AN OVERVIEW OF FINANCIAL INCLUSION IN INDIA

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Abstract

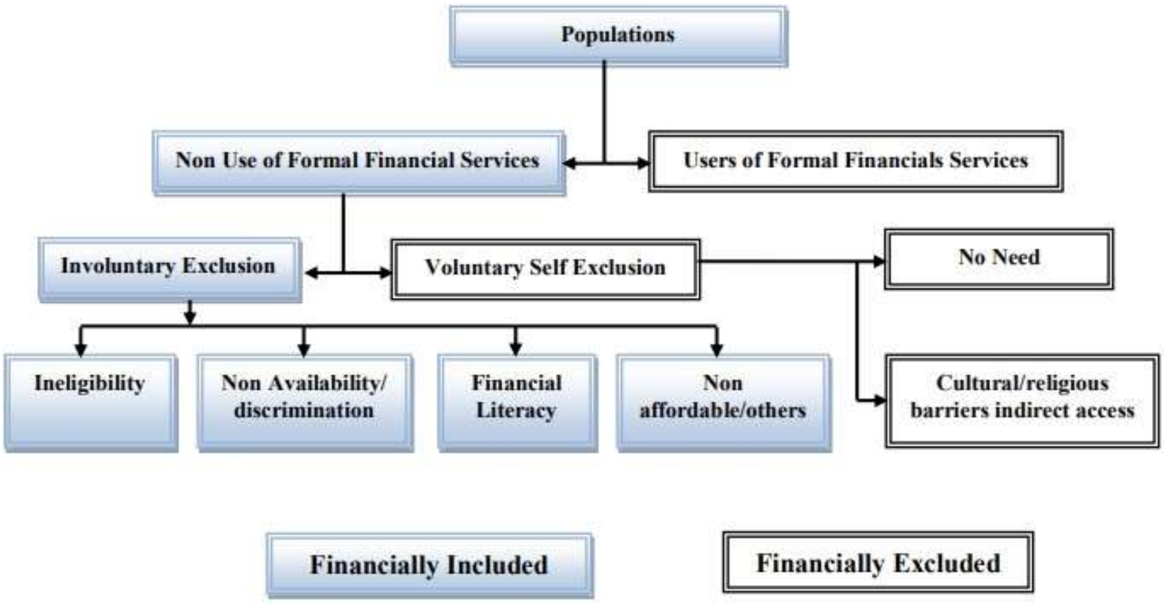
Financial inclusion is globally considered as a critical indicator of development and well-being of society. Financial Inclusion means making the financial services available to everyone at affordable costs. As we know that if any country wants to increase its economic growth then it can be possible by citizens access to financial services. Globally this concept is experienced and accepted by all developed as well as underdeveloped countries. Recent Initiatives taken by current govt in India have made some noticeable development in this regard. The objective of financial inclusion is easy access to financial services for everyone irrespective of demography and geography. This paper covers the main issues and challenges to financial inclusion in India.

Key Words: Financial Inclusion, Finance, Economy, Financial Services, Development

Introduction

World over, especially in the last decade, financial inclusion has rapidly been recognised as a key poverty alleviation tool. The 'urgency' in making this tool efficient and better can be seen from the series of policy initiatives of various governments across the world as also influential international bodies and organisations. Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups is now accepted as a pre-condition for reducing income inequality and overcoming poverty. An easily accessible financial system, through provision of equal opportunities, enables economically and socially excluded people to join the economy, participate in developmental activities, earn an income, protect themselves against economic shocks and make a decent living.

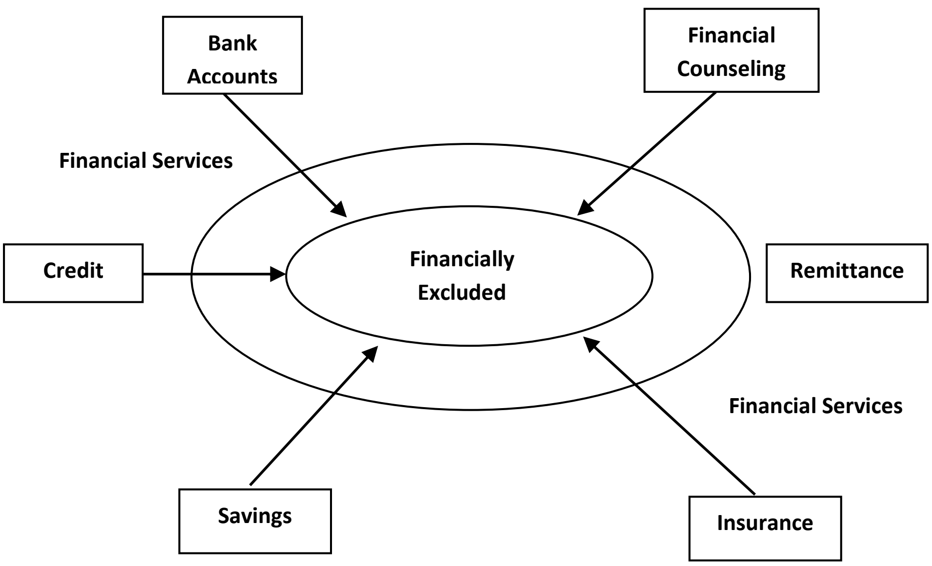
The Global Financial Development Report on Financial Inclusion, 2014, defines Financial Inclusion as "the proportion of individuals and firms that use financial services. It has a multitude of dimensions, reflecting the variety of possible financial services, from payments and savings accounts to credit, insurance, pensions and securities markets. It can be determined differently for individuals and for firms."



Source: Finance for All ? Policies and Pitfalls in Expanding Access, World Bank Report, 2008

Financial inclusion is the delivery of financial services and products to the sections of disadvantage and low income segment of society, at an affordable cost in a fair and transparent manner by regulated institutional players.

Figure 1 Financial Inclusion framework



(Source : Rangarajan Committee report)

Review of Literature

Sarma, (2007) first computed the financial inclusion indices of 45 countries for the year 2004. She has constructed the index considering the indicators - the number of bank accounts per hundred populations, the number of bank branches per thousand population and the ratio of savings and credit to GDP of the country

Karmakar, et al. (2011) have constructed the financial inclusion for rural areas of the major twenty states in India. They have considered number of rural outlets, number of accounts per outlet, per outlet deposit amount, per outlet credit amount and per account deposit amount as indicator of financial inclusion.

Levine (1997) empirically tested the neo-classical view and finds that countries with larger banks and more active stock markets grow faster over subsequent decades even after controlling for many other factors underlying economic growth

Objectives of the Study

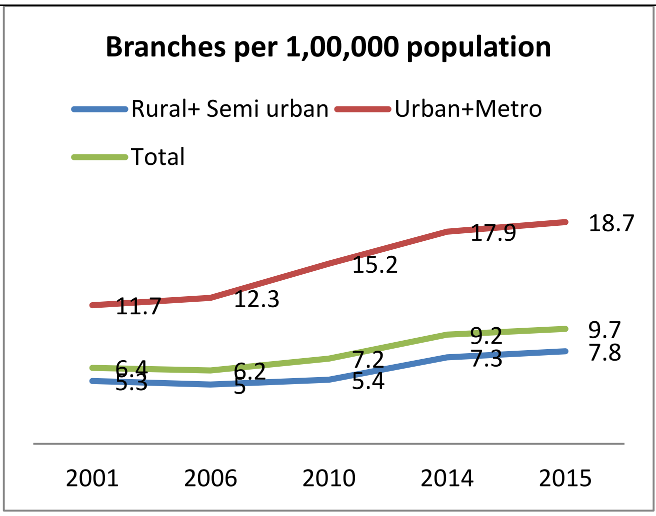
- To Study the Concept of Financial Inclusion
- To Study the major factors affecting access to financial services

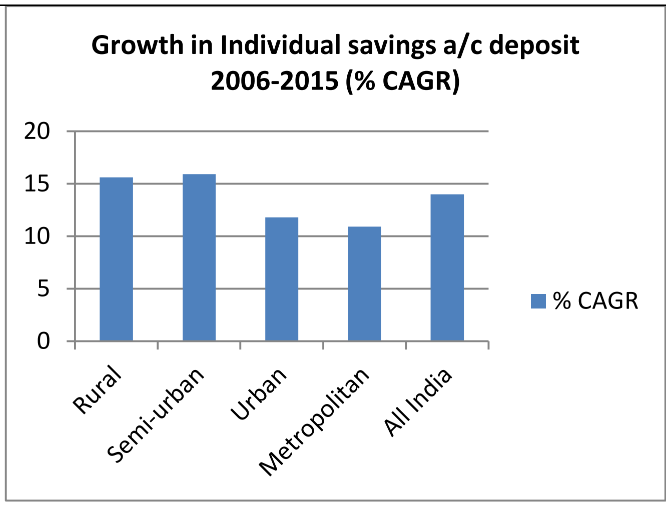
This study is a descriptive study which is based on secondary data. It is an effort to explore ideas on the concept and study the current scenario. The secondary data is collected from research papers, thesis, book, RBI reports and news paper articles

Financial Inclusion in India

In India, the first concrete step in financial inclusion was taken in 2005, when the then Chairman and Managing Director of Indian Bank, K.C. Chakrabarty and the then RBI Governor Y.V. Reddy met the Puducherry chief minister and suggested the idea of providing a bank account for every household in Puducherry. Consequent to the meeting, the first circular on financial inclusion was drafted the very same evening at a meeting of bankers and Mangalam village in Puducherry became the first village to be introduced to the financial inclusion programme in India on December 30, 2005. Since then and especially from the year 2010 onwards, one of the important objectives of the RBI has been financial inclusion. Financial Inclusion gained momentum during the RBI's Platinum Jubilee Celebrations in 2010 when the RBI chose it as its focus area. Banks, mainly from the public sector, were advised by the RBI to come out with a plan on how they would reach complete financial inclusion in India by 2012. The financially excluded sections in India largely comprise marginal farmers, landless labourers, self-employed and unorganised sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. The majority of the group includes people living in rural areas. However, in spite of concerted efforts of nearly a decade, in India, even today a significant number of people remain largely excluded from the formal financial system.

Growth in number of branches and savings account deposit in India





(Source: RBI reports)

The steps towards Financial Inclusion in India started with the nationalization of banks in 1969. The recent development is Pradhan Mantri Jan Dhan Jojana which is a good move towards accomplishment of Financial Inclusion. The decision of Adhar linkage to bank account will make it further transparent and fast. Some Milestones in Financial Inclusion in India are:

Table no.1 Major Milestones in Financial Inclusion in India

SN	Year	Measures
1	1969	Nationalization of Banks
2	1971	Establishment of priority sector lending banks
3	1975	Establishment of Regional Rural Banks
4	1982	Establishment of NABARD
5	1992	Self Help Groups bank Linkage program
6	1998	NABARD goal setting for one million SHG linkage by 2008
7	2000	Establishment of SIDBI foundation of Micro credit
8	2005	One million SHG target achieved
9	2008	Financial Inclusion report submitted to Union Finance Ministry

RBI and GOI has taken a lot of initiatives and policy measures for Financial Inclusion. These initiatives and policy measures are:-

- No-frill accounts
- Overdraft facility in savings account
- Financial Literacy programs
- Simplification of Know Your Customer (KYC)
- Simplification of Savings Bank Account Opening Form
- Simplified branch authorization General Credit Cards
- Kisan Credit Cards (KCCs)
- Business Correspondents (BCs) and Business Facilitators (BFs) Model
- SHG Bank-Linkage Programme
- Opening of branches in unbanked rural locations
- Use and promotion of ICT in Banking
- Branch Expansion/Coverage of villages
- Rural Infrastructure Development
- Creation of Funds for Financial Inclusion

Apart from this government of India has started following schemes as an initiative for Financial Inclusion

1. Swabhimaan

Earlier Financial Inclusion programe for opening of villagers bank account only.

2. Pradhan Mantri Jan Dhan Yojana

The PMJDY has been conceived as a national mission on financial inclusion with the objective of covering all households in the country with banking facilities and having a bank account for each household. Under the Jan Dhan Yojna anyone who is Indian citizen above age of 10 years and does not have a bank account, can open the account with zero balance. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet, specially designed for the purpose of opening the accounts under this scheme.

3. Jeevan Jyoti Bima Yojana

On payment of Rs 342 per year one can get Rs.2 lacs life insurance and Rs. 2 lacs accidental insurance.

4. Atal pension yojana

Pensions ranging from Rs 1,000 to Rs 5,000 a month can be enabled under this scheme.

FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES

Some of the major factors affecting access to financial services are:-

1) **Psychological and cultural barriers-** Self exclusion is often seen among low income group due to psychological barrier that services are meant for rich class only**.** A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs.

2) **Gender**: Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow. It was found that states having a relatively higher share of rural population and a higher share of female population generally have a comparatively lower level of financial inclusion[i]

3) **Legal identity-**Lack of legal identity like identity card, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

4) **Terms and conditions-**Banks lay down many Terms and conditions for the access of financial services such as minimum balance, geographic place, minimum transactions etc resulting in less consumer interest for services

5) **Limited literacy-** Limited literacy, particularly financial literacy, *i.e*., basic mathematics, business finance skills as well as lack of understanding often constrains demand for financial services.

6) **Place of living-** Commercial banks prefer profitable areas for operations. This restricts the access for people living in remote areas.

8) **Social security payments-**In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

9) **Types of occupation-**Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan .

10) **Attractiveness of the product-**Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

11) **Risk associated:** Banks normally provide services (such as loans) to low risk profile consumer such as middle age , financial stability and good occupation.

Conclusion

Inclusive growth attainment depends a great deal on equitable distribution of growth opportunities and benefits. And financial inclusion is one of the most crucial opportunities which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be understood by the state that in order to bring orderly growth, order needs to be developed with regard to inclusive finance. Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts. The hurdles in accessing financial services should also be removed to enables citizens to access financial services more and more.

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