

FINANCIAL INCLUSION

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Financial inclusion is the flagship program of Reserve Bank of India, to provide access to financial product and services needed by marginalized communities in fair, transparent and equitable manner (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan) Hon'ble Prime Minister has urged Reserve bank of India to urge financial institutions to achieve the objective of Financial inclusion through development of various schemes. Financial inclusion helps to achieve the objective of economic development, sustainable development, generates employment, increases productivity etc. Financial inclusion includes providing not only banking services but also financial services like insurance, credit facilities, debit and credit facilities, financial advisory services at affordable cost Reserve bank of India has taken many initiative to full fill the objective of financial inclusion for example no frill accounts, use of technology, regional language etc. This paper will throw light on the strategies initiated by RBI and also the shortcomings of financial inclusion.

Key Word: reserve bank, marginalized, financial services, strategies

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Introduction:

The government of India announced pradhan mantra jan dhan yojana (PMJDY) marks a landmark for the quest of financial access. This will ensure big chunks of accounts are opened under various schemes and will facilitate the objective of financial inclusion. Prime Minister Narendra Modi has urged reserve bank of India to encourage financial institutions to set targets for financial inclusion and improve the life of vulnerable communities. Financial inclusion means to provide banking product and services to vulnerable section of the society such as weaker sections and low income group. The objective of financial inclusion can only be achieved through greater focus on micro and distributional dimensions. The undeserved and unbanked population is too large and is spread across vast geographical boundaries which cannot be served through conventional channels alone. There is a need for innovative economic strategies so that the objective of financial inclusion can be achieved.

Framework of Financial Inclusion:



- **No Frill account**

On November 2005 No frill accounts were introduced. These accounts had no minimum balance requirement with facility of ATM cards and Debit cards. Banks have been advised to provide small overdraft facilities on these accounts.

- **Ease of KYC norms**

KYC norms have been simplified especially for the small customers. The small customers can open bank accounts without any documentation, but they have to give self certification in the presence of bank official. Further Aadhar card has been allowed as one of the eligible documents for KYC.

- **Simplification bank authorization**

Commercial banks have been permitted to open branches in centre with population less than 50000, subject to reporting. RBI monetary policy statement has made it mandatory for the banks to allocate 25% of the total branches to unbanked rural areas.

- **Kisan credit card**

Due to lack of awareness among farmers. Kisan Credit card has been launched. Farmers covered under KKC scheme are issued credit card and bank passbook which incorporates name, address, validity etc. It is launched to provide short term loan in the form of production credit. This scheme is implemented by public sector commercial banks, regional rural banks, and cooperative banks.

- **Business correspondents**

In January 2006, RBI introduced BC model for carrying out banking activities on the behalf of banks. These BC allows door step delivery of services. Mobile companies have joined hands with banks known has customer service provider and provide BC services.

- **Direct benefit scheme**

The Government has launched Direct Benefit scheme to route all social welfare payments through banking networks using Aadhar based platform. In order to make this scheme successful bank have been advised to open the bank account of all beneficiaries with the help of local government.

- **RuPay Card**

NPCI has introduced a new card payment system known as RuPay card. It is a open loop, multilateral payment system which allow all the Indian banks and financial institutions to be part of electronic payment system. RuPay card works on ATM, POS, online transactions, thus fulfilling the objective of financial inclusion.

5A's of financial services

Financial inclusion includes the delivery of financial services with 5A' such as Accessibility, Availability, Affordabilty, Acceptability,Appropriateness(BIS and CAFRAL 2012)

1. Accessibility:

The financial services should be available to all the national in a equitable manner. The access to financial services in a country leads to balanced growth, reduces inequalities and increases income of marginalized communities.

2. Availability :

The banking and financial services should be available as their availability is crucial for the development of the nation. The non availability of financial and banking products has led many technology based solutions to stop short of full financial inclusion.

3. Affordability:

Another aspect of financial inclusion is affordability. The banking and financial services should be available at low cost, so that it reduces the vulnerability for the poor. The services like e-payments should be affordable to all segments of society.

4. Acceptability:

The services and products should be such which are easy to use, acceptable, interoperability etc, so that the objective and goals of financial inclusion can be achieved within time. Also the banks, insurance companies and financial institutions should make apt product and services for the weaker section.

5. Appropriateness:

There is a need to develop such products and services which are country specific, keeping in mind various factors like geographical barriers, demographic barriers, and socio-economic factors.

Progress of Financial inclusion:

Financial inclusion is an important step initiated by government of India to provide financial and banking services to all the people in the country.

- **Position of households availing banking services**



Households	Total no. of household	No of households availing banking services	Present	No of household availing banking services	Number	Present
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

• **Bank branches and ATM**

The number of branches opened by public sector banks and schedule commercial banks during last five years

As on	Rural	Semi rural	Urban	Metropolitan	Total
31.03.2011	20658	16217	13450	12612	62937
31.03.2012	22379	17905	14322	13244	67850
31.03.2013	24243	19642	15055	13797	727372
31.03.2014	27547	21952	16319	14644	80462
31.03.2015	29634	23549	17387	15325	85895

- **Number of branches of schedule commercial banks during last five year**

As on	Rural	Semi rural	Urban	Metropolitan	Total
31.03.2011	33923	23089	17629	16255	90896
31.03.2012	36546	25834	18879	17274	98533
31.03.2013	39816	28546	19935	18092	106389
31.03.2014	45293	31530	21532	19275	117630
31.03.2015	48557	33766	23036	20498	125857

Source: Department of finance services, Ministry of finance, Government of India.

<http://financialservices.gov.in/banking/Overview%20and%20Progress%20on%20Financial%20Inclusion%20.pdf>

Methodology:

For conducting this research secondary data analysis is used to getting in depth knowledge for understanding financial inclusion. Secondary data review and analysis involves collecting information, statistics and other relevant data and various levels of aggregation in order to conduct a situational analysis of the paper is based on information retried from internet via various journals and research paper on the same subject matter.

Committee report on medium term path on financial inclusion

Reserve Bank of India has set up a committee on medium **term review on financial inclusion under the chairmanship of Shri Deepak Mohanty**. The committee has been set up with the objective of working out a five year measurable action plan for financial inclusion and to review the existing policy on financial inclusion. The committee was of the view financial inclusion is feasible only with government to person (G2P) transfer.

Salient recommendations:

- Special efforts to be put in for opening accounts for females and the government may consider deposit schemes for girl child.
- Aadhar to be linked to each individuals credit account and information shared with information companies will enhance the stability of credit system.
- There is a need of digitization of land records and linking the credit supply with aadhar card to facilitate credit flow to actual cultivators.
- A government scheme of GOLD KCC (kisan credit card) should be made flexible and should be linked with government sponsored personal insurance.
- Encouraging agencies to provide guarantees in nice areas for micro and small enterprise.
- To open more ATM's in rural and semi urban centres.
- To establish geographical information system to map all banking access points.
- National Payments Corporation of India (NPCI) to develop a multi lingual mobile application for customers who do not use smart phones.
- Levying surcharge on credit card transactions should not be allowed.

RBI strategies for financial inclusion

Strategies that need to be adopted by RBI

- **Policy measures**

The regulatory bodies RBI, IRDA, SEBI and government of India have prescribed various policies for improving financial inclusion. Judicious policies must be formulated to ensure safety of depositor's fund provides stability to financial system and achieve the objective of financial inclusion.

- **Making financial services easy, affordable and hassle free.**

The self help group act as substitute for collateral requirement, while providing social security and reducing transaction cost. There is a need to simplify lending procedures and reducing the lending rates. Adopting of villages by banks, availing the services of farmer's club.post offices etc helps to increase financial inclusion.

- **Use of innovative products**

Innovative products need to be formulated to meet the production needs of rural people. Public distribution system helps the rural families to invest in other social benefit activities like health, education etc, thus strengthening the rural economy.

- **Financial literacy**

Financial inclusion is possible only when individuals and households are financially literate, to make choices about how to save, borrow and invest. Financial literacy help

people to know what to demand and also help market and financial service provider to know what people want.

- **Creating conducive environment for lending**

Quality and reliable information should be provided to potential borrowers through establishment of rural credit bureaus. A legal structure should be set up for recovery of loans, writing off loans, etc. National agriculture risk fund should be established to provide relief to small and marginal farmers in time of calamities.

Conclusion

Financial inclusion is of utmost necessity as it is far reaching economic and social implication. There are several advantageous of financial inclusion which includes economic growth, sustainable development, improved productivity, employment generation, effective monetary policy etc. The policy objective of inclusive growth can be achieved only through financial inclusion.

Despite many efforts to achieve financial inclusion, there are still over 2 billion people financially excluded. The main reason for lack of financial inclusion is lack of infrastructure, lack of technology, financial illiteracy, lack of financial products, etc. The reserve bank of India, Government of India has been making many efforts to achieve the objective of financial inclusion. The emergence of Self help group as financial intermediaries is playing very important role in the growth of financial inclusion. The objective of financial inclusion can be achieved only when people are aware usage,

benefits of various schemes. Banks need to develop innovative strategies to incorporate the plans of financial inclusion. The banks need to take financial inclusion as business opportunity and as corporate social responsibility

The development of various innovative products has made it possible to provide low cost and convenient financial services to those who need them. Innovative products like ATM's, one time settlements, mobile banking, digital technology are changing how people bank and pay for things and helps banking services to reach remote areas.

Thus it is believed that only sound and strong institutions can promote financial inclusion, towards this end prudent regulations need to be formulated to achieve inclusion. Appropriate and affordable technology accompanied with right business model can make it a opportunity rather than obligations.

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International Journal Of Business Management
Available at www.ijbm.co.in
ISSN NO. 2349-3402
VOL. 2(2),2015

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