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Financial Inclusion and Growth of Indian Banking System

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Abstract: *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. Financial inclusion refers to delivey banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. 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 people. The three major aspects of financial inclusion are (i) access financial market (ii) access credit market (iii) learn financial matters. Reserve bank of India and government play and important role in promoting financial inclusion for economic growth. Government and RBI has taken various steps to increase banking penetration in the country, nationalization of banks, establishment of RRBs, introduction of SHG and strategy of one person one account for accessing financial market. Accessing credit facilities improving interest rates, simple KYC process are major steps because nearly 80% of the population in India is without life, health, nonlife insurance cover.RBI has also adopted two strategies to generate great awareness and expand the reach of banking services which can be termed as empowerment and protection. The present paper purports is to access the Indian experience through descriptive and empirical studies of available statistical data and role of RBI in promoting financial inclusion. With special reference of some articles it is found that there are 403 million mobile users in India in which 54% has bank account. In which rural average among the adult population is 39% against 60% in Urban India. Himanchal Pradesh is only state to achieve full financial inclusion. The paper also explain the further opportunities, scope and challenges for financial inclusion.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.*

I. INTRODUCTION

Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty. Lack of access to financial services in most of rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension service create the need and scope of financial inclusion.Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. Financial inclusion is integral to the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population deposit mobilization and credit intermediation.

II. REVIEW OF LITERATURE

Sustained growth of the nation and its continued prosperity depend critically on universal financial services covering all people. Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity.(Dr. Joji chandran,2008). Financial inclusion means the provision of affordable financial services, *viz.*, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (Thorat, 2006). Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the *sine qua non* of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment ser vices to the entire population without discrimination is the prime objective of the public policy (Leeladhar, 2006).

III. FINANCIAL INCLUSION

The term financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions 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 nonfarm activities which lead to development of rural economy and improve economic condition of people. Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc.

In short Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion

Where, NFA - No frills bank account

OFIs - Other financial Institutions

MFI - Micro financial Institutions

IT – Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

Around 45% of Indian population suffers from poverty and hunger in which only 31% has access banking services and 80% populations are without life, on-life and health insurance etc. Due to seeking vast opportunity of Growth of Indian banking system India's national vision for 2020 has mission to open nearly 600 million new customers' banks account and services through a variety of channels as micro finance, micro insurance, Regional rural banks, NABARD, Self help groups, new bank branches in unbanked areas etc. For this purpose there are three major aspects has taken:

1. **Access Financial Market** : At present there are 99 blocks in the country which don't have any bank branch. In which 86 are in North east and 13 are in other parts of country. In current budget the government has granted a sum of Rs. 150 crore for banks to open branches in unbanked and difficult areas. But due to less population (< 10000) in most north east areas, branches should not be opened. Thus, RBI has proposed to use branchless banking with help of technology to promote inclusion through micro finance bodies, business correspondent, co-operative societies, grocery shops etc. This step is taken to access easily the financial market.
2. **Access Credit Market:** There is need for more products that meet credit and insurance need of people. For meeting credit needs a saving linked financial model can be adopted for these segment, which should kept simple and guarantee the beneficiaries of credit limit. In the rural part of state, primary agriculture co-operative societies are preety active through it is being paid little attention, because it exist side by side with district central co-operative banks(DCCBs).Thu8s, now state governments have taken intiating steps to rationalization functioning of co-operative societies in area like procurement, fertilizers and pesticides sale etc.
3. **Learn financial matters:** Due to lack of awareness, poor infrastructure is one of the major reasons of financial exclusion. Thus Reserve Bank of India setting up pilot project for credit counseling and financial inclusion on june 18, 2007. RBI launched a multinational website in 13 in all matter concerning banking & common people. Example: United bank of India & Dena bank launched 198 village knowledge centre for providing knowledge to farmers which provide basic infrastructure internet connection and updated libraries

The objective of financial inclusion is to extend the scope of activities of financial system to include people with low income. Although the banking network has rapidly expanded over the years but the key challenges would be to extend the banking coverage to include the target population living in 6 lakhs villages in the evening.

The objective of the paper is to analyze the role of financial inclusion in the growth of Indian banking system and to seek the role of Reserve bank of India and government in promoting financial education and the position of financial inclusion on the way of achieving full financial inclusion by 2015.Although the idea is currently in the inception stage but it need best framework and models suited for the mission.

IV. INITIAL STEPS FOR FINANCIAL INCLUSION

Reserve bank of India and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration in the country. Before 1990s several initiatives has been undertaken which included creation of State Bank of India in 1955; nationalisation of commercial banks in 1969 and 1980;initiating the Lead Bank Scheme in 1970;, was a big step to expand financial inclusion. Priority sector lending norms, branch licensing norms with focus on rural and semi urban branches, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 mainly to provide refinance to the banks extending credit to agriculture, establishment of regional rural banks in 1975 are also the major steps for same aim which encourage branch expansion in rural area. It also regulate interest rate ceiling for credit in weaker sections. After 1990s there are major important steps taken for financial excluded people as launching Self help groups linkage programmed in1992 by NABARD, which facilitates and provides door step banking. Simplifications of Know your customer (KYC) norms are another milestone. Where NGOs are set up to organize the poor, build their capacities and facilitates the process of empowering them. In 1998 Kisan credit card has been launched and on the suggestion of NABARD in 2005 General credit card has been launched which facility up to Rs. 25000/-.In January 2006 NGOs, SHGs, AND Micro Finance Institutions are permitted by RBI. Now MFIs currently cover 8.3 million borrowers. MFIs, self-help groups (SHGs) also meet the financial service requirements of the poorer segments.

V. METHODOLOGY

The objective of the paper is to access the Indian experience in the field of Financial Inclusion. The secondary data has been used from various sources to analyze the role of Reserve Bank of India in promoting Financial Inclusion. The descriptive and empirical studies are used to analyze role of RBI in achieving full financial inclusion in India by 2015. special references of some articles has been also used to find out the need, scope, opportunities and challenges in this direction in India. Some relevant case studies has been included in this paper to reach at the conclusion.

VI. INTREPRETATION

There are various statistical sources explains the need and effect of financial inclusion in the country. Around 45% of population in India suffers from poverty and hunger in 31% has access banking services. In India 403 million population are mobile users in which 46% of didn't have bank account. On all India basis 41% of adult population in the country are unbanked where in rural area coverage is 39% against 60% in urban areas. These unbanked populations are higher in the North eastern, and eastern region. A bank account is not only everything about financial inclusion as indicator.

In credit market only 14% of adult population has loan accounts. In which in rural area it is 9.5% against 14% in urban area. On the basis of some statistical data we find that the regional situation of credit coverage is 25% for southern region where 7% in north eastern, 8% in eastern and 9% in central region. In India 51.4% farm household populations have no access to any formal and non formal source of credit where 73% have no access to formal source of credit. Know your customer (KYC) procedure was very critical to understand and need enough knowledge about it. 80% of the population in India is without life, health and non-life insurance cover, where life insurance is used by 4% and non-life insurance is lower 0.6%.Only 5.2% of India's 650,000 villages have bank branches of overall branch network of Indian banks. Government has given priority to financial inclusion because only 40% of the country population has bank account, where only about 38% of 85292 bank branches in rural area. This situation have definitely changed for the better with banks aggressively changes as nationalization of banks, check in accounts in commercial banks, regional rural banks ,primary agricultural credit societies, urban cooperatives banks & post offices, no frills account, simplified KYC(Know your customer) etc. Government and RBI has taken various steps to cover large population under financial inclusion. Besides introducing various schemes in 2005 banks were advised to make available basic banking "No frills account" with low and nil balance as well as changes to expand the outreach of such account to vast section of population, to make simplified procedure of KYC to those whose balances are not exceeding Rs. 50'000/-. The outcome of the above effort is reflected between march 2006-2007 as large as 60 lakhs no frills account opened. After launching Kisan credit card in 1998 banks have been asked to consider introduction of General purpose credit facility upto Rs. 25000/- at the rural and semi-urban branches. Various microfinance institutions are registered with the RBI as societies, trusts, cooperatives or non-for profit or non banking financial companies where in 2007-08 the Government announced the creation of two funds- (i) Financial Inclusion Fund (ii) Financial inclusion technology fund.

On the basis of some statistical data we can understand the effect of these programmed:

1. No frills account are basic banking account which have zero and low minimum balances and charges. These accounts have grown constantly with the total number of accounts increasing from 6.73 million in 2007 to 33.02 million in 2009.
2. Kisan credit card has been launched in 1998 for rural poor. The banking system issued 87.83 million Kisan credit cards as of November 30, 2009.
3. In 2009 the share of branches opened at unbanked areas was 5.8%

In

year / Number of branch opened	2008	2009
Number of branch opened	4349	3649
Unbanked areas	203	212
Share of branch opened at unbanked areas	4.7	5.8

which southern region has opened maximum branches as 32% where central region 26.6%, northern region 15.3%, eastern region 13.8%, western region 9.9% and north eastern region 2.5%.

4. In this process around 50.6 million no frills account have been activated with an outstanding balance Rs. 53.9 billion as on 2010 and around 93.7 million Kisan credit cards have been issued so far with credit amount to Rs. 42.77 billion.

VII. Government, RBI and banks initiative on Financial inclusion and literacy:

1. RBI launched multilingual websites in 13 languages on all matter concerning banking. A meaningful dimension of financial education is credit counseling. RBI has also created a sub-site for the common person to give him the ease of access information for use in dealing with banks.
2. The community finance learning initiative (CFLIs) were also introduced with a view to promote basic financial literacy among housing association tenants.
3. State bank of India has set up 100 centers in Agri-lending branches for agriculture counseling.
4. Union bank of India and Indian overseas bank use of handheld and biometric cards in village of Tamilnadu.
5. Union bank of India and Dena bank introduced 198 village knowledge centers for imparting knowledge to farmers. These centers also provide basic infrastructure, internet connection and updated libraries.
6. Union bank of India introduced "Union Mitra Scheme" for providing financial education and debt counseling services to rural population free of cost.
7. Dena bank introduced "Dena Bhoomiheen Kisan Credit Card" for tenant farmers,share croppers and landless labourers.
8. In financial year 2009-2010, the government has announced the ground level credit target for agriculture at s. 3,25,000 crore. For the financial year 2010-2011, the Government has set agriculture credit flow target at Rs. 3,75,000 crore.

Himanchal Pradesh is one of the state which has been achieved full financial inclusion. 97.83% of the sample respondant have been financially included, where in rural areas the average financial inclusion rate is 97.58%. In 38 out of 72 blocks financial inclusion rate is 99% and in few cases even 100%. All the four social category general, OBC, SC, ST have inclusion rate of more than 97%.The extent of awareness of the respondent about the banking services in an area is high and there is scope for improvement..

The case study based on TINERI project of Punjab National Bank is one of the example of reforms for financial inclusion:

Tineri is one of the 27 pilot projects to be launched by Punjab National Bank across 13 states in the Indo-gigantic plain. Its objective of initiative to cover Indo-gigantic plain.In Tineri village of Bihar and its surroundings 12 villages today financial inclusion is complete and everybody has a bank account. Everybody has a small overdraft facility and if they have a genuine credit requirement then the borrower need not to go the moneylender and suffer exorbitant interest rates. Under this project each family is provided with a barometric card and near field communication mobile handset at a total cost is only Rs. 110. Each customer is allowed to open a saving bank account with zero balance in branchless banking system. Now Punjab National Bank planned to establish e-kiosk in each panchayat of state which will work as business facilitators for the bank for providing various types of banking services in villages.

Above case study shows the role of Punjab National Bank in achieving the objective of financial inclusion. Yet the banks have enough scope to expand the coverage area and reach at full financial inclusion. In reform process underway for cooperative banks they have a significant role in facilitating greater inclusion. Gujarat, Andhra Pradesh, Haryana, Himanchal Pradesh, Kerala etc. are some states which reach near at full financial inclusion. Even between eastern and western U.P. various pilot projects are being conducted but it need more attention. It is a great challenge for states like UP, Bihar, Jharkhand, Assam, Chhattisgarh and other places similarly.

VIII. Recent Project for Financial Inclusion ADHAR:

Millions of people have lack of proper proof as driving license, Pan card , credit cards etc. so that they face difficulties to access public services like bank account, ATM facility, loan facilities etc. The project ADHAR (The brand name of UID) serve the KYC guidelines for the people who have lack of Identity. Thus, UID(Unique Identification Number) could act as a tool to drive financial inclusion for the rural an poor people.

SWAVALAMBAN:

A co-contributory pension scheme launched on September 26,2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government will contribute a sum of Rs. 1000 per annum.Swavalamban scheme totaling to 40 lakhs subscribers by March 2014.

SWABHIMAN

The central government has launched in a way to achieve financial inclusion programme Swabhiman on February 10, 2011 in which five crore household of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 crore no frills account till march 2012.

PFRDA (Pension Fund Regulatory & Development Authority's)

Government has set a regulatory body for the pension sector on August 23, 2003. PFRDA's effort are an important milestone in the development of the sustainable & efficient voluntary defined contributor based pension system of India. PFRDA also works for financial literacy and awareness campaigns as a part of its strategy to protect the interest of subscribers under Swavalamban scheme.

IX. CONCLUSION

Setting up financial literacy centers and credit counseling at pilot basis launching a financial literacy campaign etc. are some initiatives currently under way of furthering Financial Inclusion.Our National vision for 2020 is to open nearly 600 million new customer's account and services through a variety of channels. Although various initiatives were introduced in India from last two decade but Financial inclusion remain distant dreams. A committee called by central government for financial inclusion has given its report that to access financial services including credit to be raised to 50% by 2012 and 100% by 2015. Thus, financial inclusion have enough scope for economic growth, raising living standard of people, equality etc. On the basis of above initiatives and projects we can conclude that a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion.

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