IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 18, Issue 2 .Ver. I (Feb. 2016), PP 37-44
www.iosrjournals.org

Financial Inclusion: An Overview

Dr. Rajeshwari M. Shettar
Associate Professor, Department of Commerce, Shri. Hurakadli Ajja Shikshan Samiti's Smt. K. S. Jigalur Arts and Dr. (Smt.) S. M. Sheshgiri Commerce College for Women, DHARWAD-8.

Residential Address: Shri Lakshmi Venkateshwar Nilayam
Plot No. 130 Second Cross Shrinagar
DHARWAD-3

Abstract: *The concept of financial inclusion has a special significance for growing economy like India as bringing the large segment of the productive sectors of the economy under formal financial network. Since banks are the gateway to the various basic banking services, so they can play a vital role in enhancing the extent of financial inclusion in India and they have played that role since 1960s. An attempt has been made in this paper to study the various financial inclusion models in India. Thus, this paper studies the role of banks in enhancing the extent of financial inclusion through various initiatives like no frill account, financial literacy, expansion of ATM networks, etc. and the various issues to be considered by banks for ensuring the financial inclusion. This paper will be studied with the help of secondary sources, collected from published articles, newspapers, reports, books, various journals and websites of the RBI etc. The paper concludes that financial inclusion plays a major role in driving away the poverty from the country. In India a day will come when all Indian have their bank accounts and everybody will take part in financial inclusion.*

Key words: *Financial inclusion, Banking services, Business correspondence, Indian economy*

I. INTRODUCTION

Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI. It is expected to unleash the hugely untapped potential of the bottom of pyramid section of Indian economy. Perhaps, financial inclusion can begin the next revolution of growth and prosperity.

As the approach of 12^{th} five year plan (2012-2017) is faster, sustainable and more inclusive growth. The issue of financial inclusion is emerging as the new paradigm of economic growth. Financial inclusion plays a major role in driving a way the poverty from the country. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population.

Financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent manner to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity of agriculture but also help in increasing rural non farm activities which lead to development of rural economy and improve economic condition of peoples. Financial inclusion include micro credit, branchless banking, no-frill bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc.

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for most important pressing needs; (1) Creating a platform for inculcating the habit to save money, (2) providing formal credit avenues, (3) Plug gaps and leaks in public subsidies and welfare programme.

A well development financial system brings poor people into the mainstream of the economy and allows them to contribute more actively to their personal economic development. In India, in an attempt to improve access to financial services or financial inclusion, the Reserve Bank of India promulgated a drive for financial inclusion, where banks take the lead in providing all unbaked households with savings accounts. The government of India recently announced "Prdahan Mantri Jan Dhan Yojana (PMJDY) a national financial inclusion mission which aims to provide bank accounts to at least 75 million people. To achieve this milestone, it is important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at district level.

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players. The Government of India and the Reserve Bank of India have traditionally played a large role in establishing banks and other financial infrastructure in order to increase the poor's access to quality financial products. Banks and other financial institutions like National Bank for Agriculture and Rural Development

(NABARD) and Small Industries Development Bank of India (SIDBI) have supported and aided the Government in variety of ways towards this financial inclusion.

II. CONCEPT OF FINANCIAL INCLUSION

The concept of financial inclusion has a special significance for growing economy like India as bringing the large segment of the productive sectors of the economy under formal financial network.

Rangarajan (2008) defines financial inclusion as "the process of ensuring access to financial services and adequate credit where needed by vulnerable groups such as low income groups at affordable cost".

Planning Commission Government of India (2009) committee on 'financial sector reform' mentions that "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".

RBI defines financial inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players".

III. REVIEW OF LITERATURE

Sadhan Kumar Chattopadhyay (2011) in a working paper for RBI on **"Financial Inclusion in India: A case study of West Bengal"**. The researcher made an attempt to examine the extent of financial inclusion in West Bengal. According to the study there has been an improvement in outreach activity in the Banking sector, but the achievement is not significant. An Index of Financial Inclusion (IFI) has been developed in the study using data on three dimensions of financial inclusion viz. - Banking Penetration (BP), availability of Banking Services (BS) and usage of the Banking System (BU). The study provides a comparable picture between different states on the basis of IFI rankings.

Dr. Swamy V. and Dr. Vijayalakshmi (2010) in their article **"Role of financial inclusion for inclusive growth in India-issues and challenges"** claimed that importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. India has 135 million financially excluded households, the second highest number after China. Through graduated credit, the attempt must be to lift the poor from one level to another, so that they come out of poverty. They identified twenty one steps for twenty first century financial inclusion. There is a need for co-ordinate action between the government and others to facilitate access to bank accounts among the financial excluded.

IV. OBJECTIVES OF THE STUDY

1. To study the present scenario of financial inclusion.
2. To study the major initiatives and policy measures taken by Reserve Bank of India and Government of India for financial inclusion.
3. To study the current status of financial inclusion in Indian economy.
4. To suggest the future prospects of financial inclusion.

V. METHODOLOGY OF THE STUDY

The present study is descriptive in nature. The data used for the study is secondary in nature. Secondary research was conducted to review the present status of financial inclusion in India. The information and data for the research has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Government of India, Report on trend and progress of banking in India, published articles, journals, newspapers, reports, books, and websites of RBI and also taken from various committee reports on financial inclusion.

VI. NEED FOR THE STUDY

Since India is moving towards becoming a developed country from being a developing country, so in this, the contribution of each and every section of the society is needed - rich and poor, urban and rural. For this financial untouchability, people have to be made financially inclusive so that they all contribute in development. India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. However, for attaining the objectives of inclusive growth there is a need for resources and for resource generation and mobilization of financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources. Thus in the present paper an effort is made to study the role of financial inclusion in inclusive growth.

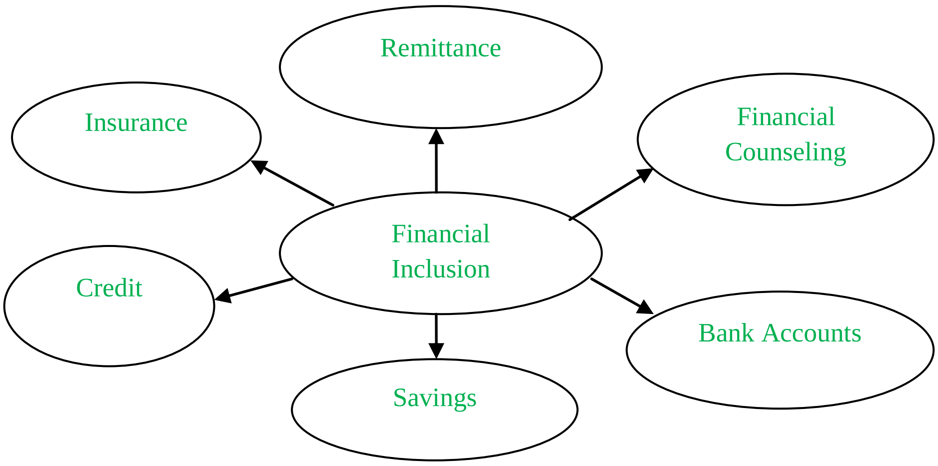
VII. PHASES OF FINANCIAL INCLUSION

Phase I (1950-70): Consolidation of the Banking sector and facilitation of Industry and Trade.
Phase II (1970-90): Focus on channeling of credit to neglected sector and weaker sections.
Phase III (1990-2005): The focus was on strengthening the financial institutions as part of financial sector reforms.
Phase IV (2005-2010): Financial inclusion was explicitly made as a policy objective through its annual policy statement of the Reserve Bank of India 2005-06.
Phase V (2010 -2015): National financial inclusion plan (NFIP).

VIII. CONTENTS OF FINANCIAL INCLUSION

In simple terms financial inclusion is about including the excluded in the financial system of the country, and to ensure that their financial and social security needs are taken care of through appropriate financial service providers. The essential contents of financial inclusion are shown in the following figure.

Figure 1: Contents of Financial Inclusion



IX. FINANCIAL INCLUSION - POLICY INITIATIVES

❖ **No Frills Accounts (NFAs):**

In the year 2005, the RBI in its annual policy statement expressed the concerns of banking policies and practices that tend to exclude rather that attract vast sections of the population. The RBI urged banks to review their existing practices to align with the objective of financial inclusion by providing all unbanked households in a district with savings account by opening no frill account with nil or very low minimum balance. While opening such bank accounts, banks are asked to relax their Know Your Customer (KYC) norms for individuals. In addition the RBI also announced a targeted drive for financial inclusion throughout the country, wherein each household would receive one "no frills" bank account.

❖ **General Purpose Credit Cards (GCC) and Kisan Credit Cards (KCC)**:

The RBI has advised all the Scheduled Commercial Banks (SCBs), including Regional Rural Banks (RRBs) to provide General Purpose Credit Cards facility at their rural and semi urban branches. The credit card is provided based on the assessment of income and cash flow of the household similar to that prevailing under normal credit cards. The RBI also introduced Kisan Credit Cards (KCC) scheme to provide adequate and timely credit support from the banking system under a single window to the farmers for their cultivation and other needs. As on March 2015, almost 24.3 millions farmers are provided with Kisan Credit Cards and 9.2 million clients are provided with General purpose Credit Cards.

❖ **Business Facilitators (BFs) and Business Correspondents (BCs):**

In order to ensure greater financial inclusion and increase the outreach of the banking sector, the RBI has proposed that banks use the services of NGOs SHGs, MFIs and other civil societies as intermediaries in providing financial and banking services through the usage of Business Facilitators (BFs) and Business Correspondents (BCs). The BCs are permitted to carry out transactions on behalf of the banks as agents. The BFs can refer clients, pursue the client's proposals and facilitate banks to carry out their transactions. The BCs can offer savings, credit, insurance and remittance services depending on the location and infrastructure.

❖ **Swarnjayanti Gram Swarozgar Yojana (SGSY):**

It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY primarily designed to promote self employment oriented income generating activities for the below poverty level households in rural areas. These organizations federate the SHGs into effective self-governing organizations with a hierarchy of appropriate functions. The robust network of SHGs and their federations have enabled the groups to act as financial intermediaries and involve institutional partnerships with the bankers.

❖ **National Rural Livelihood Mission (NRLM):**

Established in June 2010 by Ministry of Rural Development (MoRD), Government of India, it is modeled on the current poverty alleviation programme being implemented in Andhra Pradesh. The strategies of this mission are as follows;

1. Implement the programme with greater emphasis on federations of SHGs.
2. Provide flexibilities to states for designing specific action plans for poverty alleviation.
3. Introduce interest subsidy for encouraging repayments of loans and provide multiple doses of credit.
4. Improve training and capacity building efforts by setting up skill training in each district.
5. Facilitate market linkages and
6. Improve monitoring and evaluation process.

❖ **The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):**

This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. This was prevalent in the case of post offices where accounts were used to receive government benefits. This has important implications, indicating that linking savings accounts to those who want to receive payment may be a good way to encourage financial inclusion and savings account usage.

❖ **Aadhaar Unique Identification Authority of India (UIDAI):**

The Government of India has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the Government of India. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhaar number will also enable people to have access to services like banking, mobile phone connections and other government and non government services in due course. In addition, The UIDAI has introduced a system in which the unbanked population will be able to open an account during enrollment with Aadhaar without going to a bank. The individual will be able to access such bank accounts through a micro ATM network with large geographic reach.

X. FINANCIAL INCLUSION PLAN (FIP)

The Reserve Bank of India has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board approved financial inclusion plans. Out of 3,445 rural branches opened during 2014-15, 2,230 branches were opened in unbanked rural canters. Around 155 million basic savings bank deposit accounts were added taking the total basic savings bank deposit accounts to 398 million. This includes 147 million accounts opened under PMJDY. With the addition of 2.6 million small farm sector credits (KCCs) and 1.8 million small non farms sector credits (GCCs), the total number and 9.2 million respectively.

Table 1: Financial Inclusion Plan (Summary Progress of all Banks including RRBs)

Particulars	**Year ended March, 2010**	**Year ended March, 2014**	**Year ended March, 2015**	**Progress in 2014-15**
Banking outlets in villages-branches	33,378	46,126	49,571	3,445
Banking outlets in villages-branchless mode	34,316	3,37,678	5,04,142	1,66,464
Banking outlets in villages-Total	67,694	3,83.804	5,53,713	1,69,909
Urban locations covered through Business Correspondences (BCs)	447	60,730	96,847	36,117
Basic savings bank deposit account through branches (Number in millions)	60,2	126.9	210.3	84.3
Basic savings bank deposit account through branches (Amount in billion)	44.3	273.3	365.0	91.7
Basic savings bank deposit account through BCs (Number in millions)	13.3	116.9	187.8	70.9
Basic savings bank deposit account through BCs	10.7	39.0	74.6	35.6

(Amount in billions)				
Basic savings bank deposit account-Total (Number in millions)	73.5	243.0	398.1	155.1
Basic savings bank deposit account-Total (Amount in billions)	55	312.3	439.5	127.3
Overdraft facility availed in Basic savings bank deposit account (Number in millions)	0.2	5.9	7.6	1.7
Overdraft facility availed in Basic savings bank deposit account (Amount in billions)	0.1	16.0	19.9	3.9
Kisan Credit Cards (KCCs) (Number in millions)	24.3	39.9	42.5	2.6
Kisan Credit Cards (KCCs) (Amount in billions)	1,240.1	3,684.5	4,382.3	697.8
General Purpose Credit Cards (GCC) (Number in millions)	1.4	7.4	9.2	1.8
General Purpose Credit Cards (GCC) (Amount in billions)	35.1	1,096.9	1,301.6	204.7
ICT account-BC transaction (Number in millions)	26.5	328.6	477.9	477.0
ICT account-BC transaction (Amount in billions)	6.9	524.4	859.8	859.8

Source: Report on Trend and Progress of Banking in India 2014-2015

XI. OVERVIEW AND PROGRESS ON FINANCIAL INCLUSION

Financial inclusion is an important priority of the Government. The objective of financial inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition it strives towards a more inclusive growth by making financing available to the poor in particular.

Table 2: Position of Households Availing Banking Services

Particular	As per Census 2001			As per Census 2011		
	Total no. of Households	No. of Households availing banking services	Percentage	No. of Households availing banking services	Number	Percentage
Rural	1,38,271,559	4,16,39,949	30.1	16,78,26,730	9,13,69,805	54.4
Urban	5,36,92,376	2,65,90,693	49.5	7,88,65,937	5,34,44,983	67.8
Total	**19,19,63,935**	**6,82,30,642**	**35.5**	**24,66,92,667**	**14,48,14,788**	**58.7**

Source: RBI Annual Report

Table 3: Number of Functioning Branches of Public Sector Banks-Population Group Wise

As on	Rural	Semi Urban	Urban	Metropolitan	Total
31-03-2011	20658	16217	13450	12612	62937
31-03-2012	22379	17905	14322	13244	67850
31-03-2013	24243	19642	15055	13797	72737
31-03-2014	27547	21952	16319	14644	80462
31-03-2015	29634	23549	17387	15325	85895

Source: RBI Annual Report

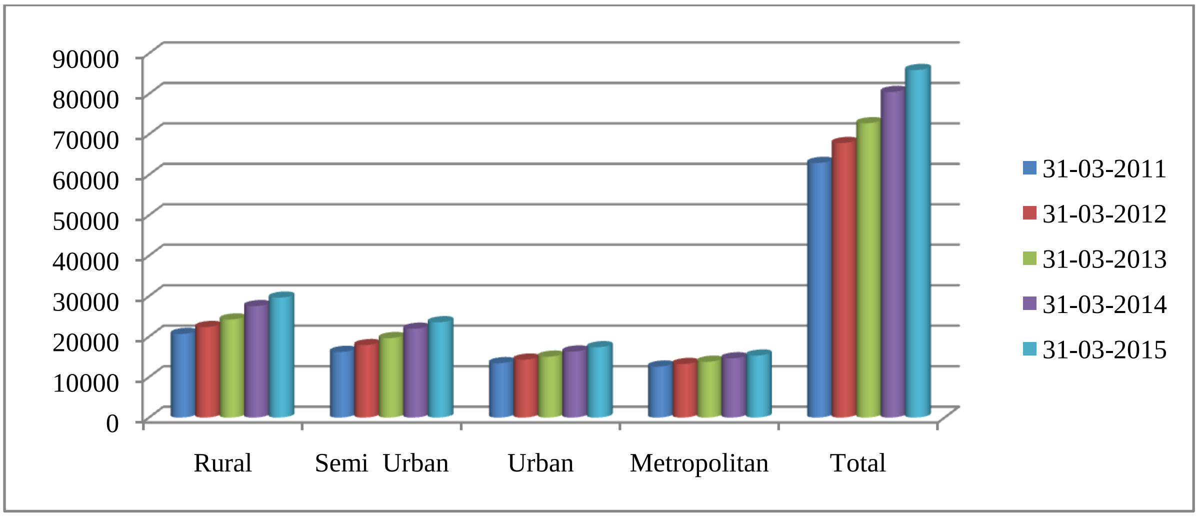


Table 4: Population Group Wise Number of Branches of Scheduled Commercial Banks (SCBs)

As on	Rural	Semi Urban	Urban	Metropolitan	Total
31-03-2011	33923	23089	17629	16255	90896
31-03-2012	36546	25834	18879	17274	98533
31-03-2013	39816	28546	19935	18092	106389
31-03-2014	45293	31530	21532	19275	117630
31-03-2015	48557	33766	23036	20498	125857

Source: RBI Annual Report

Table 5: Bank Group and Population Group Wise Number of Functioning Branches as on 31st March, 2015

Bank Group	Rural	Semi Urban	Urban	Metropolitan	Total
SBI and its Associates	8029	6593	4304	3622	22548
Nationalized banks	21228	16428	12604	11325	61585
Other Public Sector Banks	377	528	479	378	1762
Private Sector Banks	4302	6457	4521	4698	19978
Foreign Banks	8	12	57	247	324
Regional Rural Banks	14613	3748	1071	228	19660
Grand Total	**48557**	**33766**	**23036**	**20498**	**125857**

Source: RBI Annual Report

Table 6: Number of ATMs of Public Sector Banks (PSBs)

As on	Off site ATMs	On site ATMs	Total ATMs
31-03-2011	20032	30201	50233
31-03-2012	24181	34012	58193
31-03-2013	29411	40241	69652
31-03-2014	44504	65920	110424
31-03-2015	58763	69902	128665
30-06-2015	59245	71979	131224

Source: RBI Annual Report

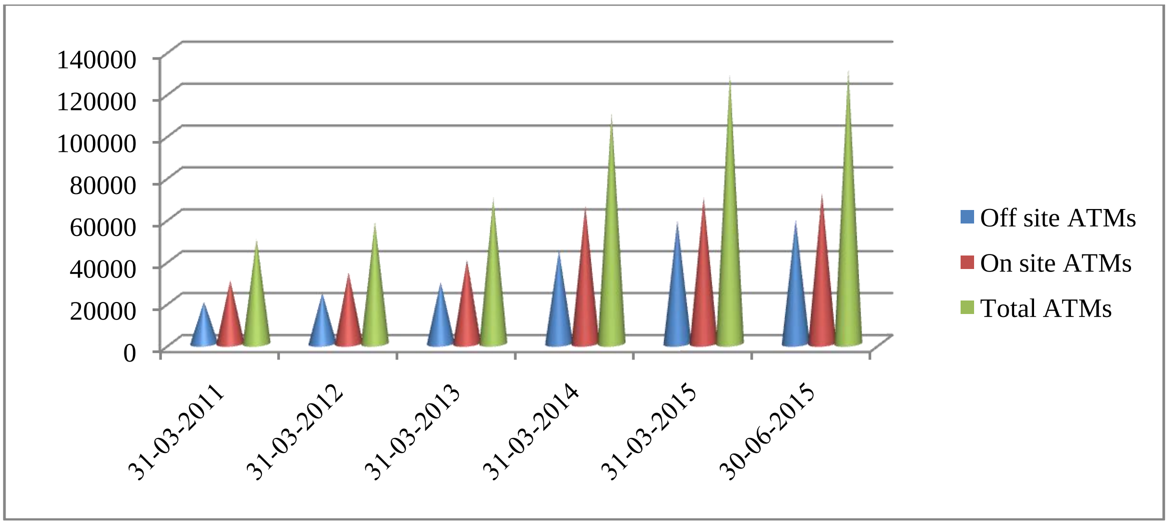


Table 7: Number of ATMs of Scheduled Commercial Banks (SCBs)

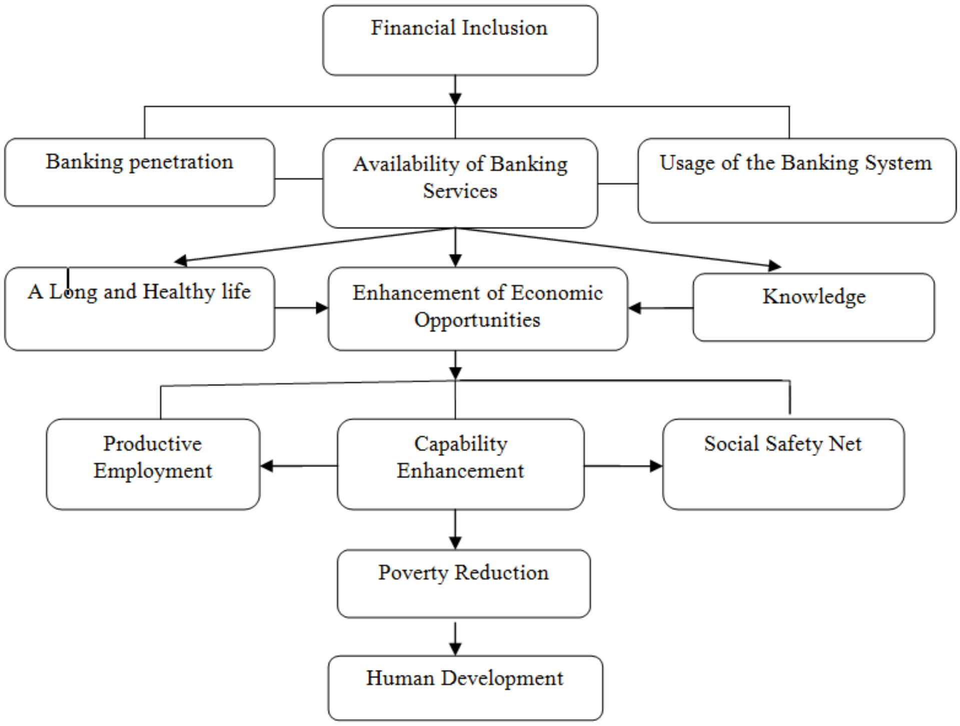
As on	Off site ATMs	On site ATMs	Total ATMs
31-03-2011	34377	41268	75645
31-03-2012	48141	47546	95686
31-03-2013	58254	55760	114014
31-03-2014	76676	83379	160055
31-03-2015	92191	89061	181252
30-06-2015	92735	91486	184221

Source: RBI Annual Report

XII. FINACIAL INCLUSION AND HUMAN DEVELOPMENT

Financial development has an important bearing on the growth of human capital and thus in turn influences the level of human development. However, this causality is a complex process. There might be indirect channels whereby one reinforces the other. Several attempts have been made in the literature to establish the causal link between financial development and human development. In fact, income inequality and poverty act as a hindrance to human development. It has been argued that financial development disproportionately boosts the income growth of the poorest quintile, reduces income inequality and is thus strongly associated with poverty alleviation. Intuitively, the lower the level of poverty, the higher is the level of human development. Thus, financial development positively influences the level of human development. The enhancement of economic opportunities through banking inclusion has an indirect effect upon the attainment of education and health opportunities and this in turn induces the level of human development. The casual link between Financial Inclusion and Human Development is depicted in Figure 2.

Figure 2: Financial Inclusion and Human Development



XIII. FINDINGS OF THE STUDY

1. The study found that, the financial inclusion has increased as compared to earlier due to the efforts of banks, but the impact in reality is not up to the mark.
2. According to Census 2011, about 50% of the deposit accounts in the country are not operated at all.
3. RBI surveys says that, 47% of the business correspondents cannot be traced and are not motivated to help the public because of low commission. They also engage in corrupt practices.
4. The study found that, a large number of population and rural households of India do not have access to banking and other financial services.
5. Rural men and women are less likely to use their bank accounts frequently than urban men and women due to less physical proximity to bank branches and ATMs.

XIV. SUGGESTIONS

1. India needs to develop a low cost bank branch model, possibly attached to village post office. Use e-advertising about the financial products so that people with shortage of time can be accessed more easily through internet.
2. Reserve Bank of India and government of India should give suggestion to commercial banks to promote the financial product and services of banking through all the educational institution.
3. The Reserve Bank of India should mandate that commercial banks have a certain percent of their portfolio in small loans. In addition to that, important social considerations should be factored into loan decisions. The government could add extra incentives to lend at rural areas.
4. The government of India should develop financial literacy among the population, particularly in low-income families. That can be done by teaching it in primary, secondary school and colleges.
5. The community based financial system like hit funds need to be revived and strengthened.
6. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programme etc. to achieve the inclusive growth.

7. Any government payments under the government schemes should be strictly routed through the service area bank account. This will make people in rural areas to compulsory have an account in their service area branch to avail the government benefit.

8. Business correspondents should be remunerated appropriately so that they will work loyalty and regular check should be made on them to check any of their corrupt practices.

XV. CONCLUSION

In achieving inclusive growth in India, the financial inclusion will play a vital role and help the nation to drive away not only the rural poverty but also urban poverty in India. It is duty of every Indian citizen to ensure that all the Indian will have bank account and everybody should take part actively in achieving 100% financial inclusion in India. Setting up financial literacy centre and credit counseling at pilot basis launching a financial literacy campaign etc. are some initiatives currently under way of furthering financial inclusion. Thus financial inclusion has enough scope for economic growth, raising living standard of people, equality etc. On the basis of the Government initiatives and projects we can conclude that a day will come when all Indians have their accounts and everybody will take part in financial inclusion.

Banks have played a significant role in financial inclusion but the ground reality is that the actual access to banking products is quite low. Hope and desire, the findings and the issues raised could provide an invaluable feedback in making strategies by banks in ensuring 100% financial inclusion. It is rightly said by the Prime Minister Narendra Modi. “Mahatma Gandhi tried to end untouchability in the society, if we want to eradicate poverty; we need to get rid of financial untouchability”.

References:

[1]. Dr. Swamy V. and Dr. Vijayalakshmi (2010) Role of financial inclusion for inclusive growth in India - issues and challenges. Available at http:/skoch.in.fin/role.
[2]. Rao N.N.D.S.V (2010) “financial inclusion-Bankers perspective”- Bank Quest Vol-8 No. 4 October-December.
[3]. Chattopadhyay, Sadhan Kumar(2011), RBI working paper on Financial Inclusion in India –A case study of West Bengal July,2011.
[4]. Chakrabarty K.C. (2011) Dy. Governor RBI in his forward to the book “Towards Financial Inclusion in India” by Karmakar K.G. Banerjee G.D. Mohapatra N.P. Sage Publication, New Delhi.
[5]. Rangarajan (2008), the final report of the committee of “Financial Inclusion” under the chairmanship of Dr. C. Rangarajan.
[6]. Rangarajan report of the committee on “Financial Inclusion”, 2008.
[7]. Kaur, Paramjeet (2014) a study on Financial Inclusion-Role of Indian banks in implementing a scalable and sustainable financial inclusion strategy, International Journal on Management, 5(11).
[8]. Annual Report of RBI.
[9]. Census of India 2001 and2011.