

Significance of Financial Inclusion in Indian Economy

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ABSTRACT

Financial inclusion can be defined as the process of ensuring access to appropriate financial products and services needed by all sectors of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost. Financial inclusion not only means that opening of saving bank account but signifies creation of awareness about the financial products such as credit, insurance etc. In fact, the main reason for financial exclusion is poverty. Still now 21.9% people of our country is below poverty line. Their income is so low that they cannot think about their saving. Not only that, the other reasons why they are excluded from the formal financial institution are lack of awareness, illiteracy, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Financial inclusion leads to increase in savings, investment and thereby, inspires the processes of economic growth. It also makes a platform of saving habit especially among the poor who have been living at the bottom of the pyramid, mainly because of absence of savings which make them a vulnerable lot. RBI has taken different types of policies for quick financial inclusion in the country. These are: branch expansion in rural areas, agent banking- business correspondents/business facilitator model, relaxation KYC norm, bouquet of financial services and direct benefit transfer. Thus, it can be concluded that a collaborative approach can definitely help in successfully overcoming this challenge.

1. Introduction

Financial inclusion efforts are not new; both the government and the Reserve Bank of India have been pursuing this goal over the last several decades through building the rural cooperative structure in the 1950s, the social contract with banks in the 1960s and the expansion of bank branch networks in the 1970s and 1980s. These initiatives have paid off in term of a network of branches across the country. Yet, the extent of financial exclusion has been staggering. Out of the six lakh habitations in the country, only about thirty thousand had a commercial bank branch. Just about 40% of the population across the country had bank accounts. The proportion of people having any kind of life insurance cover was as low as 10% and proportion having non-life insurance was an abysmally low 0.6% people having debit cards comprise only 13% and those having credit cards only a marginal 2%. The National Survey data reveal that nearly 51% of farmer households in the country did not seek credit from either institutional or non-institutional sources of any kind.

2. Objectives of Financial Inclusion

Financial inclusion can be defined as the “process of ensuring access to appropriate financial products and services needed by all sectors 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” (Joshi,2014). Financial inclusion and financial literacy can be considered as twin pillars where financial inclusion acts on the supply side i.e., for creating access and financial literacy acts from the demand side i.e., creation a demand for the financial products and services. Financial inclusion not only means that opening of

saving bank account but signifies creation of awareness about the financial products such as credit, insurance etc.

In fact, the main reason for financial exclusion is poverty. Still now 21.9% people of India is below poverty line. Their income is so low that they cannot think about their saving. Not only that, the other reasons why they are excluded from the formal financial institution are lack of awareness, illiteracy, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. That is why the poor of the rural areas are bound to take money from informal credit sources, such as mahajan, money lenders, friends, relatives and so on.

In India more than half of the poor are financially excluded from the country's formal banking sector. Thus, it is important to understand that the purpose of financial inclusion in India is the integration of the financially excluded into the mainstream banking system, thus providing them a platform for empowerment out of their state of economic and financial deprivation. In India, financial inclusion is being carried out under the Reserve Bank of India through the “Lead Bank.” A lead bank is identified for every state and is mandated to cover all villages, with a population of 2000 or more, with a bank branch within 5 km., within the stipulated time period.

Let us now turn to how financial inclusion can help the society and the economy. Financial inclusion has the ability to generate positive externalities. It leads to increase in savings, investment and thereby, inspires the processes of economic growth. It also makes a platform of saving habit especially among the poor who have been living at the bottom of the pyramid, mainly because of absence of savings which make

them a vulnerable lot. Presence of banking services and products aim to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal sources of credit like family, friend, and moneylenders. It will open the doors of formal remittance facilities to the low income and unbanked people who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another. As we all know, financial inclusion has now been viewed as a remedy to plug gaps leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments.

Thus, on the whole, financial inclusion has the potential to bring the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

3. Steps taken by the RBI for financial inclusion

RBI has taken different types of policies for quick financial inclusion in the country. We mention them one by one below.

(a) Reach

For reaching to the masses three steps have been taken. These are:

(i) Branch Expansion in Rural Areas:

Branch authorization has been relaxed to the extent that banks do not require prior permission to open branches in centers with population less than one lakh. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural areas. In the Annual Policy Statement for 2013-14, banks have been advised to consider prioritizing the opening of branches in unbanked rural areas.

(ii) Agent Banking- Business Correspondents/Business Facilitator Model:

In January 2006, the Reserve Bank permitted banks to utilize the services through the use of business facilitators and business correspondents.

(iii) Combination of Branch and Business Correspondent to deliver financial inclusion:

The Reserve Bank took another step for extending financial inclusion. To ensure increased banking penetration and control over operations of Business Correspondents, banks have been

advised to establish low cost branches in the form of intermediate brick and mortar structures in rural areas.

(b) Access

(i) Relaxation KYC norm:

To increase access to service, RBI advises the banks to relax the KYC norm so that all the poor masses of the rural areas can open their bank accounts with self certification in the banks. Moreover, RBI has allowed Adhaar to be used as one of the eligible documents for meeting the Know Your Customer (KYC) requirement for opening bank account.

(ii) Roadmap for banking services in unbanked villages:

Banked were advised to draw up a road map for providing banking services in every village having a population of over two thousand. Banks have successfully met this target and have covered 74398 unbanked villages by March 2010.

(c) Product

(i) Bouquet of financial services:

In order to ensure that all the financial needs of the customers are met, we have advised banks to offer a minimum of four basic products, viz., (i) A saving cum over draft account; (ii) A pure saving account, ideally a recurring or variable recurring deposit; (iii) remittance product to the customers. (iv) Entrepreneurial credit products like a general purpose credit card or a kisan credit card.

(d) Transactions

(i) Direct Benefit Transfer:

The recent introduction of direct benefit transfer, leveraging the Adhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network, using the adhaar based platform as a unique identifier of beneficiaries.

4. Conclusion

It can be concluded that a collaborative approach can definitely help in successfully overcoming this challenge. Though the commercial banks play an important role in ensuring financial inclusion and promoting financial literacy, the banks alone would not be able to achieve this ambitious goal and that other stakeholder groups also need to contribute their mite towards this cause.

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