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RELEVANCE AND CHALLENGES OF FINANCIAL INCLUSION - AN INDIAN PERCEPTION

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Abstract
Financial inclusion means provision of banking facilities and services at an affordable cost to the vast sections of deprived and low income group. Indian economy has seen various financial, structural changes in banking system but still large section of Indian population is still far away from the basic of financial and banking services. 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. It is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. But in the Existing Banking System segment of the population, especially the underprivileged sections of the society still out of banks' fold. The government's 2011 Census, 58.7% households utilizes formal banking services only means 41% of the population is unbanked and unfortunately 60% of the rural and urban population did not have a functional bank account (Nachiket Mor committee report 2011). The lower income groups and remote areas are still not avail the basic financial services and this has been led generation of financial instability. The Government of India gives special stress on financial inclusion of citizens as it is vital to poverty reduction. Exclusion of a large population from any access to financial services prevents the growth of our country and economy. A scheme to empower citizens financially was highly needed so that everyone can gain the benefits of growth and development. Hence this paper attempts to analyse the extent of financial inclusion, main gaps and challenges therein in Indian perspective.

Key Words: Financial Inclusion, Migrant Labour, Financial Instability, Financial Services, Unbanked Section.

Introduction

The significance of inclusive financing in the developing economies like India cannot be ignored, still in India large portion of population is struggling under poverty and not have an access to basic banking facilities. Financial inclusion or inclusive financing is basically emphasis on availability or access to financial services such as deposits,remittance services, saving, loans and third party product to poor, needy and low-income segments of society at affordable costs by the mainstream financial providers. This paper endeavor to describe the initiatives being taken by Govt. Of India and RBI and their impacts.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).

The study focuses on tactics and policies implemented by various commercial banks towards accomplishing the goal of financial inclusion for comprehensive development in India and also evaluates of past advancement and achievements. Different types of challenges ahead on the path of inclusive financing are also discussed.

Extents of Financial Inclusion

The level of financial inclusion in India can be measured based on the basis of following three dimensions.

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

- Credit Penetration: Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, the 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 the formal credit system can be analyzed.

In the way of economic growth and development, especially when it is on high growth trajectory, must require to comprise participation from all sections of society. Lack of finance for poor and marginal farmers and weaker sections of the society is a seriouthreat to economic progress especially in developing countries like India. Persistent and continuous inadequacy of banking services to a large segment of the population leads to inequity of income and wealth. Financial inclusion means extending basic banking services at affordable and reasonable cost to the low income and disadvantaged segments. In India vast area is still depriving from financial facilities. The purpose of financial inclusion is to provide equitable opportunities to every individual to avail the facility of formal financial channels for better life, better living and economic growth. The financial services include - savings, loans, insurance, credit, payments etc.

The financial system has to provide its function of transferring resources from surplus to deficitsegments.Financial inclusion can be described as the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system. To achieve the predetermine goal of financial nclusion banking and RBI play a vital role. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Beside branch expansion in remote areas, in order to provide basic financial services in unbanked and remote areas, banks were advised to open "no-frill accounts and basic saving accounts. Payment banks provide technology and digital based banking facilities that capture the remote and backward area of country. Idle assets like gold may be properly involve in the main stream of rapid economy is also mentionable step that defiantly boast the Indian economy. This all will also ensure regularity of flow of liquidity in households and therefore opportunities for investment and growth. In order to increase this number the RBI and GOI take innovative steps like opening new branches of Regional Rural Banks which ensure that the banking service is accessible to the poor and deprive section of society. With the directive from RBI, our banks are now offering "No Frill" Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance. Hence the different strategies and efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged.

Objectives of the study

1. To study the need and relevance of financial inclusion in Indian economy.
2. To reveal the Government policies and initiatives for financial inclusion
3. To examine the challenges and problems ahead on the path financial inclusion

Financial Inclusion- Need

It is now extensively recognised that financial exclusion leads to non-accessibility, non- affordability and non-availability of financial products to particular section. Restricted access to funds in an underdeveloped financial system leads to high cost credit from informal sources and unorganised financial institutions such as private moneylenders. Because of Limited access of banking services and remittance facilities, public bound to pay higher charges for basic financial transactions. Prolonged and prevailing deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to ignite social tensions causing social exclusion. Thus, financial inclusion is an obvious and essential strategy for enhanced economic growth and for achieving inclusive growth in the country. The following points clear the need for

Financial Inclusion

- Indian Economy growing at the rate of 7. % to 7.9 % pa
- Agriculture growing at only 2% app.
- Limited access to affordable financial services in india.
- To provide access to safe formal payment system savings / Deposit insurance to all
- Aids social and economic stability

Objectives for inclusive financing

Large part of population in India are still not facilitate by various financial services that become the major obstacle for economic growth. So to overcome this problem and provide the benefits of growth and for sustainable economic development, Indian Movement from exclusive financing to Inclusive financing is being initiated.

- For reduction of disparities in terms of income and savings.
- For effectively utilizing the savings for the capital formation and growth of the economy.
- To opens up the opportunities in the financial sector for new players and can lead to growth of banking sector also.
- Poverty Eradication and to provide access to financial services to the weaker section of society.
- In developing countries like India there are numbers of reasons, why a large portion of population is not having access to financial services including: limited branch networks of banks and other financial institutions; limited availability of automatic teller machines (ATMs); the relatively high costs of servicing small deposits and loans; limitations on satisfactory personal identification; and limitations on Collateral assets and credit information.

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Importance of financial inclusion in India

Indian economy is the world's second fastest growing economy. But still large section of population live in remote and rural areas. For the prospective economic development of India, participation of such section in financial activities is the key factor. Financial inclusion is the step that is needed to mobilize the saving and providing the basic financial services to backward and unbanked section. In spite of having a strong financial system in India, financial awareness has not been able to penetrate into the rural sections of the society. India had scored poorly on financial inclusion parameters when we compared with the global average, the report quoted a World Bank study in April 2012, which had shown half of the world's population held accounts with formal financial institutions. The study said only 9% of the population had taken new loans from a bank, credit union or microfinance institution in the past year. In India, only 35 per cent have formal accounts versus an average of 41 per cent in developing economies. On institutional credit givers in the form of money lenders and other unorganized sources still continue to grasp the poor in their controls. Financial inclusion is a perfect way for accelerated economic growth and is considered to be important base for achieving comprehensive growth in the country. In recent years the Indian economy feel the rapid growth rate as compare to many developing country but still majority section of Indian is unbanked and part from basic financial services. Financial inclusion is new dynamic social and economic concept that aims to change this traditional financial system and by providing financial services at affordable costs to the deprived and poor section, who might not otherwise be aware of or able to afford these services. It is well known fact now that for the comprehensive growth of any economy, financial inclusion is the basic and important element. It help unbanked section to manage their funds and facilitate incoming and outgoing payments. Allowing people to create simple, no-frills current and savings accounts, relaxing KYC norms and directly crediting social benefits to account owners will boost to finance & banking services in rural areas.

- The backward areas and rural masses will get access to banking services like cash receipts, cash payments. Easy access of all these financial services will help mobilising of saving and funds that boost the economy growth.
- Transformation in cash economy as more money is brought into the banking system by different means of financial inclusion like PMJDY, Payment banks etc.
- Inculcates the habit to save. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save which ultimately induce the capital formation in the country which is the exact boost of economic growth.
- Availability of adequate and transparent credit from formal banking channels will foster the entrepreneurial spirit of the masses to increase output and prosperity in the country that reflect in economic growth rate.
- Plug gaps and leaks in public subsidies and welfare programme, as we know sum of money that is meant for the poorest of poor does not actually reach them. This method of financial inclusion pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. All these efforts require an efficient and approachable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

The major initiatives taken by RBI include the following

- * Directed all banks to 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.
    - Hassle-free 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.In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.
    - Easy 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-Eastrn 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 centres.
    - 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

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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.

- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened. RBI has been monitoring these plans on a monthly basis.

- Initiative of new types of banks known as Payment banks (invented in Indian context) are non-full service banks, whose main objective is to accelerate financial inclusion especially small businesses, migrated labour and low income households. Banks are now considering FI as a business opportunity in an overall environment that facilitates growth.
- Banks have been advised that their FIPs should be disaggregated and penetrated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- PMJDY (Prdhan Manrti Jan Dhan Yojana): The biggest financial inclusion initiative in the world, was announced on 15th August 2014 and launched by him on 28th August 2014 across the country, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme.

PradhanMantriJanDhanYojana (Accounts Opened as on 20.04.2016) (All Figures in Crores)

Bank Name	RURAL	URBAN	TOTAL	NO OF RUPAY CARDS	AADHAAR SEEDED	BALANCE OF ACCOUNTS	% OF ZERO-BALANCE-ACCOUNTS
Public Sector Bank	9.50	7.49	16.99	14.37	8.13	28876.26	26.79
Regional Rural Bank	3.29	0.54	3.83	2.66	1.19	6480.21	22.65
Private Banks	0.49	0.31	0.80	0.75	0.30	1402.37	39.31
Total	13.27	8.34	21.61	17.78	9.62	36759.30	26.52

Information is based upon the data as submitted by different banks/SLBC (http://pmjdy.gov.in/)

Constraints

- The banks are tackled with high operating cost in spreading the financial services to the remote and backward areas. High maintenance cost of these accounts with small ticket size of the transactions is also adding to the problem which make it less profitable and even loss bearing operation.

- Approaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode and proper awareness of these financial services and Low literacy levels, lack of awareness and knowledge of financial products, Irregular income, Lack of trust in formal banking institutions also become the main constraints of financial inclusion.

Conclusion

Overall it can easily predicted that with the arrival and increase of banking services and technology will push the that unbanked and poor section towards financial services that ultimately become a good business prospects, financial inclusion initiatives will strengthen financial system as well as boost economy growth by provide resources to the banks to expand credit and remittance services. The banking technology initiatives meant for financial inclusion should be cooperative and innovative with an objective to reduce the transaction costs. Thus, financial inclusion along with the Governmental programme will lead to an overall financial and economic development in our country and as in the case for most developing

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countries, extending the banking services to everyone in the country will be the key driver towards an comprehensive growth.it should be noted that consumers protection is an essential element of success of financial inclusion. It also helpful for Spreading Financial Literacy in all section of society. Thus, on the whole, Financial Inclusion strategy has the potential to bring in the remote and unbanked masses into the formal banking system, channelize their savings, encourage their entrepreneurial spirits by making available credit and thus give a boost to the economy.

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