Research Paper Management

Financial Inclusion: An effective solution to provide banking facilities to the Unbanked Sector

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ABSTRACT

Evenafter60 years of independence, a large section of Indian population still remain unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institution. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

Keywords :

Introduction

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were 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 permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Pondicherry, Himachal Pradesh and Kerala announced 100% 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 a roadblock to financial inclusion in many states and there is inadequate legal and financial structure

What is Financial Inclusion?

- Access to finance by the poor and vulnerable groupsis a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing accessto finance is a form of empowerment of the vulnerable groups.
- Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.
- Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty

Why Financial Inclusion in India?

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

1. **Creating a platform for inculcating the habit to save money** – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.
2. **Providing formal credit avenues** – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.
3. **Plug gaps and leaks in public subsidies and welfare programmes** – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Gov-

ernment is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

Financial Inclusion underReserve Bank of India.

RBI has initiated several measures to achieve greater 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
- Relaxation on know-your-customer (KYC) norms
- Engaging business correspondents (BCs)
- Use of technology
- Adoption of EBT:.
- General Credit Cards(GCC)
- Simplified branch authorization
- Opening of branches in unbanked rural centres:

Financial Inclusion under NABARD

- Prioritized activities / institutions for support from Financial Inclusion Fund (FIF**)**
- Training and Capacity Building of the staff of cooperatives including Primary Agricultural Cooperative Society (PACS)
- Training and Capacity Building of the staff of RRBs / Business Correspondents (BC) / Business Facilitators (BF)
- Financial Literacy Centres by Cooperative Banks and RRBs.
- Financial Literacy Campaign/Programmes.
- Projects involving awareness at field level and support in opening of accounts for micro insurance / pension.
- Generic content to be developed on Financial Literacy.

Prioritized activities / institutions for support from Financial Inclusion Technology Fund (FITF)

- Support to weak State Cooperative Banks (SCB) / Central Cooperative Banks (CCB) / Urban Cooperative Banks (UCB) for implementing Core Banking Solution (CBS).
- Support to SCBs / District Central Cooperative Banks (DCCBs) / Regional Rural Banks (RRBs) for implementing Information and Communication Technology (ICT) based solutions.
- Support for establishing ATMs for weak Cooperative Banks / RRBs.
- ICT enabled Kisan Credit Cards (KCC) for both RRBs & Cooperatives.
- Onboarding of Aadhaar Enabled Payment Systems (AEPS) for RRBs / Cooperative Banks.

CONSTRAINTS:

- The banks are faced with high operating cost in extending the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also adding to the problem.
- Reaching out to the illiterate people or people whocan handle only the regionallanguages is also difficult without developing a suitable communication mode.

The challenge also lies in offering a single loan product which is not based on or linked to the purpose of the loan, the collateral or assets held or income earned by the household but is purely based on cash flow and credit record of the household (Thorat, 2008).

WAY FORWARD

- With the arrival of banking technology and realization that poor are bankable with good business prospects, financial inclusion initiatives will strengthen financial deepening further and provide resources to the banks to expand credit delivery. The banking technology initiatives meant for financial inclusion should be collaborative and innovative with an objective to reduce the transaction costs. Thus, financial inclusion along with the Governmental developmentalprogrammes will lead to an overall financial and economic development in our country and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

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