

Financial Inclusion in India: Policy Initiatives and Challenges



Commerce

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ABSTRACT

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of disadvantaged and low-income groups. Access to finance especially by the poor and vulnerable groups is prerequisite for poverty alleviation, employment, social upliftment and economic growth. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives. This paper focuses on the progress of financial inclusion, initiatives taken by RBI and government of India and its challenges.

INTRODUCTION

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of disadvantaged and low-income groups. Financial inclusion is the road which India needs to travel towards becoming a global player. It is new paradigm of economic growth which plays a major role in driving away the poverty and integral to the inclusive growth process and sustainable development of the country. Promotion of financial inclusion has been an important social and financial need across countries. Lack of access to finance for vulnerable and weaker sections of the society has been recognized as a serious threat to economic progress especially in developing countries. The Government of India (GOI) and the Reserve bank of India (RBI) have been making concerted efforts to promote financial inclusion as one of the important national objectives. Some of the major efforts made in the last five decades include-nationalization of banks, building up of robust branch network of scheduled commercial banks, regional rural banks (RRBs) and co-operatives, lead bank scheme, introduction of mandated priority sector lending targets, formation of Self-Help Groups, permitting Business Correspondents/Business Facilitators to be appointed by banks to provide door step delivery of banking services, zero balance BSBD (Basic Saving Bank Deposit) accounts, etc. The fundamental objective of all these initiatives is to provide an opportunity to have an access to credit for the large sections of the hitherto financially excluded Indian population.

DEFINITIONS

According to the Committee on Financial Inclusion (Chairman: C. Rangarajan), 2008, "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."

RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players."

ADVANTAGES OF FINANCIAL INCLUSION

- Extending formal banking system among underprivileged in rural and urban India.
- Equipping poor with the confidence to make informed financial decisions.
- It protects the poor people from the clutches of moneylenders.
- It provides an avenue for bringing the small savings of the poor into the formal financial intermediation system and channels them into investment.
- It promotes financial literacy of the rural population and guides them to avoid the expensive and unreliable financial

services.

- It helps the weaker sections to channelize their incomes into buying productive resources and assets.
- In the situation of economic crisis, the rural economy can be a support system to stabilize the financial system. Thus, it helps in ensuring a sustainable financial system.

PROGRESS OF BANKS IN FINANCIAL INCLUSION PLAN IN INDIA

Table 1: Progress of SCBs (excluding RRBs) in Financial Inclusion Plan in India

Particulars	Year ended Mar 10	Year ended Mar 11	Year ended Mar 12	Quarter ended June 12	Progress April 11-Mar 12
Total No. of Branches	85457	91145	99242	99771	8097
No. of Rural branches	33433	34811	37471	37635	2660
No. of CSPs Deployed	34532	60993	116548	120098	55555
Banking Outlets in Villages with population >2000	37791	66447	112130	113173	45683
Banking Outlets in Villages with population <2000	29903	49761	69623	74855	19862
Banking Outlets through Brick and Mortar Branches	33378	34811	37471	37635	2660
Banking Outlets through BCs	34147	80802	141136	147167	60334
Banking Outlets through Other Modes	142	595	3146	3226	2551
Total Banking Outlets	67694	116208	181753	188028	65545
Urban Locations covered through BCs	447	3771	5891	6968	2120
No Frill A/Cs (No. In million)	73.45	104.76	138.50	174.94	33.74
Amount in No frill A/Cs (Amount In billion)	55.02	76.12	120.41	119.35	44.29

Source: Keynote address by Dr. K. C. Chakrabarty, Deputy Governor, RBI at the BIS-BNM Workshop on Financial Inclusion Indicators at Kuala Lumpur on November 5, 2012

Table 1 reveals the progress of scheduled Commercial Banks (SCBs) in financial inclusion plan in India from March 2010 to June 2012 under various parameters. The above table shows commendable progress in all the parameters like total number of branches, total number of rural branches, banking outlets in population more than 2000, banking outlets in population less than 2000, brick and mortar branches of banks, banking outlets through Business Correspondents (BCs), no frill accounts and amount in no frill accounts. In spite of all the progress it has been observed that the progress is much less in comparison to the vastness of the country and this made RBI to come with mobile banking as a tool of financial inclusion.

CHALLENGES TO FINANCIAL INCLUSION

It is quite clear that the task of covering a population of 1.27 billion with banking services is gigantic. Both demand side factors (customers) and supply side factors (banks and other financial institutions) are responsible for financial inclusion. So, banks and other financial institutions are largely expected to mitigate the supply side constraints that prevent poor and disadvantaged groups from gaining access to the financial system.

- **Demand side challenges are:** Low literacy levels, lack of awareness about financial products and services, lack of sufficient income, lack of trust in formal banking institutions etc., and availability of easy credit from money lenders.
- **Supply side challenges are:** Non-availability of branches in areas, high rules and regulations and high bank charges, and limited number and types of financial service providers.

INITIATIVES TAKEN BY RBI/GOVERNMENT OF INDIA FOR FINANCIAL INCLUSION

The RBI and GOI have been continuously trying to implement financial inclusion over the last few decades. Some of the initiatives taken by RBI/GOI to eliminate financial exclusion and bring more and more people under the financial services network are:

1. **'No-Frills' Accounts:** With a view to achieving greater financial inclusion, banks were advised in November 2005 to make available a basic banking 'no frills' accounts with zero or low minimum balances and minimum charges to expand the outreach of banking services to vast sections of the population.
2. **Simpler KYC Norms:** The RBI has simplified the 'Know Your Customer' (KYC) norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding ₹50,000 and aggregate credits in the accounts not exceeding ₹1,00,000 a year. Further, banks are advised not to insist on introduction for opening banks accounts of customers. In addition, banks are permitted to use Aadhar Card as a proof of both identity and address.
3. **Business Facilitator (BF) and Business Correspondent (BC) Models:** In 2006, RBI permitted banks to use the services of microfinance institutions, non-governmental organizations (NGOs), Self Help Groups (SHGs), retired bank employees, retired government employees, etc., as BCs or BFs in providing financial and banking services.
4. **Financial Literacy Program:** Financial Literacy Programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by banks and financial institutions. Reserve Bank of India provides sup-

port to Financial Literacy and Credit Counselling Centres (FLCCs). The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling.

5. **General Credit Card (GCC):** With a view to helping the poor and the disadvantaged to have an access to easy credit, the banks were advised in December 2005, 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 give hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit.
6. **Financial Inclusion Plan:** Public and private sector banks had been advised to submit board approved three years Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-target in respect of rural brick and mortar branches opened, Business Correspondents employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD (Basic Saving Bank Deposit) accounts opened, Kisan Credit Cards (KCCs), GCCs issued and others. Reserve Bank of India has been monitoring these plans on a monthly basis.
7. **Simplified branch authorisation:** To address the issue of uneven spread of bank branches, domestic Scheduled Commercial banks (SCBs) are permitted to freely open branches in Tier 2 to Tier 6 centres with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern States and Sikkim domestic SCBs can open branches without having any permission from Reserve Bank of India. With the objective of further liberalizing, general permission to domestic SCBs (other than RRBs) were granted for opening branches in Tier 1 centres, subject to certain conditions.
8. **Use of promotion of ICT (Information and Communication Technology) in banking:** Financial inclusion approach basically focuses on the exercise of ICT to expand access to banking facilities and services. The Government of India and RBI are supporting and promoting commercial and cooperatives banks to offer banking facilities to the society by using modern technology i.e., ATM, micro-ATMs, mobile banking, E-banking, smart cards, Aadhar Enabled Payment Systems (AEPS) etc.
9. **Creation of funds for financial inclusion:** Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by Central Government for meeting the costs of development, and promotional and technology inventions. A fund of ₹50,000 crore was also created in NABARD to enhance its re-finance operations to short term cooperative credit institutions.

CONCLUSION

Access to finance especially by the poor and vulnerable groups is prerequisite for poverty alleviation, employment, social upliftment and economic growth. Financial inclusion has become one of the most critical aspects in the context of inclusive growth and sustainable development in the developing countries like India. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives. Even though various measures have been taken and more flow of credit to various sectors of the economy is made, still majority of the rural population have not come under the purview of financial inclusion. Therefore, there is a need for coordinated action between the banks, the Government and other related institutions to facilitate access to bank accounts amongst the financially excluded.

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