Journal for Studies in Management and Planning
Available at
http://edupediapublications.org/journals/index.php/JSMaP/
ISSN: 2395-0463
Volume 04 Issue 04
April 2018

Financial Inclusion in India

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Abstract
As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated by the Reserve Bank of India and Government of India in favour of financial inclusion but the impact of these did not yield satisfactory results. The paper aims to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby making it more efficient and user friendly for the interest of the rural population as well as the formal sector.

Keywords: Financial inclusion, Business correspondents, Indian economy

Introduction

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms. The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply. The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers. Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role for increasing the use of formal sources for availing loan/ credit. Measures initiated by the government include, opening customer service centers, credit counselling centers, Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme. These renewed efforts are more focused than the earlier measures which were more general in nature having a much wider scope. Though the measures were initiated earlier, their impact on the rural population needs to be analysed and reframed in order to understand the present scenario in the rural areas. Financial inclusion may be defined as the process of ensuring access to financialservices and timely and adequate credit where needed by vulnerable groups suchas weaker sections and low income groups at an affordable cost

Objectives

The research aims to objective cover the following:

- How financial inclusion is the need of the hour for the sustainability and maintenance of the growth process.
- How it is one of important factor for the equitable growth of the world economy.
- The future of financial inclusion process in India
- The extent of financial inclusion India.
- The perception of people regarding financial inclusion services and its benefits.
- How financial inclusion can improve the day-to-day management of finances.

Benefits of Financial Inclusion:

Financial inclusion has many benefits. Following are some of the benefits summedup.

- It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan products for housing, consumption, etc.
- An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.
- This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged. From the bank's point of view, having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates.
- Access to appropriate financial services can significantly improve the day-to-day management of finances. For example, bills for daily utilities (municipality, water, electricity, telephone) can be more easily paid by using cheques or through internet banking, rather than standing in the queue in the offices of the service.
- Transfer of money can be done more safely and easily by using the cheque, demand draft or through internet banking.
- A bank account also provides a passport to a range of other financial products and services such as short term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account

Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in 200 districts in the country would bring in large number of people through their savings accounts into the banking system.

Tools of Financial Inclusion and the Methods to achieve them

1) A no-frills banking account for making and receiving payments,
2) A savings product suited to the pattern of cash flows of a poor household,
3) Money transfer facilities,
4) Small loans and overdrafts for productive, personal and other purposes, &
5) micro-insurance (life and non-life)

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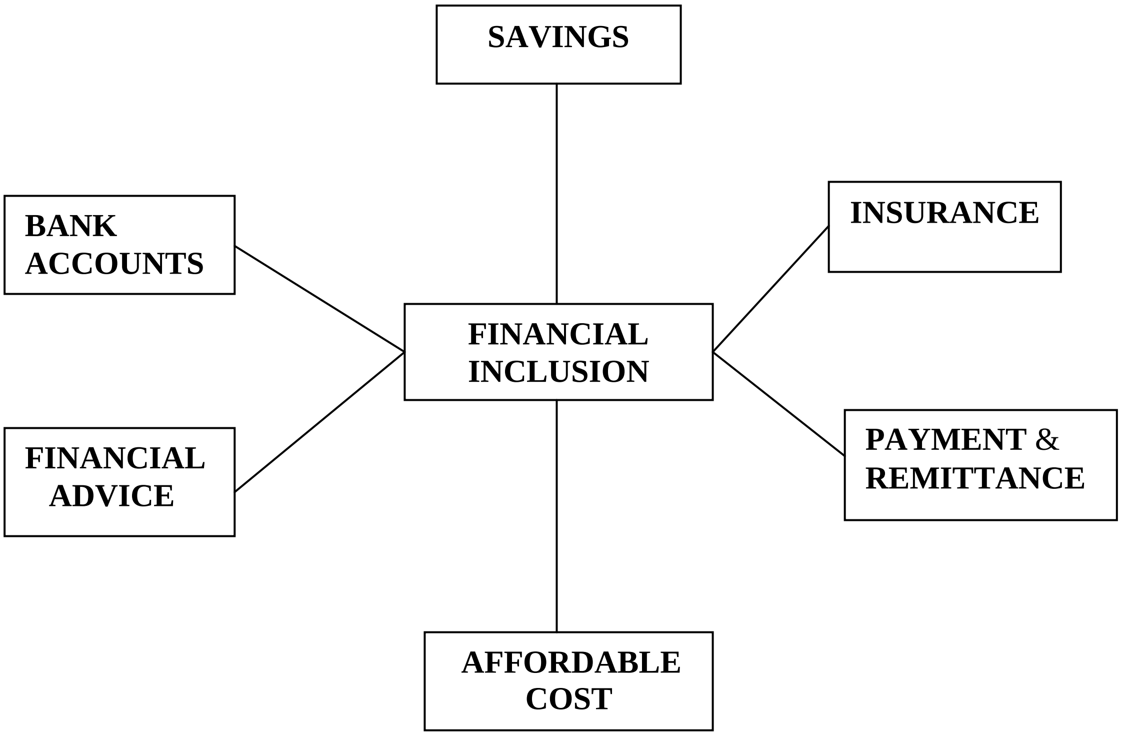
Financial Inclusion



Dimensions of Financial Inclusion:

The level of financial inclusion in India can be measured based on three tangible and critical dimensions. These dimensions can be broadly discussed under the following heads:

Branch Penetration

Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

Credit Penetration

Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

Deposit Penetration

Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed. The progress in the development of financial inclusion in India can be examined by understanding the stages involved in it. The concept of examining financial access became important immediately after the All-India Rural Credit Survey that was completed in the 1950s. The results of the survey revealed that farmers relied heavily on money-lenders in the year 1951-52. Only the urban areas had large number of bank branches compared to rural areas. Such a condition continued in the country until RBI started financial inclusion

growth model in the 2000s. Because the urban areas were fully concentrated with numerous bank branches, this resulted in the higher absorption of bank credit in the urban areas. Thus the growth of the private business credit was seen in the year 1957-61 from 44 percent to 60 percent in the year 1970.
Therefore, for increasing the level of financial inclusion, the GOI and RBI have taken few actions which include the following:

(i) Nationalization of banks (1969, 1980)
(ii) Priority Sector lending requirements
(iii) Establishment of Regional Rural Banks (RRBs) (1975, 1976)
(iv) Service area approach (1989)
(v) Self-help group-bank linkage program (1989, 1990)

Conclusion and Recommendations

Despite 67 years as an independent nation, India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining unbanked, and nearly ninety percent villages not having bank branches. More importantly, people in these unbanked areas do not fully appreciate why they need a bank account at all, or why loans from the formal sector are more useful than the informal sector. The advantages of a financially inclusive model are many-fold. Illustratively, unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program.
The government and Reserve Bank of India have been making concerted efforts since mid1950's and with renewed vigor since 2005 but success has been rather slow, due to lack of a strong network, and financial instruments not suited to rural residents. Moreover, lack of awareness and financial literacy among rural population are primarily responsible for low penetration of financial services.
More incentives for the BCs, utilizing existing network for banking such as post offices, creating awareness for the use of banking technologies as well as mobile phones etc. will help in creating a big difference in the economy. The proposed solutions that target the above issues and suggest a way forward for sustainable inclusive growth are presented below:

General

• Preference should be given for a physical branch. The existing network of more than 1, 55,000 post offices and more than 5,00,000 fair price shops, an outlet of public distribution system with some semblance of government approval, can be explored, especially in rural areas.
• Methods of financial literacy need to be changed from distributing printed literature to audio and visual media such as radio and TV programs, especially in local languages.
• Financial literacy needs to be given importance in schools, and student small saving programs, where bankers visit schools and collect small deposits, need to be revived.

Business Correspondents

• The rebranding exercise of BCs would also heighten participation of women as BCs. The status of a bank employee would help them to counter regressive objections of women being salespeople.

• The possibility of appointing house-wives as well as people with limited handicap as BCs could also be considered as that might reduce the attrition rate.
• As opposed to retired personnel, school teachers could be tapped as BCs.
• Allowing BCs to offer additional financial products like insurance and mutual funds would increase their scope.
• Banks could also look at skill development by conducting regular, structured training sessions for BCs.
• There is a need for analyzing the compensation of the BC. Instead of having a uniform remuneration across BCs, their performance could be monitored and appropriately appraised so as to incentivize them to work with the right spirit.

Post Office Networks and Fair Price Shops
• Banks can tie-up with India Post to utilize their extensive network by setting up small banking counters at each of their post offices, especially rural branches. The government owned post offices have sufficient space in the post offices to set up such a counter with a computer and printer, to be operated by a commercial bank employee. With existing arrangements at the post offices, these can be converted into extended banking counters.
• Once banking extension counters are offered at the post offices, and then fresh opening of accounts in existing postal banking schemes can be discontinued, with a forward-looking approach for banks to spearhead the financial inclusion process, through deposit mobilization.
• As a large part of post office revenues comes from existing postal banking services, the banks would need to pay a "rent fee" to India Post for use of their facilities/premises – hence solving the high fixed cost issue for banks in establishing a new brick and mortar branch.

ATMs
• Encouraging banking habits amongst the unbanked masses by installing audio-video enabled ATMs to announce simple instructions in the local language to assist the customer in the unbanked areas, could be considered.
• In case such ATMs are installed in the premises of post offices, then trained guards could facilitate withdrawals, deposits and also account opening forms.
• The issue of security can be addressed by installing inbuilt CCTV cameras in the ATM machine as well as the post office.

Training and Financial Literacy
• There could be regular interactive training workshops organised in the post offices or fair price shops or gram panchayat offices on financial products suited to the local population.

Banking Technology
• A self-sustaining solution wherein cashless payments are enabled through payment transfers by a mere swipe of the card using Point of Sales device at each prospective transaction points (like retail stores, equipment vendors, commuting medium like buses etc.). By having such terminals, the user would just be required to swipe his/her card to effect the payment thereby reducing the number of cash transactions in the system, hence also

reducing the demand for currency in the system.

• The kiosk can offer loan application and new account opening through scanning of the documents.

Mobile Phones

• Common mobile banking applications with minimal usage of text should be developed leveraging channels such as SMS or GPRS. These applications should be self-explanatory and should incorporate image-based interactive user interface, as well as higher usage of voice based commands.

• Common consumer knowledge in rural areas about dialing to a toll-free number should be leveraged to provide introduction to financial literacy as well as instructing people on steps to use mobile banking.

• Banks should educate their staff and BCs about latest developments in mobile banking, and mandate them to promote these facilities during financial literacy campaigns in rural areas.

• Banks should revise their commission schemes, incentivizing BCs in increasing mobile banking registrations in their respective territories.

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