

Journey of Financial Inclusion

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ABSTRACT

Financial inclusion is where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a responsible and sustainable way. Financial inclusion is defined as the availability and equality of opportunities to access financial services. The availability of financial services that meet the specific needs of users without discrimination is a key objective of financial inclusion. The Indian Reserve Bank vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. Illiteracy, low income savings and lack of bank branches in rural areas continue to be roadblocks to financial inclusion in many states. Banks have proved to be a boon for the economic development of our country. This paper has made an attempt to analyze the journey of financial inclusion through banking in India.

1. Introduction

The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of society. The recent developments in banking technology have transformed banking. The Government of India and the Reserve Bank of India have been making determined efforts to promote financial inclusion as one of the important national objectives of the country. 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, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections so far financially excluded Indian population.

2. Objectives of the Study

- To understand financial inclusion and its importance in the economic development.
- To know the initiative taken by RBI and government to achieve financial inclusion.
- To analyze the reach of financial inclusion.

3. Financial Inclusion

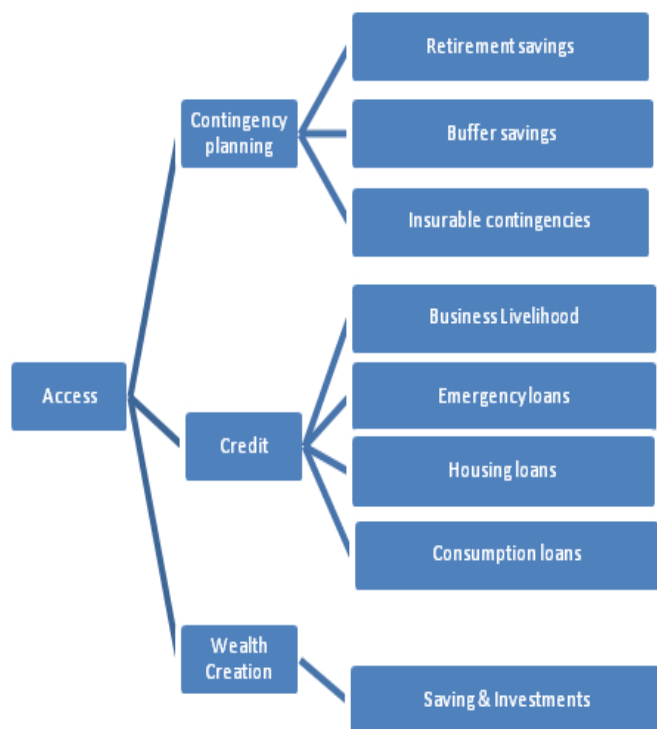
A. Meaning

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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). 1.2. Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity

products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

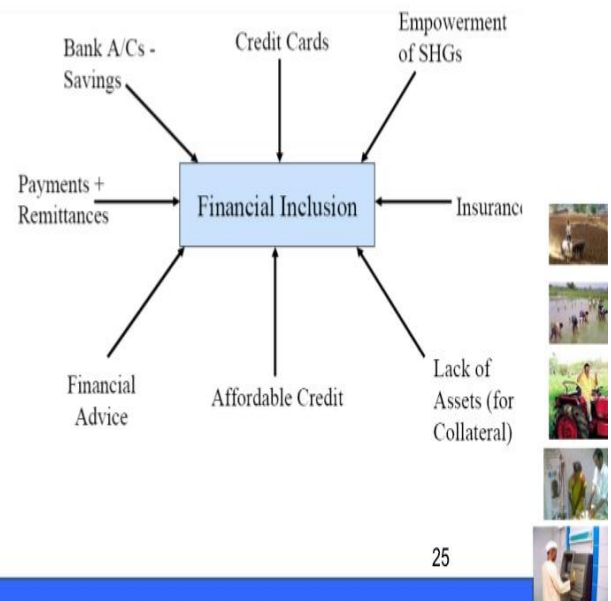
Financial inclusion means the delivery of basic financial services (banking services) to every section of the society at affordable prices. Offering affordable financial services to the disadvantaged and low-income segments of society is the key objective of financial inclusion.

Household access to financial services is depicted in Figure1.





Possible Rural Financial Inclusion



25

4. Importance of Financial Inclusion

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Majority of the Indian population remain unbanked and their credit needs are served by informal channels which are avenues for exploitation.

The condition is worse in rural areas and among the weaker sections of the society. It leads to financial instability among the lower income groups. The scenario needs to change and Financial Inclusion offers the immediate solution.

Financial Inclusion will improve efficiency in public service delivery by trickling down the public funds such as subsidies, pensions etc. through direct transfers to the intended ones. (Direct Benefit Transfer or Electronic Benefit Transfer)

Financial inclusion also creates awareness towards social security schemes related to pensions, rural employment etc.

Financial inclusion creates awareness regarding **Alternate Investment Options** like mutual funds, insurance schemes, government securities and other such investment options.

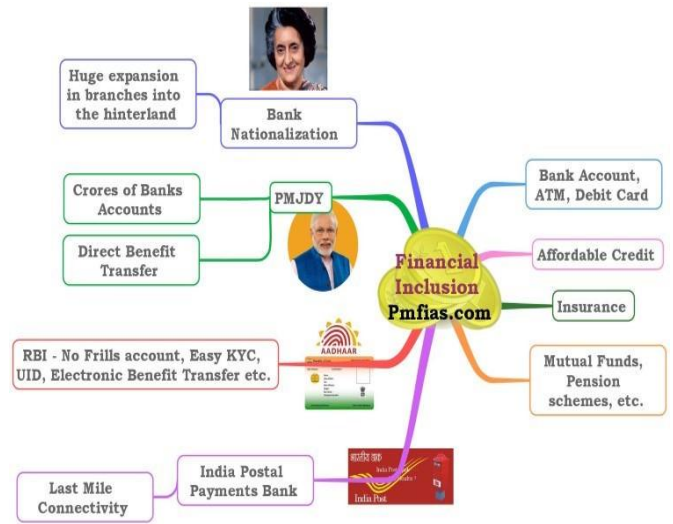
5. Initiatives towards Financial Inclusion by RBI and Government

A. Financial Inclusion Initiatives by RBI

Banks open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card. No-frills accounts cut cost as well as complexity. These accounts focus only on basic facilities by cutting down extra frills that are of no use for the lower sections.

- Relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.
- Simplified Branch Authorization Policy, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers 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 RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.

- Compulsory Requirement of Opening Branches in Un-banked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- Opening of intermediate brick and mortar structure, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.



PM Jan DhanYojana

The PradhanMantri Jan-DhanYojana is a part of Comprehensive Financial Inclusion Plan (CFIP). PMJDY 33.09 crore bank accounts have been opened since 2014. More than 79,000 crores have been deposited in these accounts and 24.16 crore Rupay cards have been issued to beneficiaries.

The government also implemented a number of other schemes targeted at enhancing financial inclusion, such as the PradhanMantri Mudra Yojana (PMMY), Stand Up India, Atal Pension Yojana and PradhanMantriSurakshaBimaYojana. Under the PMMY, the government has disbursed loans of INR 5,46,122 crores over the last three financial years (as of 23 March 2018).

CRISIL Inclusix Report

The CRISIL Inclusix Report that measures the status of financial inclusion in India shows a score of 50.1 at the end of 2012-13 and a jump to a score of 58 by the end of 2015-16.

Direct Benefit Transfer and Aadhaar Linkage

The enactment of the Aadhaar Act in 2016 and the subsequent stress on Aadhaar linkages has enabled the Government to make tremendous gains vis-à-vis the implementation of Aadhaar linked schemes. For example, savings of about INR 10,000 crore have been estimated from Aadhaar-linking the PDS system, and savings of over INR 14,000 crore from the PAHAL scheme in 2014-15 alone. Further, in Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), a saving of INR 3,000 crore (roughly 10 percent) from Aadhaar linkage has been estimated in 2015-16.

Kisan Credit Card Scheme: State-wise Progress (As at end-March 2017)

(Amount in ₹ billion and number of cards in '000)

Sr. No.	State /UT	Co-operative Banks		Regional Rural Banks		Commercial Banks		Total		
		Cards issued	Amount sanctioned	Cards issued	Amount sanctioned	Cards Issued	Amount sanctioned	Cards issued	Amount sanctioned	
4	Tamil Nadu	1,311		42.3	303	18.2	506	87.7	2,120	148.2

Source: <https://rbi.org.in/scripts/PublicationsView.aspx?id=18066#>

Financial Inclusion

Sr. No	Items	Amount Outstanding (As at end-March)		Percentage Variation	
		2016	2017	2015-16	2016-17
	Financial Inclusion				
1	Credit-deposit ratio (Per cent)	78.2	73.03	-	-
2	Number of new bank branches opened	6,986	4,830	-20.0	-30.9
3	Number of banking outlets in villages (Total)	586,307	598,093	5.9	2.0

Source: <https://rbi.org.in/scripts/PublicationsView.aspx?id=18064>

6. Conclusion

Financial inclusion will go a long way in removing poverty and social exclusion. It provides growth – of individuals and businesses - with equality, security of income and savings, safety through health and life insurance and increased financial

awareness. All this will boost businesses, increase GDP and contribute to national economic growth. It also attracts global players to set shop and invest in business opportunities, which again increases employment and growth.

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