IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 11, Issue 2 Ser. II (Mar – Apr 2020), PP 56-62
www.iosrjournals.org

Financial inclusion: Needs, obstacles and policies for India

Nikhil khajuria
Lecturer Department of commerce Udhampur campus, university of Jammu

Abstract: *Financial sector is the backbone for an economy. Financial inclusion generally refers to the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low-income groups at an affordable cost. Government of India (GOI) and Reserve Bank of India (RBI) has undertaken various initiatives towards improving the level of financial inclusion in order to include the people those who are financially excluded.This paper is an attempt to outline the needs and various obstacles that impede financial inclusion in India and the ways to overcome these obstacles. This study also provides an overview on trends of financial inclusion in India in past few years with reference to the various policies and measures adopted by GOI and RBI. This paper is based on secondary data collected from different sources. This paper revealed that the financial inclusion is in progressive stage in India as the initiatives taken by Reserve Bank of India and Government of India has reached the majority of the financially excluded people in India. Somehow those who are still excluded due to lack of financial literacy, lack of trust in banks and low and irregular income affects the growth rate of financial inclusion in India.*

Keywords: *Financial Inclusion, Needs of Financial Inclusion, Obstacles of Financial Inclusion*

Date of Submission: 10-03-2020 Date of Acceptance: 24-03-2020

I. Introduction

Financial inclusion is the process to have an access of financial products and services at useful and affordable cost to individuals and businesses to meet their needs (World Bank, 2018). Further, Financial inclusion includes financially excluded and unbanked people under the purview of formal banking system to provide easy access of formal banking. It is the delivery of financial services such as transactions, payments, savings, credit, pension and insurance at reasonable cost to vast sections of vulnerable groups such as weaker sections of the society and low income groupswith the provisions of equal opportunities.It helps the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Overall, it enables improved and better sustainable economic and social development of the country (Charan Singh, et.al (2014).

Globally, about 1.7 billion adults remain unbanked — without an account at a financial institution or through a mobile money provider. Because account ownership is nearly universal in high-income economies, virtually all these unbanked adults live in the developing world(Global Findex report 2017).India is a country where a sizeable amount of population lives in rural areas that are engaged into agriculture and allied activities. Most of these people are poor and they do not have access to any formal financial services. The Reserve Bank of India (RBI) and the Government of India (GOI) have taken various efforts to increase financial inclusion in the form of various measures like Self Help Group-bank linkage program, electronic benefit transfer, use of mobile technology, bank branches and ATMs, easing of Know Your Customer (KYC) norms opening and encouraging 'no-frill-accounts, etc, and also emphasis on financial literacy which have played a significant role for increasing the use of formal sources. Measures initiated by the GOI as follows opening customer service centres, credit counselling centres, Kisan Credit Card, PMJDY, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme (Charan Singh, et.al (2014). These efforts are to facilitate the people to grip the more opportunities.

The above discussion has shown the importance of financialinclusion in the path of social and economic development. The various policies and measures are adopted by GOI and RBI towards formulating a comprehensive action plan for financial inclusion as it is believed that financial inclusion is the only hope for financial development. This paper is going to find out needs and obstacles of financial inclusion in India. Further, this paper is also study of overall performance of financial inclusion in India.

This paper divided into 5 sections. Section 1 shows the introduction part of the paper; section 2 review of literature; section 3 methodology; section 4 needs of financial inclusion; section 5 obstacles in the path of financial inclusion; section 6 ways to overcome from obstacles; section 7 journey of financial inclusion; section 8 Measures adopted towards Financial inclusion

II. Review of Literature:

Sethysusanta Kumar (2016) had undertaken a study in which he proposed a financial inclusion Index to measure the extent of financial inclusion across Economies. In the study both Demand and Supply side dimensions were taken for development of index , demand side dimensions like usage of banking system, banking penetration and availability of banking services. Using the index it was found out that India is categorized on high financial inclusion on demand side and low on supply side.

Gwalani and Parkhi (2014) have studied the financial inclusion. They pointed out some of the reasons of financial exclusion which includes financial illiteracy, complex procedures, poverty, faith in banking system and unavailability of banking services. They discussed the different models such as Lead banking system, mobile banking, and microfinance model to the financial excluded people.

Sundaram and Sriram, (2008) have conducted the study in rural areas of vellore district in Tamil Nadu to identify and analyze various determinants of financial inclusion, by using index of financial inclusion and percentage analysis. They collected data from 20 village blocks of vellore. They found out that financial inclusion was at mid-range of 0.55 for vellore. The major reasons for lack of financial access were identified as unemployment, lower income level and lower literacy.

Joseph J. and varguese T. (2014) have undertaken a study in which they have made an attempt to assess the current status of financial inclusion towards the development of Indian economy by analyzing five private sector banks and five public sector banks. In their study they found out that the usage of Debit card has increased and Banks focus more on rural areas and semi-urban areas. The study also found out that number of people with access to the products and services offered by the Banking system is very limited despite of various financial inclusion initiatives in the country.

(Roy, 2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

III. Methodology:

The present study was Descriptive in nature. It was purely based on the secondary data collected from the government reports, RBI and other financial institutions reports, journals, different news articles, books and authorized internet sources.Percentage method, charts, diagrams were used to analyses the data in order to show the trends and status of the financial inclusion over the years.

IV. Need for financial inclusion

Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner. Further, by provision of financial services to low income groups helps them to protect their financial wealth and use it in any insistent circumstances. Easy access to formal credit will protect the vulnerable sections of society from usurious money. The main objectives of financial inclusion in India are enumerated below.

- Creating a platform for inculcating the habit of saving money: For growth of a nation financial system is a crucial component. By aiming for financial inclusion Government of India wants to increase the financial resource base through motivating all individuals to have a bank account and thus inculcate habit of saving (Singh and Singh, 2016).
- Providing formal credit channels: So far major chunk of the population which is deprived of any formal access to credit depends on family, friends and moneylenders for fulfilling their financial needs. Formal banking channels will enable people form lower income groups to stabilize their livelihood and will in improving their standards of living.
- Providing Financial institutions: Financial inclusion also intends to have numerous institutions that offer affordable financial assistance so that there is sufficient competition so that clients have a lot of options to choose from. There are traditional banking options in the market. However, the number of institutions that offer inexpensive financial products and services is very minimal.
- Providing direct benefits of subsidies and welfare program: A major challenge faced by Government is that the sum of money designated for rural masses under several schemes does not reach them in reality. If every individual residing in rural areas will have a bank account, the disbursal of cash will be quick and transparent (Sehrawat and Giri, 2016). Consequently government has opted for direct cash transfers in accounts of beneficiaries.
- Financial inclusion aims to provide tailor-made and custom-made financial solutions to poor people as per their individual financial conditions, household needs, preferences, and income levels.

V. Obstacles to financial inclusion

The census report, 2011 shows that 41.3 percent of the Indian population in urban and rural areas do not have access to banking facilities.

There are few more obstacles to successful achievement of financial inclusion.These obstacles to financial inclusion often prevent poor people from accessing even the most basic formal financial services. Simply being too poor or the geographic distance to a bank can be a huge deterrent for a poor person. 65% of adults without account attributed it to lack of enough money to use one. 20% also attributed not having account to the fact that banks are too far away (Demirguc&Klapper, 2011).

The following are the obstacles which hinders the financial inclusion movement in India. They are:

5.1 Remoteness from the financial institutions: Usually, banks are locating its branches in the high densely populated areas for covering its cost of operations. Unfortunately, people are scattered in rural India. The population densities of rural areas are very low. The remoteness of the financial institution makes rural people does not utilize such services. They have to travel far to approach these institutions which is again a time and cost consuming process.

5.2 Financial Illiteracy: Most of the people suffer from financial stress due to lack of financial literacy. Financial literacy teaches the vulnerability of the investments and loans given by the informal financial institutions. It also gives clarity about the formal financial institutions and its merits.

5.3 Low and Irregular income: Income level is one of the prominent factors that hinder the underprivileged from availing services from banks. Majority of the people's income level in the rural area is low and irregular too. A major portion of people is in seasonal employment. Hence, income level decides the people's saving and investment avenues.

5.4 Inappropriate products: Generally, banks are targeting educated and a high-income group of people. They develop financial products based on these target groups' requirements. The needs of low income and weaker section of people are quite different. This increases the percentage of financially excluded people in the society.

5.5 High Cost: Nowadays banks are operating for profit under the competitive environment. They levy charges for different transactions like minimum balance requirement, charges for usage of ATM services, processing fee etc. People are already suffering from low and irregular income. Therefore paying these kinds of excessive charges make them more burdened.

5.6 Lack of trust: One of the barriers is "lack of trust" in the financial system, and particularly in money and financial institutions. This can be due to history of bank failures and the associated loss of hard-earned cash that people may have witnessed. Lack of trust may also reflect a lack of financial literacy. Indeed, people cannot be expected to trust something they do not understand.

VI. Ways to overcome obstacles:

6.1 Aadhaar - Unique identification authority of India (UIDAI): The government of India has decided to issue a unique individual identification number to every individual in India in the year 2009. For this purpose, GOI established the Unique Identification Authority of India (UIDAI), which issues Aadhaar numbers to every Indian citizen. 1.14 billion People in India were enrolled in Aadhaar as of March 2017. It contributes 85% of India's Population. Around 400 million bank accounts linked to Aadhaar as of April 2017 and 6 million-bank accounts opened by e-KYC. This reduces the number of people who have not opened bank accounts due to lack of legal documents. (State of Aadhaar Report, 2016-17)

6.2 Financial Literacy Programs: The Reserve Bank of India has identified the following five target groups such as Farmers, small Entrepreneurs, Self Help Groups (SHGs), school students, and senior citizens to provide financial literacy programs through Financial Literacy Centers (FLCs). As of March 2016, 1384 FLCs were operational. The Financial Literacy Centers (FLCs) has conducted totally, 87710 financial literacy camps in the financial year 2015-16 (RBI, 2016). Based on the recommendation of the committee on the medium-term path on financial inclusion, the financial literacy week conducted from June 5 to 9, 2017. The financial literacy week was focused on four broad themes such as, Know Your Customer (KYC), Exercising Credit Discipline, Grievance Redressal and Going Digital (UPI and *99#). (RBI, 2017)

6.3 Effective and conducive regulatory framework: Framing a robust regulatory framework to oversee the operations of the payment services providers, a Framework that aims to promote the use of transaction accounts as well as adequately protecting customer funds. A Framework that promotes competition as well as addresses the trust issue which some customers have with traditional payment services providers.

6.4 Efficient and Robust Financial and ICT infrastructures: Upgrade or build the requiredinfrastructures to facilitate usage of transaction accounts and having additional infrastructures that effectively support financial inclusion initiatives.

VII. Journey of financial inclusion in India

year	Details of events
1904	Beginning of cooperative.
1969	Banks Nationalisation programme. 14 commercial banks were Nationalised.
1976	Regional Rural Banks Act.
1981	NABARD was set up.
1992	SHG-Bank linkage was set up.
2010-13	No frills A/c concept launched. 1st FIP launched.
2011	SwabhimaanFI program was launched.
2014	Pradhan Mantri Jan Dhan Yojana was launched.
2015	PMJJBY, PMSBY,APY schemes launched
2016	Digitization of FI accelerated. AEPS launched
2018	National health protection scheme launched

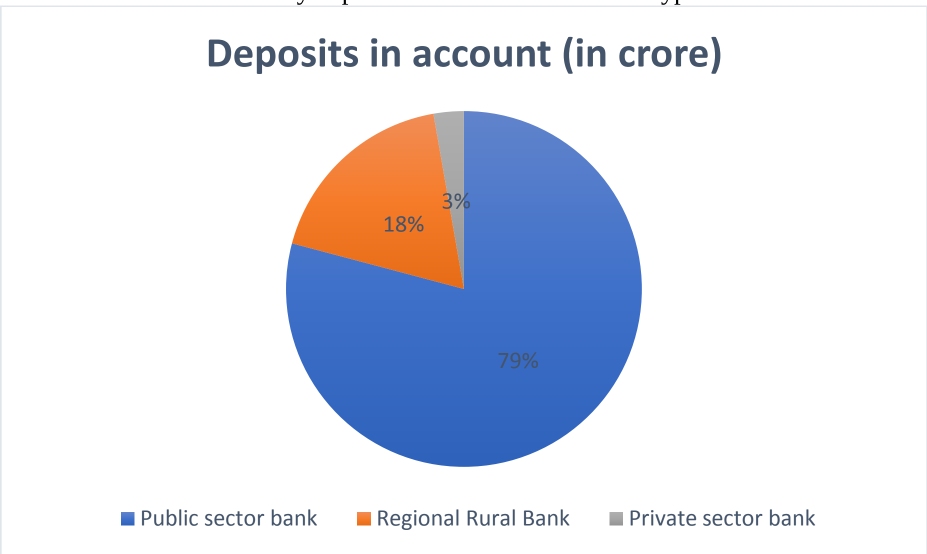
VIII. Measures adopted towards financial inclusion

8.1 Pradhan Mantri Jan-DhanYojana (PMJDY)

In a step towards financial inclusion in India, Govt. of India in the year 2014 introduced its flagship programme Pradhan Mantri Jan-Dhan Yojana as a part of Government's public wealth creation programme.

PMJDY is a national mission for financial inclusion to ensure access to financial service, namely; banking/savings and deposit accounts, remittance, credit, insurance, and pension in an affordable manner. The target of the program was to provide a bank account to every household within 12 months. An additional benefit added to the programme were that, every household opening an account would be given personal accident insurance cover of INR100, 000. In addition, every household will be eligible to an overdraft facility of INR10, 000 after some few months following a credit review. Account can be opened by presenting an officially valid document. Even persons without valid documents can open what is termed "Small Account" with banks on the basis of self-attested photograph and putting his/her thumbprint/signature in the presence of officials of the bank. The validity of such account was 12 months extendable to another 12 months if the account holder provides a proof that he/she has applied for any of the valid documents within 12 month of opening the account. The scheme was launched on August 26th, 2014 with 15 million new accounts being opened on a single day.

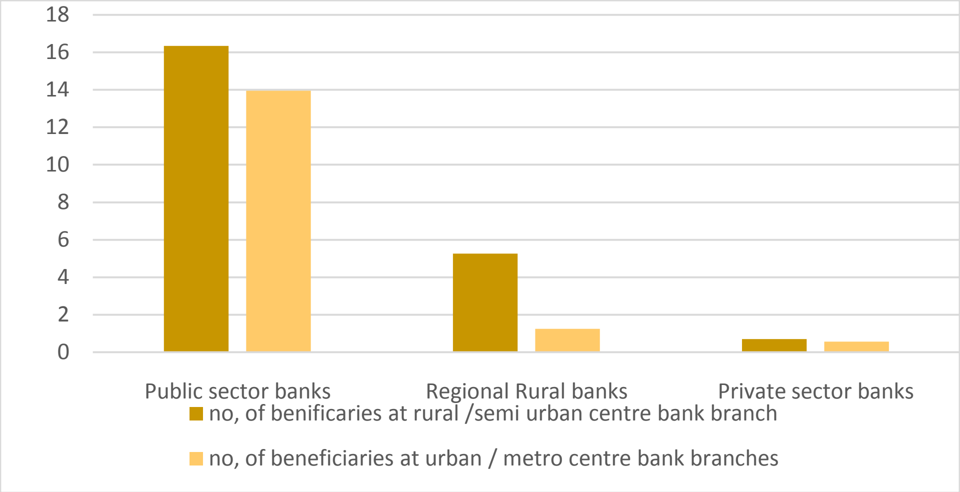
Fig 1: beneficiaries of PMJDY by deposits in account in different types of banks as at 5/02/2020.



Source: GOI report on PMJDY

Total amount of money deposited in all types of banks as on 5/02/2020 was 114569.13 crore, among which public sector bank have been the highest depositor of money under PMJDY account With 90657.11 crore (79%) afterwards public sector banks Regional Rural Banks stands with 20770.15 crore (18%) in its account followed by Private Sector Banks with 3141.88 crore (3%) in its deposits.

Fig2. Beneficiaries of PMJDY by deposit in account at Rural and Urban Bank Branches

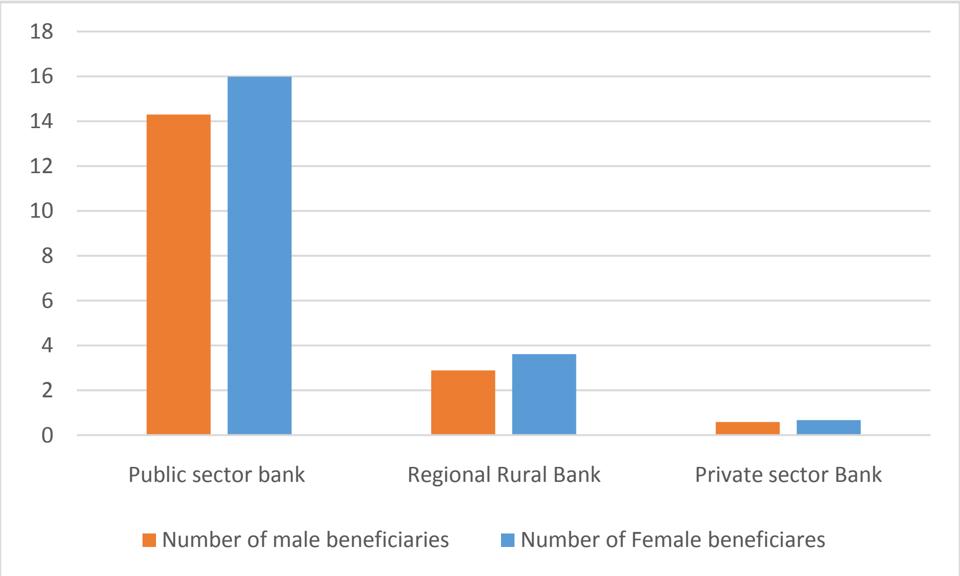


Source: GOI report on PMJDY

Total amount of money deposited at Rural/ Semi urban Center Bank Branches amounted to 22.29 crore, among which major holding is with Public sector bank in its deposit of 16.34 crore, afterwards Regional Rural Bank holds a deposit of 5.26 crore and 0.70 crore deposited in Private sector bank.

Total amount of money deposited in Urban / Metro Center Bank Branches amounted to 15.74 crore, among which public sector bank have been highest depositor with 13.95 crore, Regional Rural Bank stand with 1.24 crore in its deposit and 0.56 crore deposited with Private sector banks.

Fig 3. Beneficiaries of PMJDY by sex as at 05/02/2020 (in crore)



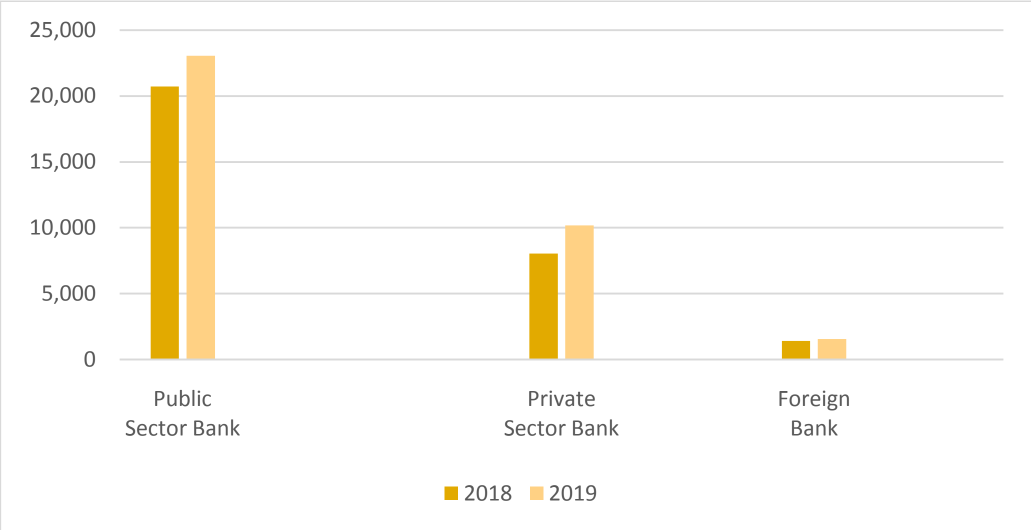
Source: GOI report on PMJDY

Total number of accounts opened as at 05/02/2020 was 38.04 crores out of which Women have been the highest beneficiaries of PMJDY account with 17.76 crore bank account out of this number Public sector bank have opened maximum account which stand at 15.98 crore followed by RRB which have opened 3.62 crore accounts and Private banks have opened 0.67 crore accounts. Accounts opened by their male counterparts amounted to 17.7 crores in total with public sector banks opening 14.3 crore accounts followed by RRB with 2.88 crore and Private sector banks opening 0.58 crore accounts in favor of men.

8.2 Priority Sector Lending

Priority sector lending an important role given by the RBI to all the Commercial Banks for providing a specified portion of the bank lending to a few specific sections which includes Agriculture, MSME, export credit, education, housing, low income group & others . Social infrastructure and Renewable energy has also been included in this ambit of PSL .The objective of priority sector lending is to enhance credit flow to those vulnerable sections of the society which despite being credit worthy may not get timely and adequate credit in the absence of special dispensation .

Fig 4. Performance of priority sector lending



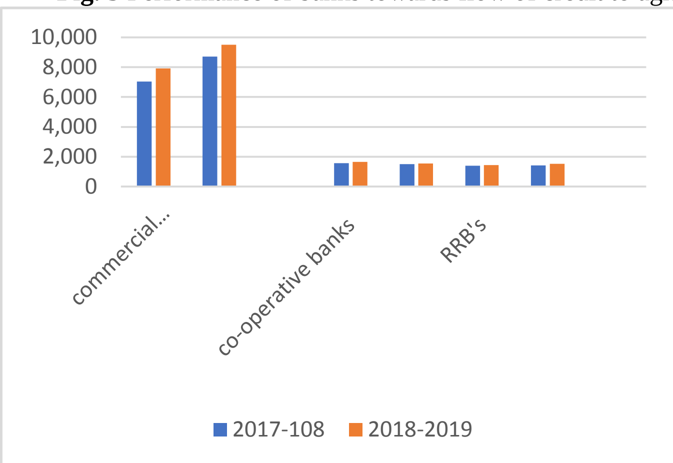
Source: GOI report on priority sector lending

In the year 2018 Public Sector Bank achieved the lending target of Rs. 20,723 million which increased to Rs. 23,060 million in the year 2019. For Private Sector Banks 2018 target stands at Rs. 8,045 million which increased to Rs. 10,190 million in the year 2019. Similarly foreign banks also played an important role with lending of Rs. 1,402 million in the year 2018 which further increased to Rs.1, 543 in 2019.

8.3 Flow of credit to agriculture

Growth in agriculture is necessary for the overall economic growth & finance is an essential enabler for the same. RBI & GOI is actively involved in formulating policies that enhance the flow of credit to the farming community. In recent years, several initiatives have been undertaken to strengthen credit delivery mechanism and financial inclusion. The Government of India has been fixing the target for agricultural credit every year.

Fig. 5 Performance of banks towards flow of credit to agriculture



Source: RBI report on flow of credit to Agriculture

During 2018-19, the Government of India set the target of □ 11,000 billion for agricultural credit. As on March 31, 2019, commercial banks achieved 119.9 per cent of their target whereas co-operative banks and regional rural banks (RRBs) achieved 93.26 per cent and 105.78 per cent, respectively The target for 2019-20 is □ 13,500 billion.

8.4 Financial literacy

Out of total Indian population of 121 crores, 83.3 crores of people belong to the rural areas and witness financial illiteracy in its realest and worst forms. People of rural India have always been apprehensive about anything that is even remotely digital and find it hard to accept the recent trends that have made the digital medium of financial transactions so popular.

Impact Assessment of Pilot Project on Centresof Financial Literacy (CFL)

The baseline survey forming part of the impact assessment of the pilot project on CFL has been completed during the year. Some of the observations/ findings of the baseline survey are as under:

a. Many socially and economically marginalised communities have relatively lower exposure to financial literacy initiatives thereby requiring more focused approach to these communities.

b. Out of the various financial education initiatives, one-to-one discussion and group training or awareness generation programme was found to be effective.

c. With regard to the effectiveness of media/channel used for dissemination of messages, television has the highest reach among the targeted rural population owing to its ability to transmit both audio and visual contents and thereby disseminating messages with higher visibility and recall for longer periods.

The Financial Literacy Week is an initiative of the Reserve Bank to promote awareness on key topics every year through a focussed campaign. This year, Financial Literacy Week was observed during June 3-7, 2019 on the theme of ‘Farmers’ and how they benefit by being a part of the formal banking system. To build awareness and disseminate financial literacy messages to the farming community, content in the form of posters/ leaflets and Audio Visuals on Responsible Borrowing & Agricultural Finance were prepared. Banks were advised to display the posters and content in their rural bank branches, FLCs, ATMs and websites. Further, the Reserve Bank also undertook a centralised mass media campaign during the month of June 2019 on Doordarshan and All India Radio to disseminate essential financial awareness messages to farmers.

References

[1]. Charan Singh, et.al (2014). Financial Inclusion in India: Select Issues [Accessed on 12/03/2020]. https://www.iimb.ac.in/sites/default/files/2018-07/WP_No._474.pdf

[2]. Demirguc and Klapper (2012). Measuring Financial Inclusion: - the Global Findex Database. Policy Research Working Paper 6025, The World Bank Development Research group, Finance and Private Sector Development team, Washington, DC

[3]. Global findex database (2017)https://globalfindex.worldbank.org/node

[4]. Hema Gwalani and Shilpa Parkhi (2014), “Financial inclusion - Building a success model in the Indian context”, Procedia - Social and Behavioral Sciences, 133, 372 – 378

[5]. Report of the Advisory committee on flow of credit to Agriculture sector https://www.rbi.org.in/

[6]. Paramjit sujlana and chhavikiran. A study on status of financial inclusion in India, International Journal of Management Studies

[7]. Roy, S. K. (2012). Financial inclusion in India: An overview. Asian Journal of Multidimensional Research, 1 (5).

[8]. SethySusanta Kumar (2016). Developing a financial inclusion index and inclusive growth in India Theoretical and Applied Economics, 23(2), 187-206

[9]. Sriram, M., & Sundaram, N. (2015). Financial inclusion index: a customized regional model with reference to economically most backward districts of Tamil Nadu, India. Mediterranean Journal of Social Sciences, 6(6), 209.

[10]. State of Aadhaar Report, 2016-17https://www.idinsight.org/

[11]. World Bank (2018). Financial inclusion. [Accessed on 12/03/2020]. https://www.worldbank.org/en/topic/financialinclusion/overview

[12]. Progress report on Pradhan mantrijhandhan yojana (2020) www.pmjdy.gov.in

[13]. Govt. of India report on priority sector lending data.gov.in

Nikhil khajuria,etal. “Financial inclusion: Needs, obstacles and policies for India.” *IOSR Journal of Economics and Finance (IOSR-JEF)*, 11(2), 2020, pp. 56-62.