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Digital Financial Inclusion - A Theoretical Overview

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ABSTRACT

Finance has become an important part of an economy for development of the society as well as economy of nation. Through Financial inclusion we can achieve equitable and inclusive growth of the nation. Financial inclusion stands for delivery of appropriate financial services at an affordable cost, on timely basis to weak groups such as low income groups and weaker section who lack access to even the most basic banking services. In this project, the researcher attempts to understand financial inclusion and its importance for overall development of society and Nation's economy. Studies on financial inclusion have helped to understand the livelihoods of people especially the poor and how they interact with financial services, financial inclusion has been generally acknowledged as imperative in reducing poverty and achieving inclusive economic growth. Financial is not an end itself, but a means ultimately it is conduit to improved livelihoods, particularly the poor and very poor groups of society. Of India, shriNarendraModi announced the PradhanMantrivJanDhanYojan on August 15, 2014. PMJDY is a National Mission on Financial inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get rupaydebit card having inbuilt accident insurance cover of Rs. 1 lakh (department of financial services, ministry of finance,n.d.a)

1. Introduction

Basic features of the policy

The members will benefit from a range of financial products. As the first step every, accountholders gets rupay debit card with a 1,00,000/- accident cover, life insurance cover of rs.30,000 after six month of satisfactory operation of bank account ,an overdraft facility upto 5000/- is available in only one account per household, preferably in the name of the lady of the household, further pension scheme and other benefits will be added(department of financial services, ministry of finance ,n.d.b)

Digital India and Indian Banking Industry

The transition to digital banking has been happening last decade. Building of infrastructure for real time gross settlement(RIGS)national electronic fund transfer(NEFT) electric clearing system for both debits and credits(ECS) and National Clearing House were the first few steps i n digitalizing the payment and fund transmission n banking which forms a great part of transactional banking. The Prime Minister Dhan Jan Yojana which aims to provide a Rupay debit card to all households(166.7 million RuPay debit cards have been issued under PMJDY) This initiative will take digital banking to those people who were not been part of the banking system.

The Indian government as a part of its Digital India initiative, in august 2014, announced a planned investment of 1,330 billion INR in the Digital India Project, which aims to provide universal mobile phone access, rural broadband in 250,000 villages, wi-fi hotspots in every city with a population of 1 million plus, and a smart phone in the hands of every citizen by 2020. The impact of this imitative is already significantly felt in the progress of Digital Banking in India. As per PWC India and Assocham, India report dated April 29,2015 electronic transaction in the Indian economy is still less than 10% which means it has immense scope to grow. Which constitutes of 11.2 billion annual electronic transactions out of which 74% is by debit and credit card.

Key importance of financial inclusion

An under developed financial system creates hurdles in different economic activities and strong financial system support is required for the inclusive growth of the economy (Reserve Bank of India 2006). Financial inclusion, proper delivery of credit facility will be help full to provide financial resources to business entrepreneurs that will lead to the financial development of the economy .the importance of financial inclusion is not only for the country as a whole, but it also contributes for betterment of life of an individual through savings, deposits as well as through many other financial products and services.

The two key initiative under the Digital India scheme, Digital lockers and signatures will give further boost to the digital environment.

The main objective of the study is to analyze the pattern of households having bank account and their determinants in Coimbatore city. The relevant data for this study has been collected with the help of from questionnaires various Research journals, Articles, reports of RBI, reports of NABARD and online resources.

The word “Financial Inclusion“has gained importance since the early 2000’s a result of findings about financial exclusion and its direct relationship to poverty. Financial inclusion can be defined as providing financial products and services to those people who are actually excluded. Financial inclusion by itself a multidimensional term. The components of financial inclusion are A) Access B) Quality C) Usage D) Welfare

A) Access

The element of financial inclusion highlights availability of financial services and products from organized institutions. This element helps to measure availability of basic services like bank branches, bank accounts, and reach of financial services. Through this element, policy makers can analyze the effectiveness of banking services and pattern of saving and deposits. Ability, affordability and physical proximity are the main ingredients of access.

B) Quality

It helps to measure the suitability of financial products for consumers. Products should be designed in way to incorporate the needs of the customers.

C) Usage

Policymakers can analyze different barriers which create problem in financial inclusion. This component also helps to motivate individuals for financial inclusion.

D) Welfare

This element helps to highlights the financial welfare of the marginalized people of the society.

The United Nations defines the goals of financial inclusion as follows:

Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance:

- Sound and safe institutions governed by clear regulation and industry performance standards,
- Financial and institutional sustainability, to ensure continuity and certainty of investment
- Completion to ensure choice and affordability for clients.

Fastest growing economics of the world like India need to make sure that the growth is not skewed and all sections of the society benefit from this growth process. Sustainability of the growth process is threatened when certain sections of the society bypassed. Financial exclusion leads to loss of opportunities of growth for an individual, which leads to loss of output for an economy and a reduction in the social welfare. These excluded sections are forced to turn to the informal sector to meet their medical and social obligations and get trapped into a vicious cycle of poverty and social exclusion.

Till 2011, only 58.7% of the households availed banking services in India. In rural areas, the number still remains low at 54.4%and in urban 67.8% (CENSUS OF INDIA 2011). This financial exclusion could be on the grounds that the individual has either no savings/assets hence, no savings/current account in a bank. And also these individuals may not have access to any financial advice and perceive the cost of financial services as not affordable. There are other socio economic factors that play an important role in analyzing the extent of financial inclusion. Therefore it is important to analyze the pattern and growth of financial inclusion in our country.

The development of economic growth, particularly when it is on high growth line, must attempt to take contribution from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious risk to economic progress. The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, online money transaction, internet banking, etc. The arguable point, is that access to such technology is restricted only to certain segments of the society. Many of research reports and surveys clearly show that large numbers of population does not have an access to basic banking and financial services not only in India but also whole world. This is termed “financial exclusion”. These people, particularly, those living on low incomes, cannot be access mainstream financial services and products such as bank accounts which are used for making payments and keeping money, remittances, affordable credit, insurance and other financial services, etc.

Development and challenges in financial inclusion

The RBI former governor RaghuramRajan stated as a conceptual terms,” Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians”, “Further, in order to draw in the poor, the products should address their needs – a safe place to save, a reliable way to send and receive money, a quick way to borrowing times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age”.

The RBI will accordingly push the banks to offer a basic suit of services.

While over the years the government has taken several steps to spread the banking habit, of the 24.67 crore households in the country, 10.19 crore do not have access to banking services. In rural areas,44 percent households and in urban areas 33 percent still do not have a bank account.

The government’s latest plan of action, as envisaged in the CFIP or SampoornVittiyaSamaveshan, hopes to extend coverage of basic financial services all excluded households. In the first segment , the CFIP will try to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA will consist of 100-1500 families in a cluster of villages and each SSA will be serviced by a BC agent (BCA) whose task it will be to facilitate account opening and smooth banking operation.

The latest inclusion plan will have focus householders rather than geographical areas. After reasonable conduct of accounts it is proposed to offer reasonable need-based credit facilities for which overdraft facilities will be sanctioned. A smart card will be issued to enable customers to operate their accounts even without BCs. In the mean timeproper awareness will be created among the financial excluded. In the second segment , there is a proposal to make available a pension scheme for identifies individuals in the unorganized sector and offer microfinance products through government-owned insurance companies.

Digital India

Digital India is a project taken by the Indian Prime Minister ShriNarenderModi on 1st July, 2015 to ensure that the governmental services are made available electronically to the citizens. The concept of digital banking under digital India will be very helpful in financial inclusion.

As an initiative for financial inclusion The concept which is main on the agenda of government from decades is financial inclusion. The initiative has great impact on financial inclusion. It made easy the path of financial inclusion. By using the electronic means government can now easily reach the unbanked people of India. The main motive of this initiative is to provide infrastructure and electronic services on demand. This initiative will surely increase the speed of financial inclusion.

2. Need for the study

The main factors affecting the financial inclusions are accessibility, Culture, Literacy and income. The Reserve Bank of India has also taken several policy initiatives in order to make financial services available to all sections of the society. The recent declaration of Prime Minister's Jan DhanYojana (PMJDY) is a step in this direction. The Government of India and Reserve Bank of India take many measures in favor of financial inclusion but the impact of these did not yield pleasing results. Majority of people is still not included in the inclusive growth, when the focus of success of sustainable development, there must be an attempt to include maximum number of participation from the all the section of the society. Financial inclusion does not mean simple opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management and offering debt counseling etc. by banks. Therefore the researcher chose this study to create awareness among the people who did not included in the financial inclusion and this will lead to the poor to access the digital financial inclusion services without any discrimination and also the PMJDY will attain its mission.

3. Objectives of the study

1) To study the concept of financial inclusion and digital India.
2) To examine the impact of digital India initiative on financial inclusion.
3) To study the various factors influencing digital financial inclusion.
4) To access the effectiveness of PradhanMantriDhanYojana to improve Financial Inclusion.

4. Review Of Literature

Awareness on Financial Inclusion

SethySusanta Kumar (2016) in his study observed that India is categorized on high Financial Inclusion on demand and low financial inclusion of supply side. It was suggested that GOI and RBI adopt adequate policy measures to enhance the supply side dimension of financial inclusion.

PradnyaP.Meshramet al., (2015) examined the percentage of population for awareness of financial inclusion from customers perceptive. The result recommends that over three-fourths of the households had at least one family member who could read and write and in terms of livelihood, a majority of the households were involved in agricultural activities but still the awareness level of financial inclusion was very low. The study further implies that it is not sufficient by merely opening a bank account as it will not meet the objective of financial inclusion. The common man should get the self-confidence to use the financial services which should be made available at their doorstep.

Shah,P et.al., (2015) identified that the technological reforms pertained to banking sector such as e-commerce, mobilephones, email, ATMs and plastic money were available only in towns and cities, which leads to limited access to financial products and services in rural and semi-urban regions

JosephJ.andVargheseT.(2014)found out that the number of people with access to the products and services offered by the banking system is very limited despite inclusive banking initiatives in the country also suggests that the usage of debit card has increased tremendously throughout the study period and banks focused more on semi-urban areas and rural areas.

JoshiVikram (2014) analyzed the awareness and penetration of various financial services offered by banks. It was observed that financial products like current account, demand loan, direct debit facility, credit card and mobile banking is low. Aggregate awareness of banking services offered was found to below 41%. Lack of cooperation, improper guidance, and lack of transparency are the main reasons for this level of awareness.

ShabnaMol(2014)in her study explore the level of awareness about financial inclusion forces and examined the extent of financial inclusion among below poverty line in Kerala households in terms of continuous usage of bank account and access. The findings suggest that the literacy level and occupation of respondents are highly influenced to access and continuous usage of bank account. Further BPL households access bank account only for the enjoying the government benefits and schemes and are to ascertain extent aware about financial inclusion drives and a majority of respondents are fully aware of no-frill accounts.

RaoN.N.D.S.V(2010)emphasized that banking for the poor cannot be called as poor banking and there is a vast potential to tap the unexplored aspects of this banking. He strongly suggests that regular campaigns have to be conducted to create awareness about financial inclusion to the bank staff.

5. Concept of financial exclusion

Before we realize financial inclusion we should have knowledge about financial exclusion. The word , financial exclusion first time used in 1993 by Leyshon and Thrift who were alarmed about limited access on banking services as a result number of bank branches were closed. In1999, kempson and whyley defined financial exclusion in border sense which refers to those people who have excluded access to normal financial services and product till date numbers of analysts added their views to define financial exclusion.

Financial exclusion‟ describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly home insurance, education loan. The effects of financial exclusion can include exclusion from other mainstream services, such as pension or saving schemes, and can also lead to debt and/or cut off from essential utilities.

According to the European Commission, Financial exclusion is: 'A process whereby people encounter difficulties accessing or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.‟

In India, The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as limited access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. Financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

Financial exclusion in India:

India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account access in India just below rest of the developing world. About 50 percent of adults reports in Andhra Pradesh and Delhi and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders.

6. Importance of financial inclusion

Expansions of bank branches will increase deposits. It will help the poor to manage volatility in cash. Research on developing countries in South Asia and India has proved that availability of bank branches has a positive impact accessing financial instruments like savings and deposits. So therefore expansion and infrastructural development should also be an important parameter to achieve sound financial inclusion**.**

The number of bank branches also positively affects the availability of credit fecility for the people. Increment in organized credit facilities will be helpful to reduce the unorganized sources of money like local money lenders. In India, The single most frequently used source of loan for medium Indian household is still moneylender. India's has many poor of workers who work as agricultural and unskilled semi skilled wage laboures and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Over 40% of India working population earn but have no saving. Financial inclusion provides protection to poor from the control of the spurious money lenders.

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