedure and intricacies of documentation, unfamiliar language, unsuitable products and staff attitude. The requirements of documentary proof of identity and residential address are the most important barrier in opening not only the bank account but also in post offices for availing the financial services. Even an account holder in the bank cannot borrow if he fails to mobilize a guarantor; these are the numerous constraints of financial inclusion. The informal financial institutions are considered under financial exclusion. The informal financial institutions are Money lenders, Relatives Traders Friends and other professionals.

Financial Inclusion – Definition

"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''-Report of the committee on financial inclusion, 2008 [chairman ; Dr. C. Rangarajan]

Financial Inclusion should include access to Financial product and services –

1. Bank accounts – check in account
2. Immediate credit
3. Savings products
4. Remittance and payments services
5. Insurance – Healthcare
6. Mortgage
7. Technological services
8. Financial advisory services
9. Entrepreneurial credit
10. Underprivileged sections in rural and urban areas like Farmers, Small vendors, etc,
11. Agricultural and industrial labourers
12. People engaged in un- organized sectors
13. Unemployed
14. Women
15. Children
16. Old people
17. Physical Challenged people

Financial Inclusion in India – Regulatory Initiatives

RBI implement policies to encourage banks to provide extensive services to needed community, including the underprivileged banks are urged to review their current practices to align them with the objective of financial inclusion. To initiate financial inclusion the RBI focus led to a few key developments.

Lead Bank Scheme:

All banks to submit their financial inclusion plans target-

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ing unbanked areas in India to be covered by March 2011. The Government also set up National level institutions like NABARD, SIDBI to empower credit to rural areas and small and medium enterprises. RBI has made efforts to make commercial banks open branches in rural areas. Priority sectors lending was instituted to provide loans to agricultural sectors.

Opening of No – frills accounts by banks and overdraft facilities:
RBI asked banks to offer no – frills savings account which enables excluded people to open a savings account. Usually No – frills account requires No balance and is without any other facilities leading to lower costs both for the bank and the individual.

Simpler KYC regulations:
In India most of the low income and poor people do not have any documents of identity or proof of address hence, difficult to have KYC norms. So the KYC procedure for opening accounts has been simplified for those persons who intend to keep balance not exceeding rupees fifty thousand [i.e. Rs. 50000] in all their accounts taken together and the total credit in all the accounts is not expected to exceed rupees one lakh in a year.

Use of Information Technology:
Banks urged to scale up IT initiatives for Financial inclusion speedily while ensuring that solutions are highly secure , amenable to audit, and follow widely – accepted open standards to ensure eventual inter – operability among the different systems. These are some important initiatives.

Connect to mobile or hand held connectivity devices for banking transactions. In this connection the RBI advised banks on issues relating to technology, security standards, and customer protection. Smart cards for opening bank accounts with biometric identification. For time constrain RBI introduced Green channel. The use of IT also enables banks to handle the enormous increase in the volume of transaction for millions of households for processing, Freedom points, credit scoring and follow up.

Usage of Regional Language:
The banks were required to provide all the material related to opening accounts disclosures etc in their regional language.

Consumer protection:
Banking Codes and Standards Board of India has evolved two voluntary codes – one which is a code of commitment setting out minimum standards of banking practices in dealing with individual customers. The other is a code of commitment to micro and small enterprises. Individual complaints about non – adherence to the code fall within the jurisdiction of the banking ombudsman. The role of banking ombudsman for the region and on – the –sport conciliation meetings for complaint redressed. Allowing banks to open accounts for SHGs, which were neither registered nor regulated. Penetration achieved through SHGs very significant. About 86 mn poor households covered under the SHG – Bank Linkage Program with over 6.1 mn savings – linked SHGs and 4.2 mn credit – linked SHGs as on March 31, 2009. SHGs movement now spread over the entire country. NABARD offers grant assistance to NGOs that promote SHGs and link them to banks. Banks free to adopt service Area Approach for SHGs.

Financial Education:
RBI has taken number of measures to increase financial literacy in the country. It has set up a multilingual website in 13 languages explaining about banking, money etc., It has started putting up comic strips to explain various difficult subjects like importance of savings, RBI functions etc., These carries explain myriad and complex concepts in an entertaining manner.

Achievements through Financial Inclusion
No- frill accounts – more than 39 million. Rural bank branches – more than 32000. ATMs – more than 45000. Kisan credit cards – more than 76 million. Mobile phones – more than 400 million out of which around 46% do not have a bank account and are hence prime target for financial inclusion using technology.

Conclusion:
Financial inclusion has for reaching consequences, which can help many people come out of object poverty conditions. Financial inclusion of all individual and all sectors of population is very vital from the point of view of ensuring inclusive growth of economy. So, there is no doubt the financial inclusion brings economic prosperity to our entire nation.

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