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FINANCIAL INCLUSION IN INDIA: CHALLENGES AND INITIATIVES

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ABSTRACT:
The term financial inclusion refers to deliver the financial services to weaker and low income groups especially agriculture, household enterprises, small medium enterprises and traders. It's vital role in the country is pragmatic and is very much required to poverty alleviation in developing countries like India. According to the Banking Ombudsman of Karnataka State, 63 percent of the people in India do not have the benefit of banking facilities (Business Line 2006). The rural and semi urban villages are not having ideas regarding the financial support from financial institutions or banking services. Rural people are not having awareness about the financial services offered by financial institutions. In India rural and semi urban area people are have lack of information they don't know financial products like; insurance, debit/credit card, Kisan card, etc. The present study aims to look into the barriers in financial inclusion and to know what are the initiative steps taken by the Reserve Bank of India to develop economic and social condition of weaker section people.

KEY WORDS: RBI initiative, Financial Inclusion, Kisan Card and General Credit Card.

INTRODUCTION:

The term financial inclusion refers to deliver the financial services to weaker and low income groups especially agriculture, household enterprises, small medium enterprises and traders. It's vital role in the country is pragmatic and is very much required to poverty alleviation in developing countries like India. According to the Banking Ombudsman of Karnataka State, 63 percent of the people in India do not have the benefit of banking facilities (Business Line 2006). The rural and semi urban villages are not having ideas regarding the financial support from financial institutions or banking services. Rural people are not aware about the financial services and poor functioning of financial institutions, this situation has created the need and scope for innovation of financial inclusion in financial service sector. 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.

CONCEPT OF FINANCIAL INCLUSION

The concept of financial inclusion is not a new one. Nationalization of banks, priority sector lending stipulations, the lead bank scheme, establishment of regional rural banks, launch of self help groups- bank linkages programmes were all part of the Reserve Bank of India (RBI) initiative to provide financial access to the unbanked and under banked masses.

The term financial inclusion refers to deliver the financial services to weaker and low income groups especially agriculture, household enterprises, small medium enterprises and traders. Financial Inclusion defined as the "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". Prof. Raghuram Rahan's committee on financial sector reforms defined financial inclusion as, "expanding access to financial services, such as payment services, savings products, insurance products and inflation protected pensions". CRISIL (Credit Rating Information Services of India Limited) defined the Financial Inclusion as 'the extent of access by all sections of society to formal financial services such as credit, deposit, insurance, and pension services'. The Reserve Bank of India (RBI) defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial inclusion is not only enhancing the financial intensity of agriculture but also help to increasing rural nonfarm activities. Those activities lead to develop the rural areas or rural people. In practice, it serves to all section of people in the country. Indian banking system has national vision for 2020 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.

In the country, Reserve Bank of India and government plays vital role in promoting financial inclusion to improve the economic condition. Before 1990s several initiatives have been undertaken which included creation of State Bank of India in 1955; nationalization 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. 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. Now-a-days NGOs are set up to organize the poor, build their capacities and facilitates the process of empowering them.

SCOPE OF FINANCIAL INCLUSION

The scope of financial inclusion is limited to a bank account and simple saving products to include remittances, savings, financial counseling, insurance. Consequently a holistic financial inclusion ecosystem will include banks, co-operatives, microfinance and insurance institutions.

Figure no.1 Scope of Financial Inclusion

REVIEW OF LITERATURE

The following are some of the important works carried out on financial inclusion has been presented.

Damodaran1 discussed the role of financial inclusion in the economy and how the different stakeholders play an important role in developing the whole initiative. The Study concluded that the financial inclusion enhances the economy. It will grow faster and will be more stable. Finally he noticed that financial inclusion will increase the quality of life of the people of the country and also ensures an orderly growth.

Mukesh2 (2011) stated that the e/m-banking (mobile banking) playing a vital role in banking sector. In the Study observed and noticed features and importance of e/m-banking system influencing financial inclusion in India. People can easily access anywhere and anytime by using their mobile through m-banking system.

Anupama and Sumita3 (2013) highlighted the role and significance of financial inclusion in India. Observed many initiatives taken by government of India to fulfill financial service to every corner of the country. It is concluded that financial inclusion has not yielded the desired result and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.

Neha and Pawan4 (2013) observed the current situation of financial inclusion in India. They have made an attempt to Study the major factors affecting access to financial services. It is found that a large number of population and rural households of India do not have access to banking and other financial services.

Hameedu5 (2014) examined issues in measurement and analysis of financial inclusion. He stated financial inclusion initiatives in national and international level. It is suggested to formulate essential polices for achieving financial inclusion in nation.

OBJECTIVES OF THE STUDY

The following are the specific objectives of the present study.

1.To study the present challenges of financial inclusion

2.To know the RBI initiatives in developing financial inclusion

3.To offer suitable suggestions to overcome the present barriers

METHODOLOGY

The present study is theoretical one. However, wherever possible the facts and figures collected from various published and unpublished reports, i.e. research articles, magazines, annual reports, statements published by banks, reports of Reserve Bank of India, and related websites.

FINANCIAL INCLUSION SCENARIO

Financial inclusion is one of the biggest challenges facing the banking sector today. The RBI has been supporting the banking sector to increase their network. Because in India, there is only 34 percent of the Indian population is currently engaged with the formal financial sector. The financial excluded population in India includes landless labourers, farmers, unorganized sector work-force, urban slum residents and socially excluded groups. With 82 percent of India's poor households located in rural locations, vast majority of rural India can be considered as financially excluded.

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. On 15 August 2014, the government of India announced "Pradhan Mantri Jan Dhan Yojna", with a target to provide universal access to banking facilities starting with basic banking account with overdraft facility of Rs. 5,000 after six months and accident insurance cover of Rs. one lakh.

CHALLENGES OF FINANCIAL INCLUSION

There are several challenges of financial inclusion in India. The following important challenges of financial inclusion are discussed. They are;

• Terms and conditions – while getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

• Too many formalities – it is very difficult for people to read terms and conditions and account filling forms due to lack of basic education.

• Lack of awareness – financial literacy and lack of basic education prevent people to have access from financial services. People don't know the significance of the various financial products like insurance, bank account, cheque facility, etc.

• Rural remoteness – Commercial banks operate in profitable areas. People are living in under developed areas, these commercial banks transaction are yet in rural and semi urban area people.

• Lack of legal identity – lack of legal identity like voter Id, driving license, birth certificates, employment identity card, etc.

• Level of income – Rural area people have low income and their attitude of thinking that banks are only for the rich people.

RBI Initiative

Inclusive growth as a strategy of economic development has received renewed attention in recent years owing to rising concerns that the benefits of economic growth have not been equitably shared. Growth is inclusive when there is equality of economic opportunities. The Reserve Bank is navigating the path to financial inclusion by means of regulations and guidance. It has initiated several measures to help bank the unbanked:

• No-frills accounts

People on the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, the RBI has made it mandatory for banks to provide no – frills savings accounts without a minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed.

• Overcoming language barrier

Large sections of the Indian population are not conversant with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening, disclosure etc. in the regional language as well.

•Simplification of KYC norms

Most rural inhabitants don't have any of the identity documents that are required for account opening and compliances with Know Your Customer (KYC) norms. For that reason, the account opening process has been simplified for people who intend to keep balances not exceeding Rs. 50000 and whose total credit in all the accounts taken together is not expected to exceed Rs. 100000 in a year. Small account can now opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.

•Engaging business correspondents

Intermediaries are playing a vital role in financial service activities. In 2006, The RBI permitted banks to appoint the following organisations as business intermediaries.

- Non – Government Organisations (NGOs/SHGs)
- Micro Finance Institutions (MFIs)
- Other Civil Society Organisations

They can be employed as business facilitators or correspondents, the difference between the two being that the former provide education regarding financial product and collect documents on the bank's behalf whereas the latter provide restricted financial and banking services such as deposit collection and money lending, again on behalf of the bank.

• SHG-Bank Linkage Program

Self Help Groups are believed to be most effective tool for delivering credit and is often considered as an alternative loan delivering system with minimize defaults. This bank linkage program were delivered loans at minimum cost of operation and transaction for bank and is effective for delivering credit particularly to rural and semi urban poverty for their economic empowerment and social development.

• Information and Communication Technology (ICT)

The reserve bank has also encouraged banks to harness the power of technology for maximizing reach and enhancing viability. ICT has thus enabled even illiterate customers to operate bank accounts using biometrics rendering the signature redundant. Bank correspondents carry handheld ICT devices so that customers may transact at their doorstep. By ensuring security technology – based banking infuses confidences in the mind of the customer.

• Easier credit

Banks have been advised to introduce a general purpose credit card facility; General Credit Cards (GCCs), to be precise, with a Rs. 25000 limit in their rural and semi-urban branches. For customers, this transfer to easy access to revolving credit sans the need to furnish security or statement of purpose.

• Kisan Credit Scheme

Kisan Credit Scheme came into existence in 1998-99 as a credit product and as an important tool and a variant of agricultural Credit delivery Mechanism, which allowed farmers the required financial liquidity and avail credit when it was absolutely needed. The banks have issued 448599 KCC cards up to September 2012. All banks have been providing wide publicity of the scheme and implemented the revised scheme from the current cropping season itself. The withdrawal from KCC should be made through ATM/Debit cards.

• Simplified branch authorization

With the objective of facilitation uniform branch growth, the RBI has permitted banks to freely open branches in tier III to tier IV centers with population less than 50000, subject to reporting. On the other hand, banks can open branches in any center – rural, semi-urban or urban - in the northeast without applying for permission each time, again subject to reporting. A bank is therefore obliged to locate one in four branches opened during a year, in an unbanked region.

•Three year plan for financial inclusion

Banks were also advised to submit a three year financial inclusion plan (FIP) beginning April 2010. There board-approved plans had to set their own targets in terms of rural branches to be opened, business correspondents to be employed, banking services to be provided in unbanked villages, number of Kisan and General Credit Cards to be issued and products to be exclusively designed for the financially excluded segments.

In the perspective of initiatives take for extending banking services to the small man. For all financial services reach to rural people for this Reserve Bank of India has taken several actions to promote rural people economic condition.

RECOMMENDATIONS

The following are the recommendations made from the study. They are:

i.Banks should monitor the implementation of financial inclusion plan in India continuously.

ii.Reserve Bank of India has to change the policies and regulations in accordance with the financial inclusive growth.

iii.Provide necessary encouragement to the intimidators to achieve financial inclusion in the country.

iv.Involve local working organisations in financial inclusion process. Like; non-governmental organisations, cooperative societies, etc.

CONCLUSION

The present study reveals the barriers of financial inclusion and RBI initiative to promote the economic condition of weaker section. India is a developing country; its overall development is depending on economic and social conditions of rural people. Government of India has that responsibility to enhance the empowerment of weaker sections people. Reserve Bank of India has taken several steps to serve financial services to rural people doorstep. Banks linkage programmes are playing important role in the delivering credit to needy people and creating awareness among the weaker section.

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