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"Role of Financial Inclusion for Inclusive Growth in India & their Issues & Challenges"

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Abstract- Financial Inclusion is the availability of banking services at an affordable cost to disadvantaged & low income group. In India the basic concept of financial inclusion is having a saving or current with any bank. In reality it includes loans, insurance services & much more.

Today the term "bottom of the pyramid" refers to the global poors most of whom live in the developing countries. These largest numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty. Financial inclusion is intended to connect people with banks with consequential benefits. Ensuring that financial system plays its due role in promoting inclusive growth is one of the biggest challenges for economies.

The promotion of an inclusive financial system is a policy priority of many countries. While the importance of financial inclusion is widely recognized, the literature lacks the comprehensive measures that can be used to measure the extent of financial inclusion. This paper attempts to fill the gap by proposing a multidimensional index of financial inclusion. Also, it gives the information about, the role of banking system for financial inclusion, importance & benefits of financial inclusion & conducted the financial inclusion programme with the help of Business Correspondents (BCs)/ Business Facilitator (BFs).

Objectives of Research Paper:

1) To Study the Concept of Financial Inclusion.
2) To study financial inclusion programme with the help of Banks
3) To Study role of NABARD for financial inclusion
4) To Study financial inclusion in India
5) To analyze RBI report on financial inclusion

Research Methodology:

This paper is based on secondary data with the help of RBI reports & NABARD report.

Introduction-

Financial inclusion mainly focused on the poor who do not have formal financial support & getting them out of the clutches of local money lenders. As first step toward this, some of our banks have now come forward with general purpose credit cards& artisan cards with offer collateral free small loans. The RBI has simplified the KYC (Know Your Customer) norms for opening a "no frill" accounts. This will help the low income individual to open no frill account without identity proof & address proof.

India is well developing country, we also called it as 'agricultural Country' because out of the total population of India there is 60% people are live in Rural area & remaining are live in Urban area. So that there is a huge gap of standerd of living of Rural & Urban people.

The people living in rural area they are not much aware about banking services which they want to get. They are worried while taking financial services. A farmer, small scale entrepreneur, wants to take loan for agriculture & business purpose they cannot get proper information about taking loan.

Thus all these situations, the condition is that people in urban area, they take only banking facilities, therefore in market only 40% money generated & 60% is not generated, as a result all financial crisis faced by country & it is very difficult to overcome from it.

Role of banking system in Indian Economy-

The banking system of a country occupies a pivotal role in the functioning & development of national economy. Commercial banks in developing country can help the processs of economic development in both sides rural area & urban area. Some important factors are given as follows-

1. Economic development requires an increase the rate of capital formation
2. In rural area promotion of enterprise by giving micro finance facilities
3. Short term & long term credit facility for development of trade & commerce
4. Filling the gap between regional imbalances
5. Banks provide financial guidance to entrepreneurs

Concept of financial inclusion-

In the Indian context, Rangarajan Committee defines financial inclusion as, "the process of ensuring access to financial services timely & adequate credit where needed by vulnerable group such as weaker section & low income group at an affordable costs."

The financial inclusion is important because of necessary condition for sustaining equitable growth. If people having comfortable access to financial services then economic opportunity strongly intertwined with financial access. Such access especially powerful for the poor as it provides them opportunity to build saving make investment & avail credit. It also helps poor insure themselves against income shocks & equip them to meet any emergencies like- illness, death, or loss of employment.

Benefits of financial inclusion-

There are two benefits from financial inclusion:

1. financial inclusion provides an avenue for the bringing of saving of poor into the formal financial intermediation system & channel them into investment
2. The large number of low cost depositors will be offer banks an opportunity to reduce their independence to bulk deposits & help them to better manage both liquidity risk & Assets- liabilities mismatches.

Financial inclusion programme with the help of Business Correspondents (BCs)/ Business Facilitator (BFs)-

With the guidance & permission by RBI gives opportunities to banks for appointing Business Correspondents (BCs)/ Business Facilitator (BFs) for financial inclusion programme. The banks are permitted to following entities as Business Correspondents (BCs) –

1) Individual Kirana/ medical/ fair price shop owners.
2) Individual Public Call Office (PCO) operators.
3) Agents of small savings schemes of Government of India & insurance companies.
4) Individuals who have its own petrol pumps
5) Retired teachers
6) Authorized functionaries of well run self help group (SHG) linked to banks.

Banks may adhere to the RBI guidelines on adoption of appropriate technology while implementing the BC model. Banks may also develop suitable training module in the local language in order to provide proper attitudinal orientation & skills to the Business Correspondents BCs.

Indian Institute of Banking & Finance (IIBF), Mumbai & Swabhiman Academy, Pune has already developed training modules may be translated in vernacular languages & leveraged extensively so as to reach a wide group.

Role of NABARD for Financial Inclusion-

NABARD was set up in 1982 & it is the apex body of rural development banking system. It coordinates the operations of rural credit agencies & acts as agent of Government & RBI.

RRB should support as sponsor bank & active financial inclusion player especially in area with high level of financial exclusion. In order to build up the skills & expertise the personnel of RRB & NABARD has played crucial role since the inception of RRB management themselves in HR Department & in implementation for the reform package. The work could be accomplished by NABARD working in close tandem with Government of India & RBI besides sponsor Banks.

NABARD may design suitable training programmes to enable RRB to meet the challenges in the post merger environment. NABARD should prepare a strategic action plan RRB wise for the promotion & credit linkage of SHGs. It may be closely monitor the programme which focuses qualitative aspects. National Bank for Agriculture and Rural Development (NABARD) has launched a unique rural linkage programme for banks and other financial institutions through Self Help Groups(SHG) for financial inclusion of India's 748 million village population.

This was announced here today by NABARD Chairman Y S P Thorat while speaking to reporters on the sidelines of a FICCI sponsored Banking Conclave in the city. Underscoring the need for financial inclusion of more than 51 per cent of India's vast rural population to ensure the projected 9.5 GDP growth by the end of current fiscal, Dr Thorat, also an economist of international repute, said it was very unfortunate that even after five decades of independence about 27 per cent of rural marginal farmers were still out of the purview of any banking facility. In an all out effort to reach to these population of more than 69 million, NABARD had recently launched a special bank linkage programme with the helf of a large number of SHGs and NGOs to reach over 400,000 villages under a timebound programme. Since the Indian economy was basically based on the success of three major pillers, namely the state administration, financial institutions and the community developers, Dr Thorat said for successful financial inclusion and brining the entire rural population under the bank credit facilities, the role of all the three pillers were equally important. Further elaborating he said, the role of state was to provide an exclusive framework through fiscal measures which in turn increased investment in economic and social capital. About the role of financial institutions, Dr Thorat observed that in reducung poverty through trainning facility, livelihood opportunities and good payment system they should play a much greater role, while the role of diffetrent communities would be that of catalytic.

Referring to the similar situation abroad, Dr Thorat said while every citizen in Englind was exposed to the Banking system in one way or the other through a national legislation, in the USA despite having one of the most modern banking system about 14 per cent of population continued to remain out of reach of any banking system.

In terms of low income group, people as many as 22 per cent people did not have any access to the banking system in the USA, the NABARD Chairman informed and reiterated his commitment to improve the government's decision to bring 100 per cent of Indian rural population under financial inclusion within the next five year plan.

Financial inclusion in India

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The government of India recently announced “Pradhan Mantri Jan Dhan Yojna,”[8] a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it’s 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 the district level. MIX designed the FINclusion Lab India FI workbook [9] to support these actors as they craft strategies to achieve these goals.

In India, RBI has initiated several measures to achieve greater financial inclusion,such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

- Opening of no-frills accounts
- Relaxation on know-your-customer (KYC) norms
- Engaging business correspondents (BCs)
- Use of technology
- Adoption of EBT
- GCC
- Simplified branch authorization:
- Opening of branches in unbanked rural centre

Analysis of Financial Inclusion – RBI Policy Initiatives

- RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts (Box-I). **Box-I: Financial Inclusion Initiatives**

- **Advised 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.
- ***Relaxed 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. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address[9].
- ***Simplified 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-Eastern Sates 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 centers.
- ***Opening of intermediate brick and mortar structure***, for effective cash management, documentation, and redressal of customer grievances and close supervision of BC operations, banks have been advised 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, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.
- **Banks have been advised that their *FIPs should be disaggregated and percolated down up to the branch level***. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- **In June 2012, revised guidelines on *Financial Literacy Centres (FLCs)*.** Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. ‘Financial Literacy’ and easy ‘Financial Access’. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million

people have been educated through awareness camps / copulas, seminars and lectures during April 2012 to March 2013.

3.2. Recent Measures –

Licensing of New Banks: The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

- **Discussion Paper on Banking Structure in India – The Way Forward**: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.
- In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

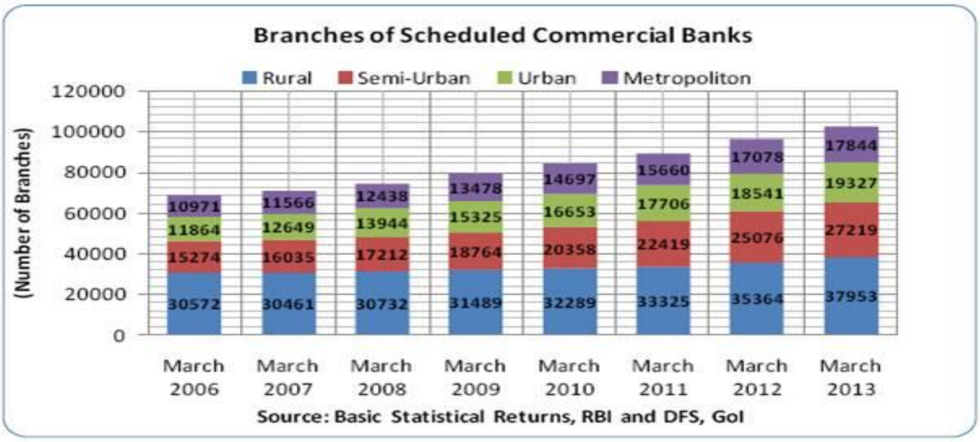
3.3. Progress in Financial Inclusion

- Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

3.3.1. Number of Branches Opened (including RRBs)

- Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country (Chart 4).
- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

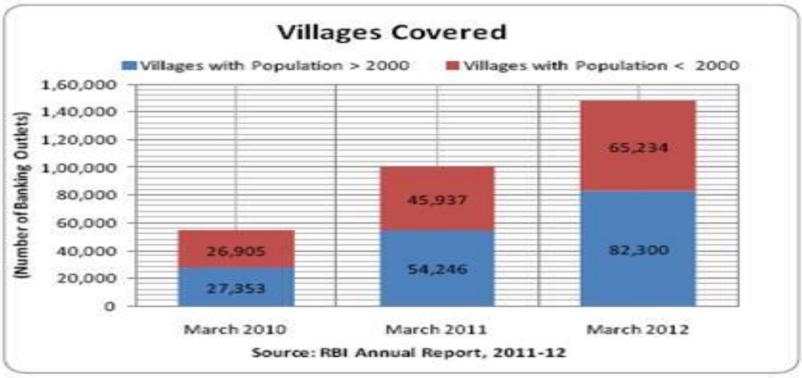
Chart 4: Branches of Scheduled Commercial Banks



3.3.2 Villages Covered:

- The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010 (Chart 5).

Chart: Villages Covered

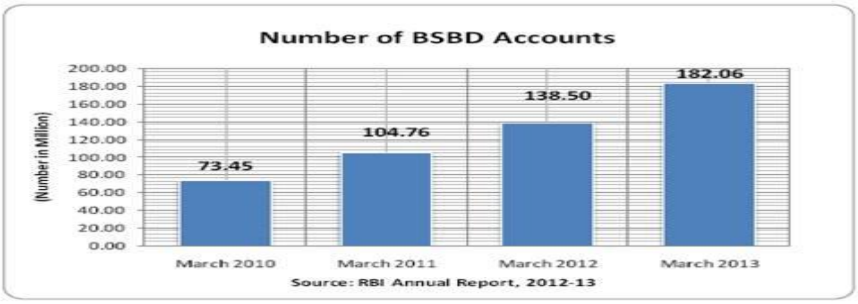


3.3.3 Total Bank Outlets (including RRBs)

- Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

3.3.4 BSBD Accounts Opened- The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013 (Chart 6).

Chart 6: Number of BSBD Accounts



- RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

3.3.5 Kisan Credit Cards (KCC) Issued:

- Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion (Chart 7).

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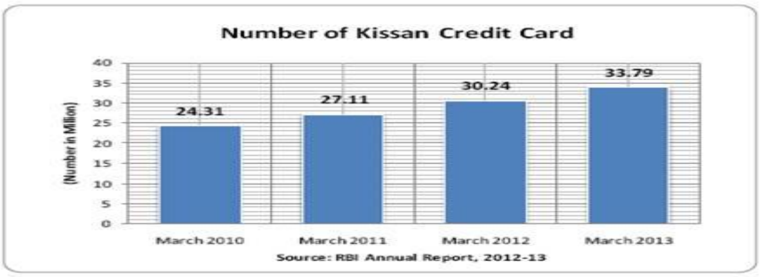
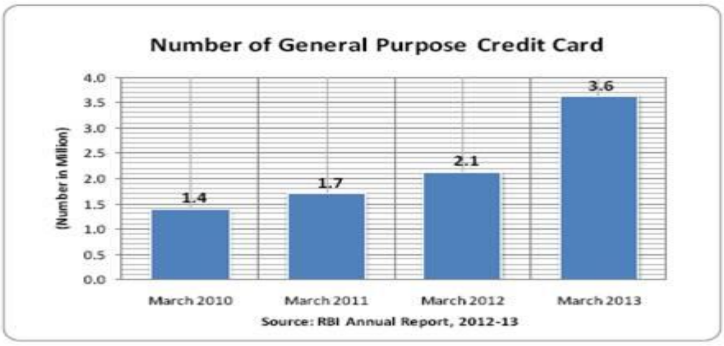
Chart 7: Number of KCCs



3.3.6 General Credit Cards (GCC) Issued:

- Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts (Chart 8).

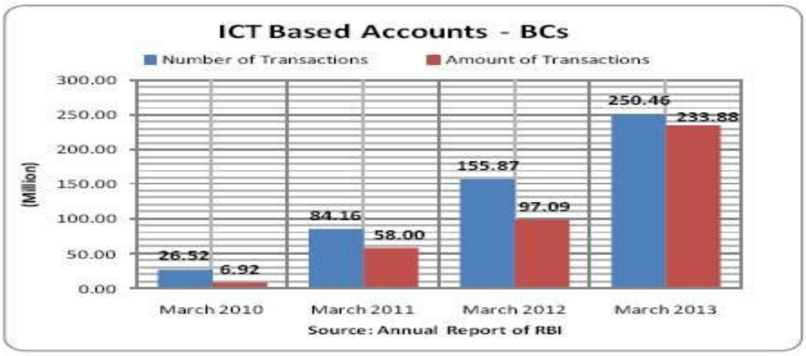
Chart 8: Number of KCCs



3.3.7 ICT Based Accounts - through BCs

- In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.
- The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period (Chart 9).

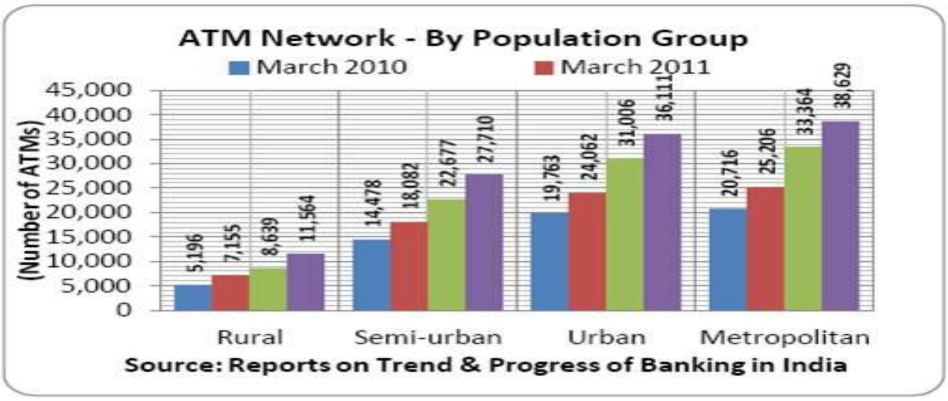
Chart 9: ICT Based Accounts - BCs



3.3.8 Expansion of ATM Network:

- The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013 (Chart 10).

Chart 10: ATM Network – By Population Group



Conclusion-

Importance of financial inclusion arises from the problem of financial exclusion. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. From this way, money increases in the market & also it give financial support to the nation as well as people who re below poverty line. The major problems in India are poverty, unemployment, low per capita income & saving etc. so, Indian economy get chance to overcome from all these problems. Increase money in to the market, saving & investment are basic sources of development of Indian economy

Through graduated credit the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, government & others to facilitate access to bank account amongst the financial excluded.

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