

# Financial Inclusion Initiatives in India: A Theoretical Framework

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## ABSTRACT

Indian economy faced the various problems such as poverty, unemployment, inequality and financial exclusion etc. For, this purpose a strong formal financial system is required for sustainable and inclusive growth. Through Financial inclusion we can achieve equitable and inclusive growth in Indian economy. Financial inclusion refers to delivery of appropriate financial services at an affordable cost, on timely basis to vulnerable groups such as low income groups and weaker section who lack access to even the most basic banking services. In the present paper, the researcher explores theoretical framework of financial inclusion and its needs for the socio-economic development. This study concentrates on various initiatives taken by Indian Government and RBI for achieving the ultimate goal of financial inclusion for inclusive growth in India. The present study found that the Pradhan Mantri Jan Dhan Yojana proved to be milestone step for achieving the aims of financial inclusion in India.

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## 1. Introduction

After independence, a huge growth noticed in Indian financial system due to nationalisation of Reserve Bank of India, enactment of Banking Regulation Act, nationalisation of commercial banks and adoption of information technology and supported regulatory framework and new economic policy. Government of India and RBI are very much concerned about the growth of financial service sector and improving product and services, which enables the poor to avail the benefits including benefits of technology innovations aiming at inclusive and economic growth in the long-run. Banking sector or industry is one of the important components of financial service sector in India. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvement in all the areas relating to financial viability, profitability and competitiveness there are concern that banks have not been able to include vast segment of the population, especially the underprivileged section of the society, into the fold of basic banking services, which is also known as financial inclusion. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India, the basic concept of financial inclusion is having a savings or current account with any bank. It is the delivery of credit and other financial services like savings, credit, insurance and payments and remittance facilities. Financial inclusion is the "process of ensuring access to timely and adequate financial services needed by weaker sections and low income people. In short, financial inclusion means access to saving, loan/credit and remittance to the entire population or the country" (Rangarajan, 2008). In a more comprehensive manner, it can be stated that the financial inclusion means delivery of banking services and credit at an affordable cost to the vast sections of excluded and low income groups of population. It includes accessing of financial products and services such as savings and cheques facilities, financial advice, debit and credit cards access,

overdraft facilities, micro credit during emergency, insurance including medical insurance, all kinds of commercial loans and electronic fund transfer etc.

## 2. Historical Background

The financial involvement came up in U.S. (1997), in Germany (1996) and U.K. (2005). It clearly appears with this little background that the financial involvement in formal manner is a modern crop of modern banking and non-banking institutions. 'Every Man Current Banking in Germany', financial inclusion through Task Force in United Kingdom, Community reinvestment (through Act. of 1977) programme of U.S., Task-Force for financial involvement launched by U.K., a low cost banking operations under the cop of 'Mzansi' in South Africa launched in 2004. The financial excluded folk were given opportunities to come in the stream of formalised financial service. As far as more background of the financial reckoning in India is concerned, once will have to go to the small history of the established financial institutions for different financial services in formal organised sector like as nationalisation of RBI (1949), State Bank of India (1955), nationalisation of commercial banks (1969 and 1980), Lead-Banking Schemes (1970), Regional Rural Banks (1975), establishment of NABARD (1982), SHGs-Bank Linkage programme, and Kissan Credit Card Scheme (2001). In 2004, the Khan Commission appointed by the RBI and recommendations of this commission considered in the Mid-Term Review of the Policy 2005-06 to access the financial inclusion. In India, the financial inclusion featured with more dedication of Banks to village services in 2005. In 2005, the chairman of Indian Bank Mr. K.C. Chakrabarty introduced 'All Households Banking Facilities' scheme in Mangalam village. Further, another committee on financial inclusion was constituted by Indian Government in 2006, under the chairmanship of C. Rangarajam. The committee submitted its report on 4<sup>th</sup> January, 2008 and recommended a strategy for more

coverage of financial inclusion and easy distribution of micro-finance as well as small loans to the poor and low income groups' society in the urban and rural areas. After that a comprehensive financial inclusion scheme announced by our Hon'ble Prime Minister, Narendra Modi namely 'Pradhan Mantri Jan DhanYojana' in his first Independence Day speech on 15 August, 2014. But this scheme was formally operated on 28 August, 2014 seeks to provide financial independence to unbanked Indian population through two phase plan. The Committee on Medium-Term Path to Financial Inclusion (Chairman: Shri Deepak Mohanty, RBI, 2015) has set the vision for financial inclusion as, "convenient access to a basket of basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low income households at reasonable cost with adequate protection progressively supplemented by social cash transfers, besides increasing the access of small and marginal enterprises to formal finance with a greater reliance on technology to cut costs and improve service delivery, ...."

### 3. Need for Financial Inclusion in India

The Government of India and Reserve Bank of India have attached great significance for enhancing the coverage of financial inclusion. The some needs for financial inclusion in Indian economy are given below:

1. To cover all unbanked population and provide formal financial services to the entire population.
2. To increase the contributions of banks in national GDP of the country.
3. To provide the credit assistance to agriculture sector which is the backbone of Indian economy.
4. Eliminating the coverage of informal financial sector such as money-lender
5. Provide the financial literacy to disadvantage and poor/low income group people.
6. Providing employment opportunities to the poor or low income group population.
7. Developing strategies and programmes for development of banking and credit structure in the unbanked and rural area.

### 4. Financial Inclusion Initiatives in India

1. **No Frills Account:** This scheme was launched by RBI in 2005 in its APS 2005-2006 for unbanked or disadvantage section of population with zero or low bank balance and charges. The account under the above mention scheme was allowed to open with nil deposit and facility's maximum amount was Rs. 10,000 and no charges for ATM.
2. **Know Your Customer (KYC):** It is started by RBI in 2005 to reduce the procedural difficulties involved in opening a bank account. Under this scheme, banks are allowed to take any evidence to identify the address of customers for satisfaction.
3. **BFs and BCs Model:** This scheme offered by the Ministry of Finance and RBI to improve the outreach of banking sectors in Indian economy. The main purpose of BFs and BCs models is to provide the banking and financial services to the public with doorstep delivery through the various intermediaries

like as NGOs, SHGs, MFIs, post office, insurance agents and village knowledge centre etc. Total 5,15,317 banking outlets (BCs) were opened in villages and 3425 in other modes of village up to 31 March 2018.

4. **Kisan Credit Card Scheme:** It was introduced by RBI in 2001. This scheme provides short term credit facilities to the farmers at low interest rate on the basis of their land. Total 46 million KCC issued by the government to farmers with amount Rs. 6096 billion up to 31 March 2018.
5. **General Credit Card Scheme:** the aim of this scheme is to grant hassle-free credit facility up to Rs. 25000 by rural and urban bank branches to the poor and low income people based on their cash flow assessment without any security. In this scheme, 12 million GCCs and 1498 billion amount distributed by the government to the needy section of the population upto 31 March, 2018.
6. **Branch Expansion:** According to this scheme, banks have been mandated by RBI to open at least 25 percent out of total new branches opened during a year in unbanked and rural area. Up to 31 March, 2018, total 5, 69,547 bank branches opened by various banks in villages of India.
7. **Branch Authorization:** In the North-Eastern states and Sikkim, scheduled commercial banks are authorized to open branches in rural, semi-urban and urban areas having population less than 50,000 without taking permission from the RBI (as per Tier III and Tier IV norms).
8. **Banking Services in Unbanked Village having a Population of More than 2000:** The banks have prepared a blue print to offering the banking services in every unbanked village having population of more than 2000 by March, 2012. In this area, 1,00,802 branches started up to 31 March, 2018.
9. **Use of IT:** Financial inclusion basically focused on the use of information technology to spread access of banking facilities and services. Government of India and RBI issued guidelines and norms for the use of IT in banking sector to offer the services like as ATM, Mobile Banking, Internet Banking, Smart Cards, Digital payment platform and UPI services.
10. **Financial Literacy Program:** In order to enhance the financial inclusion, RBI initiated a 'Financial Literacy Programme' with an intention to disseminate information regarding the general banking concepts to the target groups including school and college going students, women, rural and urban poor and senior citizen.
11. **Pradhan Mantri Jan DhanYojana (PMJDY):** Hon'ble Prime Minister, Narendra Modi announced a comprehensive financial inclusion scheme namely 'Pradhan Mantri Jan DhanYojana' in his first Independence Day speech on 15 August, 2014. But, this scheme was formally operated on 28 August, 2014. This scheme seeks to provide financial independence to unbanked Indians through a two-phase plan. The phase one focuses on providing free nil balance bank account to every person and RuPay

debit card which allows for electronic payment at all Indian banks with an aim of increasing financial literacy among the poor. On the first day, 15 million accounts were opened at nearly 80,000 government-run camps against the target 10 million accounts. Under this scheme, account holders will also receive up to Rs. 1,00,000 of accident insurance and an overdraft of Rs. 5,000 after six months. The second phase of this scheme started from 15 August, 2015 focused on providing micro-finance and pension schemes for those in the unorganized sectors. Under this scheme, 34.01 crore accounts have been opened with deposits amounting to ₹89257 crore upto January 30, 2019 within a short span of five years.

12. **Pradhan Mantri Jeevan Jyoti Bima Yojana:** this scheme is a government backed life insurance that was mentioned in the 2015 Budget speech by Finance Minister Arun Jaitley in February 2015. But, it was formally launched by Prime Minister Narendra Modi on 9 May, 2015 has offered a renewable one-year life cover of Rs.2 lakh with a annual premium of Rs. 330 per member to all savings bank account holders in the age group of 18-50 years, covering death due to any reason. As on May 14, 2018, nearly 5.35 crore people had enrolled under PMJJBY, and the total number of claims received till date were nearly 1, 02,849.
13. **Pradhan Mantri Suraksha Bima Yojana:** This scheme provide a renewable one-year accidental death-cum disability cover of Rs.2 lakh for partial/permanent disability to all people who have a savings bank account in the age group of 18-70 years for a premium of Rs.12 per annum. Under this scheme, total 13.516 crore enrolled and total claim disbursed of amount of Rs.16800 crore as on 1 May, 2018.
14. **Atal Pension Yojana:** This scheme is a Social Security Scheme introduced by Govt. of India, which is focus on the unorganized sector and provide subscribers a fixed minimum pension of Rs.1000, Rs. 2000, Rs.3, 000, Rs.4, 000 or Rs.5, 000 per month, starting at the age of 60 years, depending on the contribution option exercised on entering at an age between 18 and 40 years.
15. **India Post Payments Bank:** Another step to deepen financial inclusion in the country has been the launching of India Post Payments Bank (IPPB) in September 2018. IPPB is also leveraging the vast network of Department of Posts with 1.55 lakh Post Offices, more than 3 lakh postmen and

Grameen Dak Sewaks to further scale up financial inclusion initiatives in the country.

16. **Pradhan Mantri Mudra Yojana:** This scheme was launched on 8th April 2015. Under this scheme a loan of upto Rs. 50,000 is granted under sub-scheme 'Shishu'; between Rs. 50,000 to 5.0 Lakhs under sub-scheme 'Kishore'; and between 5.0 Lakhs to 10.0 Lakhs under sub-scheme 'Tarun'. These types of loans taken without any collateral. These schemes are aimed at increasing the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs; existing small businesses, too, will be able to expand their activities.
17. **Stand Up India Scheme:** The Government of India launched the Stand Up India scheme on 5th April, 2016 to promoting entrepreneurship amongst women, SC & ST category i.e those sections of the population facing significant hurdles due to lack of advice/mentorship as well as inadequate and delayed credit. The Scheme facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up Greenfield enterprises which are engage in manufacturing, services or the trading sector.

## 5. Conclusion

Financial inclusion is the delivery of banking and financial services at affordable cost to the low income group and disadvantage section of population through formal financial sector. Basically, financial inclusion is the engine for achieving the target of inclusive growth in Indian economy. It has a multiplier effect in prompting overall economic output, eliminating poverty and income inequality. An inclusive financial system involves stability, integrity and equitable growth. For these purposes, the Government of India and RBI starts various flagship schemes to enhance the coverage of financial inclusion since Independence for reducing the problem of financial exclusion, poverty and equality. After study the various financial inclusion initiatives or schemes, the present study observe that financial inclusion schemes offered by the Government of India, RBI and other financial institutions are more helpful to increase the coverage of financial inclusion in Indian economy. In Indian economy, the sustainable and socio-economic growth for all can be achieved by the financial inclusion. The present study also found that the Pradhan Mantri Jan Dhan Yojana proved to be milestone step for achieving the aims of financial inclusion in India.

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