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NEW BEGINNINGS IN INDIAN FINANCIAL SYSTEM

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1.ABSTRACT
India is on the cusp of fundamental transformation of its financial structure. Financial sector is the foundation of any economy as it not only plays a major role in the mobilization and allocation of resources but is also critical for the macroeconomic stability. India's Financial System suffers from several inadequacies since long. With an economic structure of more than $1.3 trillion, the country's financial weakness is a matter of serious concern and is dangerous for the economy. However, reforms in the financial structure are in their way. To promote financial inclusion in the country various schemes and programs such as "Sampoorn Vittiya Samaveshan", "Payment Banks" etc. have been introduced by the Government.

KEYWORDS: *Financial Inclusion, Payment Banks, Surplus Sector, Deficit Sector.*

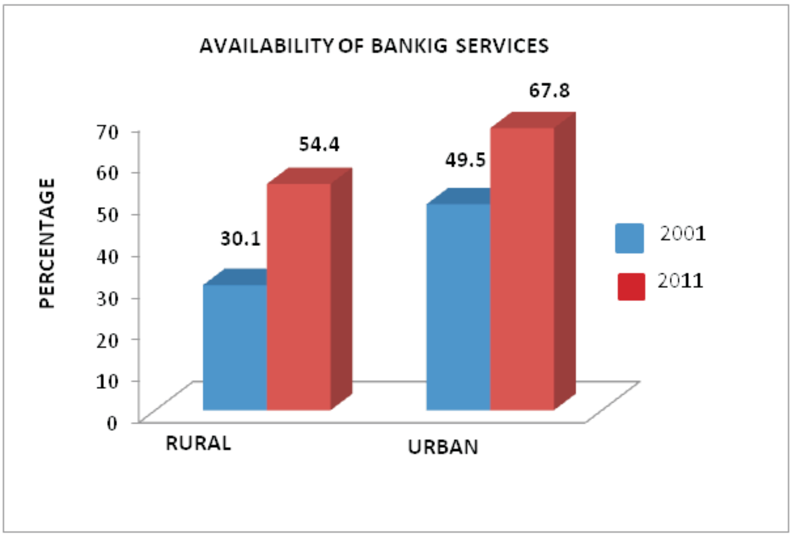
2.INTRODUCTION :
The Financial System of India is made up of three basic elements i.e. Financial Markets, Financial Intermediaries and Financial Instruments. The primary role of Financial System is to mobilize the resources and funds from the surplus sector and channelize the same to the deficit sectors in the economy.

India's financial system is undergoing rapid developments since last few years. The existing financial firms are growing rapidly along with the new firms entering in the existing market. The system comprises commercial banks, non-banking financial companies (NBFCs), insurance companies, co-operatives, mutual funds and other small financial units. The Reserve Bank of India being the banking regulator has initiated the establishment of new units such as payments banks to operate in the existing system. However, the financial system in India is majorly dominated by banking sector where more than 60 percent of the total assets of the financial system are held by the commercial banks.

Several measures have been introduced by the Government of India to liberalize and develop this diversified financial system.

Various measures have been taken by the Government of India and the Reserve Bank of India to provide easy financial assistance to the Micro, Small and Medium Enterprises (MSMEs). Micro Units Development and Refinance Agency (MUDRA) have been set up to foster the growth of small units that will in turn contribute in the economy's development.

The following graph shows the availability of banking services in the Rural as well as Urban India as recorded by the census in the years 2001 and 2011. Census 2011 estimates that on an average only 58.7 percent households in India have access to basic banking facilities.



Source: World Bank, Financial Access Survey, (2) Indian Exps 27-7-2012, (3) Khan, (2012)

3.SAMPOORN VITTIYA SAMAVESHAN- COMPREHENSIVE FINANCIAL INCLUSION

It is evident in India, while one section of the population has access to a variety of banking services including regular banking facilities as well as portfolio management, the other section of deprived and marginal income group is totally destitute of even basic banking facilities. Keeping out large sections of the society from basic financial facilities radically affect the overall economic growth of a country and therefore, Financial Inclusion is a global concern of National priority.

There exists a warranted and acute thrust of greater financial inclusion in the country. The four major dimensions of financial development structure i.e. financial depth, financial access, financial efficiency and financial stability are indispensible for any economy to grow. Greater and easier financial access stimulates economic growth, reduces the income gap, and provides greater benefits to those at the marginal section of the society.

In recent times, various plans have been introduced in India to achieve the objective of universal financial inclusion but the facts indicate that India remains a long way from accomplishing the same. According to a survey conducted by the agency of World Bank, in the year 2014, only around 40 percent of the adults in India had a recognized bank account and only around 15 percent of the savings were put to formal financial institutions.

“Sampoorn Vittiya Samaveshan” (SVS) is a comprehensive financial plan that operates to ensure easy and timely accessibility of various financial services and credit facilities to the marginal sections of the society as well as to the lower income groups. An approach paper has been released by the department of financial services for the same and a strategic plan of action has been set to achieve the objectives of financial inclusion.

The policies of financial inclusion introduced by the government earlier failed to meet their objectives. Swabhimaan campaign was introduced by the U.P.A. government with the aim to bring banking services to large rural areas but as per the records of the Reserve Bank of India (R.B.I.), about half of the saving bank deposit accounts that were opened during the campaign remained dormant.

The first phase of S.V.S. aimed to add 75 million households to the banking system by the end of March 2015, over and above the existing 310 million bank accounts. It proposed to have complete banking coverage by 31 March 2016.

The objectives of S.V.S. are on the way of their accomplishment as it envisaged providing financial services through numerous channels i.e. post offices, payment banks, microfinance institutions and financial correspondents. Unlike the Swabhimaan campaign, S.V.S. promised improved compensation to banking correspondent agents of up to Rs.5000 excluding the expenses incurred for operating the other banking

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operation. S.V.S. was a major initiative that addressed the bottlenecks of the earlier programs.

One of the programs launched to meet the objectives of S.V.S is "Pradhan Mantri Jan Dhan Yojna". It focuses on deep financial penetration with effective use of technology at affordable cost.

4. PRADHAN MANTRI JAN DHAN YOJNA

Although the Indian banking industry has grown rapidly in the last decades, but the poor branch penetration in the rural India has failed to meet the rising demand of financial services. The prime focus of bank nationalization was to introduce a mass banking system, replacing of the existing class banking system. However, the unorganized money lenders still continue to exploit the poor and weaker section of the society.

As a National priority, the Prime Minister of India announced the Pradhan Mantri Jan Dhan Yojna on 15th August 2014. The objective of Pradhan Mantri Jan-Dhan Yojana (PMJDY) is to ensure access to financial services like availability of basic savings bank account, need based credit facilities, remittances, insurance and pension to the marginal sections of the society and the low income groups. It focused on including the left-out people into the mainstream of the financial system. With a bank account, every household have gained access to banking and credit facilities. The Pradhan Mantri Jan Dhan Yojan has enabled people to come out of the hold of traditional and unorganized money lenders, helped them stay away from financial crises and most significantly, has provided benefits from a variety of financial products.

5.FINANCIAL LITERACY AND CREDIT COUNSELING (FLCC)

Financial literacy is a pre requisite for successful financial inclusion which ensures that financially unreached sections of the economy get the basic financial services. In today's Financial Market numerous complex financial product are offered to the consumers and therefore financial education is essential for the consumers to make rational choices. Financial Literacy and credit counseling focuses on establishing a number a Financial Literacy Centre as a means to enhance the financial education among the financially excluded sections of the economy. It helps people in their financial planning as well as availing credit for their economic activities. Government has taken several steps to bring in the large section of population that has remained out of the formal financial set up or has been pushed towards expensive alternatives. A number of awareness camps have been organized as an initiative of RBI to educate people and undertake credit counseling. Financial Literacy and credit counseling is particularly important for the people who possess less resources and poor financial facilities. It is considered as a vital step for enhancing financial inclusion and is seen to help the ultimate objective of financial stability. The number of FLCCs operating in the economy needs to be increased and a revamping in the structure up to the block level is the need of this hour.

6. CREDIT GAURANTEE FUND

Availing bank credit is a big task especially for the new entrepreneurs setting their units for the first time. Non-availability of adequate credit at reasonable interest rate and at the required time is one of the major concerns of these entrepreneurs. Accessibility to bank credit without the lengthy formalities of collaterals or third party guarantees would provide a major support to the new entrants to realize their vision of setting up their own enterprise. Having this objective in place, the Government of India has launched Credit Guarantee Scheme to build up the credit mechanism and facilitate the availability of credit to the Medium and Small Enterprises. To further support the scheme, the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been set up by the Government of India. The credit facilities which are entitled to be covered under the scheme without any collateral security and / or third party guarantee are both long term loans and/or working capital facility up to Rs.100 lakh per borrowing unit.

Period	No. of Active MLIs	No. of Credit Facilities Approved	Amount of Guarantees Approved (Rs. Crore)	Cumulative Guarantees Approved (Rs. Crore)
FY 2000-01	9	951	6.06	6.06
FY 2001-02	16	2296	29.52	35.58
FY 2002-03	22	4955	58.67	94.25
FY 2003-04	29	6603	117.6	211.85
FY 2004-05	32	8451	267.46	538.62
FY 2005-06	36	16284	461.91	1000.53
FY 2006-07	40	27457	704.53	1705.06
FY 2007-08	47	30285	1055.84	2701.59
FY 2008-09	57	53708	2199.4	4824.34
FY 2009-10	85	151387	6875.11	11559.61
FY 2010-11	106	254000	12589.22	23846.01
FY 2011-12	109	243981	13783.98	37139.31
FY 2012-13	117	288537	16062.48	52600.07
FY 2013-14	117	348475	18188.12	70026.28
FY 2014-15	119	403422	21274.82	90445.9
FY 2015-16	119	513978	19949.38	108990.85
FY 2016-17 *	119	106634	4037.07	113500.61
*As up to 31 May 2016				

Source: RBI Working Paper (Chattopadhyay, 2016)

7.CHALLENGES IN IMPLEMENTING THE NEW FINANCIAL POLICIES

7.1. Change in the approach of banks

Financial inclusion does not only mean providing basic banking facilities to the unreached areas and providing access to credit facilities. Many bank accounts may remain unused and hardly any transaction may take place. Therefore banks should work towards providing specific services to the rural and unreached population as they form a major portion of our economy. Financial inclusion signifies creation and spreading of awareness about financial products, money management, and debt counseling etc. by banks. Banks should view financial inclusion as a viable business proposition and adopt innovative methods as well as effective delivery models to reach out the unreached.

7.2. Poor connectivity of areas

One of the primary challenges in implementing the new financial policies is the poor connectivity of some areas like parts of North eastern India, Jammu and Kashmir, districts of Uttarakhand etc. Connectivity in terms of infrastructure as well as telecom is poor in these areas which poses a challenge to the financial structure. All households in such areas may not be fully covered under the various campaigns and therefore, new financial policies can be implemented in phases.

7.3. Awareness and sensitization

Business correspondent model named “Bank Mitr” has been introduced for providing information regarding basic banking services, banking products RuPay cards etc. Customers are to be made aware that overdraft of up to Rs. 5000 to be provided in their accounts is a credit facility which needs to be repaid in order to get fresh limits and is not a grant.

7.4. Mobile Banking

With the rapid increase in the number of mobile phone subscribers in India, banks should collaborate with the telecom companies to develop an alternate channel of delivery of banking services. RBI should advocate bank led mobile banking model and issue operative guidelines to banks for effective mobile banking transactions.

7.5. Aadhar enabled payment system

RBI should empower the bank customers to use their unique identification through Aadhar card to perform various banking transactions. Aadhar enabled bank accounts will help the general public to undertake transactions like balance enquiry, cash withdrawals, cash deposits etc. with less efforts and will be more convenient.

7.6. Investments in Technology Platforms

Banks need to make significant investments in technology based applications and collaborate the same with technology service providers, mobile network providers as well as various corporate houses to operate efficient financial inclusion delivery models. Fine tuning technology platforms can provide a wide range of financial services through network of agents.

8.CONCLUSION

The problem of financial exclusion is being tackled with utmost priority so that our economy can grow in a sustainable and equitable manner. The traditional and conventional banking solutions fail to address the problem of financial exclusion in the country. Banks need to deploy new technologies and create financially viable models to attain the objective of financial inclusion in the country. Financial inclusion is not only the social responsibility of the banks but is also looked upon as a business opportunity. The current policy objective of sustainable and inclusive growth with financial stability cannot be achieved without ensuring financial inclusion. Therefore a tradeoff between financial inclusion and financial stability has to be managed for a sustainable financial development.

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