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FINANCIAL INCLUSION IN INDIA - PROBLEMS AND GOVERNMENT INTERVENTIONS

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ABSTRACT:

India is the 2ndlargest country next to China in the world. More than sixty percent population makes its living in rural areas . India has known since fifties that for extended sustainability of economic wealth and social progress and take advantage of progress to rural area of India is dangerous. Since beginning of the progression of prearranged economic development in 1950-51 it well-defined the role of banks and financial institutions as they are vibrant link among various production fundamentals of economic action.

Key Words: *Financial Inclusion ,fundamentals of economic action ,socio-economic features .*

INTRODUCTION :

It supported in sixties the practicalities of Indian banking system by hopeful unions among small banks and

compulsory merger to take banking to rural part of India. A substantial population of the world mainly deprived, low income and susceptible group remain left out from most basic financial facilities provided by financial sector of the country. The financial sector delivers critical financial services to family and business enterprise which include

- Safe savings
- Range of risk/return trade off services.
- It mobilizes savings into formal financial system.
- It benefits gathering of financial resources which can provide a cushion against unforeseen events.

DEFINITION OF FINANCIAL INCLUSION:

At Present there is no commonly acknowledged definition of financial inclusion. The importance of financial inclusion differs country to country and geographies depending upon level of social-economic and financial growth, the construction & stake property in financial organizations, socio-economic features of the financially omitted sections and also the background of gratitude of the problem by the establishments and governments. Similarly the measures applied to access to financial facilities differ. The access to financial services can be measured in the form of access to certain institutions like banks,cooperative banking , non-banking financial companies, credit unions, micro finance institutions, insurance corporations or in relations of functions that institutions perform or facilities they provide such as payment services, saving or loans and credit.
Financial inclusion has been defined by

United Nations and Asian Development Bank as under.

United Nations – "A financial sector that provides access for credit for all bankable people and firms and saving and payment services to everyone. Inclusive finance does not require that everyone is eligible to use each of services but they should be able to choose them if desired". (https://www.google.co.in/search?q=%22+United+Nations+%E2%80%93+%E2%80%9CA+financial+sector+that+provides+access%22&gws_rd=cr&ei=ewBdV6iIBIzZvASrt7ioDQ) (https://www.google.co.in/search?q=%22such+as+deposits,+loans,+payment+services,+money+transfer%22&gws_rd=cr&ei=_wBdV535OYz6vASD77b4Bg)

Asian Development Bank"provision of broad range of financial services such as deposits, loans, payment services, money transfer and insurance to deprived and small income house-holds and micro enterprises".

INDIAN DEFINITION:

The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan) has provided a working definition for "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". https://www.google.co.in/search?q=%22+The+Committee+on+Financial+Inclusion+(Chairman:+Dr.+C.%22&gws_rd=cr&ei=nwJdV-zhBsXRvgSPv77wCQ

CAUSES FOR FINANCIAL EXCLUSION:

Though level of banking prohibiting differ across the world it is the similar group of people who are exaggerated, persons having little revenue or who have history of bad debt. Markets exclude them because they do not have adequate income which can be interpreted into purchasing power or have assets or capabilities which are adaptable in to labour and accomplished yielding income through wages

The main barriers in development of financial services are recognized as

- Non-availability of a bank branch within near distance for physical access
- High charges and penalties attached to banking products and services which make them high-priced.
- Awareness of financial facilities as difficult
- 0Banks do not desire low income people
- Other influences comprise gender-age- legal entity- illiteracy-place of living-physical and cultural barriers- type of occupation etc.

FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES:

A number of reasons affecting access to financial services have been recognized in many countries. These are-

- Gender issue-Access to credit is frequently incomplete for women who do not have or cannot hold name to resources such as land and property and must pursue male guarantees to borrow.
- Age Factor-Financial service providers usually target the middle of the economically vigorous population, frequently overseeing the design of suitable products for older or younger possible clients.
- Legal Identity- Absence of legal individualities like identity cards birth certificates any written records
- Exclude women-ethnic minorities-economical and political immigrants and refugee workforces

from accessing financial facilities.

- Low Literacy- Low literacy, mainly financial literacy, i.e. basic mathematics, business finance services as well as absences of understanding often gratify demand for financial services.
- Place of living-Though real distance is as substantial about transportation organization as physical distance, factors like density of population-rural - remote areas- mobility of the population
- Emotional and social barricades- The sense that banks are not attracted to look into their cause has led to self-exclusion for many of the low income groups
- Bank charges- In maximum of the nations, transaction is free as long as the account has sufficient funds to cover the cost of transactions made.

*References: World Bank 2008; Asian Development Bank 2007: and Kempson et al., 2004

TYPE OF GOVERNMENT INTERVENTIONS FOR FINANCIAL INCLUSION

Governments in different countries intervene on the supply side to address the financial facilities in numerous traditions. Spiritual and additional civil society organizations have also required to extend contact to financial services for the poor and low income groups. These measures include,

a) Nationalizing private banks
b) Regulating opening of branches by banks
c) Promoting specialized banks including national saving banks iv) Directives on portfolio of composition of loan assets
d) Interest rate ceiling on credit to low income houses and facility of credit at supported rates to priority sectors
e) Voluntary charter or codes developed by banks themselves.
f) Enactment of rules for the right of access to formal banking services
g) Setting up empowered and dedicated agencies by governments
h) Running specialized and sponsored schemes including those sponsored by governments and banks themselves using a mixture of inventions, improvements in the credit distribution mechanism and the present infrastructure-post offices- passport accounts
I) Countering the operations of money lenders and
j) Community base investments and credit societies and common saving banks.

FINANCIAL INCLUSION IN INDIA

The Financial Inclusion 2020 Project of the Center for Financial Inclusion posts a global goal of full inclusion by the year 2020 as a challenging. The Financial Inclusion perspective defines gauge amongst 4 essential magnitudes, they are -

• What is provides - A full variety of facilities which comprises an elementary product in each of the four main areas like Savings-Credit- Insurance - Payments.

• How it is provided:-With quality, i.e.

- Convenience
- Affordability
- safety and dignity of treatment
- Client protection.

• Who receives it:- Everyone who can use the services, including the poor, rural, informal and groups that are often discriminated against [women, ethnic, minorities, disabled] and

• Who provides it:- A range of providers led by mainstream financial institutions, but also including organizations from the private, social and Government sectors.

These 4 measurements composed form of the dream of a time when everybody will like the assistances of fiscal facilities to make the most of their financial prospects, guard themselves against defenselessness and progress the excellence of their survives. Thus financial inclusion denotes to the strategic goal of sensibly bringing a full variety of prescribed financial services (savings-credit- insurance-remittance etc.) to all financially excluded houses without discernment, ordering weak groups, like weaker sections and low income groups.

Affordable price- delivery with dignity,-convenience- reliability,-flexibility and continuity determine the quality of financial access.

Financial Inclusion attaches the banked and unbanked sections and enables the unbanked to become vibrant and productive participants in the economic and inclusive growth process. Financial Inclusion can unlock the vast hidden potential of savings- consumption and investment tendencies of the poor families. Increasing Financial Inclusion would reduce the economic vulnerability of poor, alleviate poverty, improve the quality of life and promote inclusive growth. Studies show that access to financial services helps poor and low-income people use their labour and skill optimally, improve productivity of resources and income, smooth consumption flows, enlarge and diversify enterprises and generate employment.{Bank Credit to Agriculture in India 2011)

BANK CREDIT TO AGRICULTURE IN INDIA

Financial inclusion is vital for inclusive growth. To increase the reach of banking to persons outside the official banking system, the Union Finance Minister Hon. Pranab Mukherjee in his Budget Speech 2010-11 had quantified that the Government has decided to deliver suitable banking services to occupations having population in excess of 2000 (as per 2001 census) by March, 2012. Therefore, 73,000 such occupations across the nation have been recognized and owed to Public Sector Banks- Regional Rural Banks and Private Sector Banks and Cooperative Banks for spreading banking facilities by using the facilities of Business Correspondents and with suitable expertise by March, 2012.

As per Dr. Rangarajan Commission on Financial Inclusion 2008 the spread and reach of rural co-operatives in relations of number of customers and convenience is well but the strength of a very large population of rural credit cooperatives has weakened meaningfully. RBI strategies on Know Your Customer (KYC) are like to both Commercial Banks and Urban Cooperative Banks.

The initiatives taken for spreading of FI-

- Institutional frame work of credit institutions with the focus on cooperative institutions.
- Nationalization of major national commercial banks.
- Establishment of Lead Bank scheme to enlarge the scope of banking facilities non banked arreas
- Creation of Regional Rural Banks.
- Set of targets for lending to agriculture-small industries and other deprived sections of society as priority sector for the purpose of lending by banks.
- Overview of Service Area Approach as well as Village Adoption Scheme to protection to nearly 6 lakh villages of the Country .
- Sponsoring schemes targeted at the poor, connecting them to lending schemes of banks in the non banked villages.

In India economically excluded section includes mainly of small/ marginal fanners, landless labourers, oral lessees, self working in disorganized sector enterprises, urban slum inhabitants, refugees traditional sections, informally omitted groups, oldest people and women.

The outreach of banking sector has seen rapid growth since 1969.The population per agency of the national commercial banks has came depressed from 65000 in June 1969 to 14000 in 2009 with network of over 80369 in June 2009 branches of commercial banks of which 31,796 are in rural parts and 19120 are in semi-urban areas.

According to elementary statistical revenues of Scheduled Commercial Banks including RRBs there were 581.60 million-deposit Customers

- Rural 168 million,
- Semi -urban 148.4 million,
- Urban 128 million,
- Metropolitan 137.2 million

Financial exclusion of huge section of population mainly in rural areas and slums area in urban parts are qualified both from supply side and demand side factors.

The reasons from supply side are

(a) Individuals are unbankable in the awareness of banking.
(b) The deposit/loan account are also small.
(c) The individual is bankable but detachments are also long for service and supportive the account and increasing branch system is not possible and practical.
(d) High transaction cost particularly with large number of small accounts.
(e) Inability to evaluate and maintain cash flow cycles and repayment capacities due to lack of basic statistics and nonappearance of credit past of persons with small means and collateral security for loan accounts.
(f) Lack of banking habit and culture.
(g) Inadequacy of extension services, poor infrastructure viz; roads, communication facilities, adverse security situation in certain parts of rural India.

From the demand side there are reasons for rural/urban poor remaining excluded from banking sector such as
(a) High cost of transactions at clientele due to expenses such as travel cost, wage loss, incidental expenses.
(b) Lack of awareness.
(c) Very small volume/size of transactions which are not fortified by official banking organizations.
(d)Hassles related to documentation and procedure and
(e)Easy availability of timely doorstep service from money lenders/ internal sources.

Having identified the reasons for financial exclusion and the wide gap in availability of banking services the Government of India, Reserve Bank of India and NABA0RD initiated further steps for taking banking services to masses.

POLICY INITIATIVES BY RBI:

In March 2005 Financial Inclusion was clearly made as major policy objective by RBI as banking services are in the nature of public good and it is essential to make available banking and payment services to the entire population without discrimination. As financial inclusion signified lack of access by certain segment of the society it was felt appropriate that low cost fair and safe financial products and services made available to these segments by main stream providers.

No Frill AccounT- During November 2005 RBI advised banks to make available a basic banking No Frill Account with low or no minimum balance as well as charges to expand the outreach of such accounts to vast sections of the population.

Explanation of KYC Standards- The individuals belonging to the low income group both rural and urban areas do not meeting problems while opening bank accounts, the Know Your Customer (KYC) procedure for opening bank account was simplified asking banks to seek only a photograph of the account holder and self certification of addresses (the amount of outstanding balance in these accounts would be limited to Rs.50,000 and total transactions would be limited to Rs.2 lakh in one year).

Use of Intermediaries- In January 2006 Reserve Bank of India permitted banks to utilize the services of Non-Government Organizations (NGO), Self Help Groups, Micro Financial Institutions (MFI) and other civil societies organization as mediators in provided finance and banking facilities through Business Facilitator and Business Correspondents which is known as Agency Model.

Use of Post Offices: Banks were permitted to use enormous network of Post Offices (with over 1.55 lakh which is largest in the world, 1.39 lakh rural and 15562 in urban) as Business Correspondents for growing their spread and leveraging Postman's intimacy, information of the native population and faith rested in him.

Introduction of General Credit Card- Banks were asked to announce a General Credit Card plan for issuing General Credit Card to their voters in rural and semi-urban areas depend on the valuation of income and cash movement of the domestic similar to that prevailing under normal credit card without insisting on security and the purpose or end use of credit (as Point of Sale (POS) and ATM facilities) with similar products are not feasible or available in rural areas. The limit under GCC is up to Rs.25,000. Banks were advised to utilize the services of schools, primary health centre, local government functionaries, Fanners Association/Clubs, well established community based agencies etc. for the purpose.

Weightage for Financial Inclusion in Branch Licensing: In terms of the existing provisions of Banking Regulations Act, 1949 banks are not allowed to open new place of business or change the locations of the place or villages in India without prior approval of Reserve Bank. While considering the application of Banks for opening branches, Reserve Bank gives proper importance to the nature and scope of banking services provided to common person, particularly in unbanked areas, actual flow of credit to the priority sector pricing of its products and overall hard work for encouraging financial inclusion with overview of appropriate new products and enhanced use of technology for delivering of banking services.

Survey of unbanked Districts: Reserve Bank of India has identified districts whereby the population per bank office is higher than national average in rural and semi-urban areas. Banks have been asked to recognize un-banked and under-banked centres to open new offices. The District Consultative Committees have been given the task of identifying centres for opening branches of Commercial Banks and Regional Rural Banks.

Responsibility to Sponsor Banks: Regional Rural Banks 83 (after amalgamation of 196 RRBs) have covered 525 districts out of 605 districts as on 31/03-/ 2008 through their leading attendances in rural and semi-urban areas (net work-11,637 rural branches and 2,750 semi- urban branches (June 2009)) can become powerful instruments for financial inclusion. The sponsor banks (i.e. lead banks) have been made responsible for their performance.

Preferences to RRBs in Branch Licensing: Liberalized branch licensing policy in their areas of operations and recapitalization of RRBs having negative net worth and providing them with facilities to upgrade skills of their staff are being attempted.

All State and District Central Co-operative Banks have also been advised to make available a basic 'No Frill Account' with nil or very low minimum balance and give wide publicity of such No Frill Account and reporting of progress made in opening such accounts.

Co-operative banks and RRBs have been allowed to sell insurance and financial products.

Financial Literacy: Reserve Bank has formulated a model scheme for all scheduled commercial banks (including RRBs) in 2009 with the broad objective to provide free financial literacy education and credit counseling.

Mobile banking: As the penetration of mobile phones particularly among low income people and enormous opportunities they afford in extending the banking outreach, RBI has formulated guidelines on mobile banking. It has encouraged introducing technology based products and services such as prepaid cards/debit cards, mobile banking. India is feeling an detonation in the usage of mobile message expertise and development of banking sector can exploit. Mobile phone services belong to all layers of culture, spread across metropolitan centres, towns and villages. Banks can income benefit of this long-drawn-out spread of Tele communication if they provide services through this mode. These hold substantial promises as delivery vehicle of the future. There is huge potential and opportunities.)

RBI has liberalized policy for ATMs.-The National Electronic Fund Transfer (NEFT) facility is able to offer nationwide ATMs linked to NEFT w.e.f. 1-4-2009 and can facilitate banking transactions including remittance through ATMs.

A definite strategy has been adopted for ensuring financial inclusion. 431 districts have been identified by State Level Bankers' Committee consisting of banks for 100 percent financial inclusion (progress made in this regards is monitored by RBI and internal evaluation is also made). RBI has advised the lead banks to constitute a Sub- Committee of the District Consultative Committees (DCCs) to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of ICT-based models, including through BCs. (policy decision announced by RBI in October 2009) The following recommendations were accepted and their implementation is monitored by RBI and State Level Bankers' Committee:

1.Opening of new branches.

2.All branches to be made RTGs and NEFT enabled to reap the benefits of electronic payment and settlement system.

3.Agencies to take initiatives to promote more SHGs by making use of the services of NGOs.

4.Setting up of rural development and self-employment training institutes for promoting self-employment opportunities.

5.Banks to aggressively use the BF model for increasing banking outreach.

6.Use of Post Offices for augmenting credit flow in rural areas.

7.Village panchayats can also act as BFs/BCs for banks.

8.Banks and other agencies to carry out awareness campaign for opening of'no frills' accounts.

9.Inclusion of underdeveloped districts for 100 per cent financial inclusion.

10.Opening of credit counseling centers in the districts of the States by major banks.

11. Despite the host of measures taken by the Reserve Bank since 2005, moneylenders remain dominant source of credit, especially in the rural areas and hinterland. With a view to addressing the needs of the people who rely on informal sources of credit, the Reserve Bank has constituted a Group to review the legislation on money lending.

2.14 INITIATIVES OF GOVERNMENT OF INDIA:

The Government of India in June 2006 constituted a Committee on Financial Inclusion' under the chairmanship of Dr. C. Rangarajan, former Governor of RBI to look into the problem of exclusion of rural poor from access to financial services. Based on recommendations of the Committee:

a) A National Rural Financial Inclusion Plan has been drawn with target to provide access to comprehensive financial services to at least 50 per cent of 55.7 million financially excluded rural cultivator and non- cultivator households across different states by 2012 through rural / semi-urban branches of Commercial Banks and RRBs. The remaining population has to be covered by 2015. Accordingly Banks have been advised to set target of additional minimum new 250 rural households for each rural and semi-urban branch per annum commencing from the year 2008-09.

b)As per announcement made in the Union Budget 2007-08, two funds (the Financial Inclusion (Promotion and Development) Fund (FIF) and the Financial Inclusion Technology Fund (FITF)) were set up with NABARD. The Funds are meant for meeting the cost of developmental and promotional interventions, and costs of technology adoption, respectively, for facilitating the mandated levels of inclusion. The Funds will have an initial corpus of Rs.500 crore with initial funding of Rs.250 crore each, to be contributed equally by GOI/RBI/NABARD, with annual accretions thereto. Banks will be eligible for support from the Funds on a matching contribution of 50% from the Fund for non-tribal districts and 75% for tribal districts identified under the Tribal Sub-Plan.

CHALLENGES:

The important task before the banks is to bring entire population into banking net with special care to rural areas where major section of financially excluded population live.

i)To increase outreach

The Indian Financial sector has made up massive banking organization and extending banking services more then 80,000 branches, 44000 ATMs of commercial banks (including RRBs) and over 1.22 lakhs service outlets of co-operative sector. The main challenge before the banking system is to bring remaining population into banking fold.

The first stage of financial inclusion - opening of zero balance account i.e. No Frill accounts has been inspiring and over 33 million No Frill accounts have been opened March 2009. In order to progress use and access of account banks will have to offer services customers –

• Either through mobile branches
• Satellite offices
• Extension counters or using intermediaries like Self Help Groups,
• Micro Finance Institutions or Business Correspondent/ Business Facilitators. The banks will have to provide customer education and counseling using multimedia, multi-language for dissemination of information and advice.

ii) Build up Saving History

Financial Inclusion primarily for spreading credit it has to be seen as growing access to-

• Payment services,
• Savings and insurance products.
• The number of credit assistance to the poor through various Government programmes
• open door to credit.

iii) Leveraging Technology

The worldwide banking and financial system has experienced important changes because of revolution in Information and Communication Technology (ICT).Information Technology and Electronic Fund Transfer have emerged as supports of modern banking. Banking related services such as are very important I financial inclusion –

• ATMs,
• EFT at a point of sale,
• Smart Card,
• Mobile Banking,
• Internet Banking, etc.

The new electronic networks are cost effective and have high level of efficiency -speed and response to customer requirement.

IV.Multiple Channels of Delivery/Customer Protection

ICT solutions are mandatory to capture customer particulars to enable unique identification, to ensure reliable and continuous connectivity to distant areas and to access the multiple channels of delivery which offer multiple financial products . The banks have to ensure consumer to develop comprehensive and consistent credit information system for efficient credit delivery and credit pricing.

v) Risk Assessment and Management

The banks have to gear up their risk assessment and management practices. They have to finance first time entrepreneurs notwithstanding the risk of financial inclusion in reality. The inevitability of some degree of failed ventures should not lead to laxity in risk assessment.

vi). Selection of Low Cost Technology Solution

The challenge for banks in extending services to the excluded are - large cost of covering the huge number (cost of enrolment), relatively high maintenance cost of such accounts, small ticket size for each transaction, need for communication modes suited to illiterates in local language, affordability of products or services, need for local acceptance and involvement of personnel, need for large scale coverage including the difficult geographical terrain and areas where there are no normal communication facilities. The banks will have the challenging task to look for technology based solution and minimum cost distribution device that will reduce transaction cost of such services.

vii) Developing synergies with MFIs/ SHGs - ICT

The challenges are going to be banks using multiple channels for delivery of variety of financial services, emerging interactions with Micro Finance Insttutions s and Selp Help Groups by introducing seamless ICT based models connected to mediators, obtainability of expert manpower to facilitate adoption of IT in a large scale, use of IT for credit information, efficient credit delivery and risk management in much bigger way moving away from use of cash.

viii) Financial Protection to Senior Citizen

The aged people in India (i.e. over 60 years) that stood at 84.7 million (7.5%) in 2005 is expected to rise 10.2% by 2020.

ix) Pension payment of BPL families and unorganized sector targeted are nearly 300 million workers who can be paid through bank accounts. As RBI is trying to see that the un-banked people get access to bank accounts it is critical that sub-bank accounts to ensure a safe and reliable payment system to old age pension.

x) As literacy as well as knowledge management levels among poor are very low in our country and large parts of the hinterland have inadequate communication penetration, the importance of physical rural branch should not be discounted. Existing Post Offices and Banks should formally explore ways and means to extend financial services/ literacy to the excluded population of low income groups.

xi) To meet the challenge of financial literacy, State Level Bankers' Committees should impress upon State Governments to include 'Financial Inclusion' as subject for study in the school from X standard onwards.

CONCLUSION-

Financial Inclusion is a powerful accelerator of economic progress, and can help to achieve the goals of eliminating extreme poverty andfinancial untouchability.

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