



Financial Inclusion Elevation – Major hurdles for Commercial Banks

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ABSTRACT

Financial Inclusion growth is possible only through proper mechanism which channelizes all the resources to all the direction of the customers. it is an innovative concept which makes alternative techniques to promote the banking habits of the rural people. Since the majority of the rural population is still not been included in the inclusive growth, the idea of financial inclusion remains a challenge for Indian economy. Since 2004, many palpable measures are commenced by Reserve of BANK Of India in collaboration with Government of India to reinforce financial inclusion in India but impression of these efforts did not give satisfactory results. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of financial inclusion in India and aims to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) in rural sector as well as income group sector

KEY WORDS: Financial Inclusion, Reserve Bank of India, Rural population

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Introduction:

FINANCIAL inclusion is the delivery of Financial services at affordable costs to vast sections of disadvantaged and low income groups. It is a recent concept which helps to achieve the continuous development of the country, through available financial services to the inaccessible people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by

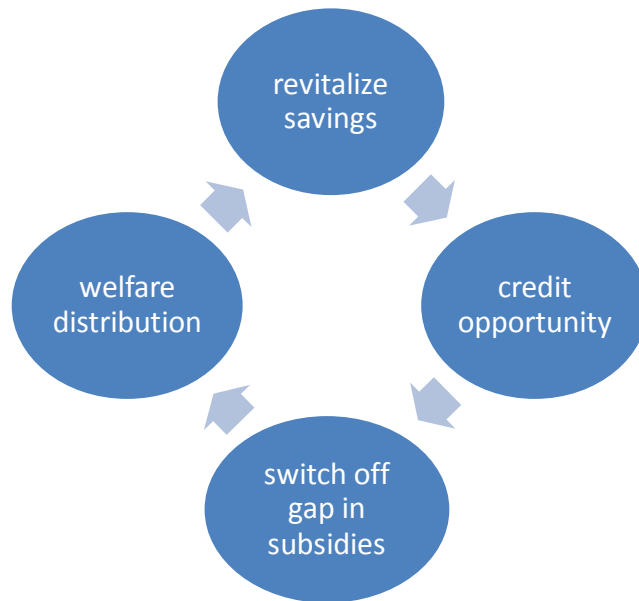


vulnerable groups such as the weaker sections and low income groups at an affordable cost. The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007). Access to financial services promotes social inclusion, and builds self-confidence and empowerment. In an address Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India at the National Finance Conclave 2010, has mentioned that financial inclusion is no longer a policy choice but it is a policy compulsion today. And banking is a key driver for inclusive growth.

Financial Inclusion in India:

Even after almost 60 years of Independence a huge segment of Indian Population continue to abide from normal banking services. This despondency and dejection has led inception of financial insecurity and failure among the lower income group who do not have access to financial services and products. However in recent years it has been seen that government and Reserve bank of India is promoting and popularizing the notion of financial inclusion. The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population.

Fig 1: Why Financial Inclusion is needed in India



Review of Literature:

On September 6, 2013 the Prime Minister, Dr. Manmohan Singh, said financial inclusion is essential for inclusive growth. According to Dr Singh We, in India, are currently engaged in a massive exercise to enable our large population in rural areas to have access to banks. This is being achieved through the use of a bio-metric unique identification system which establishes identity and enables the individual to access her bank account through a network of banking correspondents using information technology and mobile connectivity.

On August 15, 2014 India's Independence Day, Prime Minister Narendra Modi announced a national mission of financial inclusion. Called the Pradhan Mantri's Jan-Dhan Yojana — the Prime Minister's People's Wealth Program — it envisions bank accounts for all Indians. In its first phase, ending August 14, 2015, the target is 75 million accounts. "I wish to connect the poorest citizens of the country with the facility of bank accounts," said Modi. "There are millions of families who have mobile phones, but no bank accounts. We have to change this. The change will commence from this point.



According to H.K. Pradhan, professor of finance and economics at XLRI Jamshedpur, there are concerns of duplicate accounts from people who may have opened them “without really understanding what they were doing.” He adds that the issue will be sorted out when biometric identification is introduced. But there could be operational complications: Anybody in India can open multiple accounts, so how can there be a different rule for the currently unbanked? The second — and more important — issue is that India’s problem of financial inclusion is gargantuan. According to World Bank data, only 35% of Indians have an account with a formal financial institution. This is 42% in the case of men and 27% for women. Only 8% have debit cards and 2% credit cards. According to the government’s 2011 Census, 58.7% households utilize formal banking services.

Recently the Reserve Bank of India (RBI) put forth draft guidelines on licensing universal banks. The RBI had already put forth a call for universal bank license applications and issued in-principle licenses to two applicants who then formed banks. In an industry where obtaining a license has not been seen as easy, the issuance of these guidelines is an unprecedented move and one that clearly aims at solving supply side challenges of financial access. In the last two years, competition between institutions has already begun increasing with the provision of the two universal bank licenses, 11 payment bank licenses, and 10 small finance banks.

According to RBI Governor Raghuram Rajan asked for leveraging technology to achieve financial inclusion. More and more persons should be brought within the reach of financial institutions. Banks should try to understand the profile of customers better and design products which do not tax their understanding much - be it insurance, basic bank account or payment of remittances, he said affordable excellence was the need of the hour. Technology should be affordable, transparent and not take people for a ride. Recently, the RBI had put out consumer code and expected the banks to adhere to it. The code put the onus of determining what was suitable for individuals on banks. Guidelines have been issued by RBI for small finance banks which would help them to cater small sector customer covering whole country, In his opinion he wanted the mobile companies, software companies and retail houses to set up payment banks. They would not do any credit functions but allow safe transactions. A viable mode for them would be to tie up with regular commercial banks.



Rating agency Crisil, a Standard & Poor's company, has a financial inclusion index called the Inclusix. The all-India Inclusix score is 40.1 (which mean that about 40% of the country has access to formal banking services). There are wide variations — from 62.2% in the southern region to 28.6% in the eastern region.

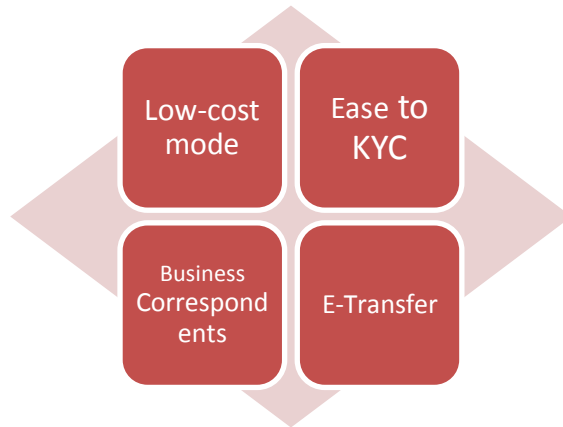
“Joseph Massey (2010) said that, financial institutions have a very vital and wider role to play in promoting financial inclusion. Their role is mandatory and imperative in a developing country. With these financial institutions the dedicated role of capital market players will definitely stimulate the growth of financial inclusion. Both international and national councils have recognized the importance of financial institutions and their endeavor are seen on universal and domestic floor by stimulating financial institutions to take up wider accountability towards financial inclusion.

”Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the Mellenium Development Goals (MDGs) than at any other time in recent history.

Role of Banking Sectors on Financial Inclusion development in India:

The number of commercial Banks in a country provides an opportunity for the people of that Country to participate in the formal financial system and to utilize the financial services of that Financial system. More the number of commercial banks more is the scope to associate people in to the financial system but provided the banks provide satisfactory financial products.

Fig 2: STEPS BY RBI TO SUPPORT FINANCIAL INCLUSION



Findings:

Table – 1: Commercial banks at Glance

Important indicators	Dec 2015	Sep2015	June 2015	March 2015	Dec 2014
All scheduled commercial banks	149	148	146	148	146
Regional rural Banks	56	56	56	56	56
Rural Aggregate Deposits	11.0	12.5	15.1	15.7	15.8
Rural Gross bank Credit	11.5	10.2	12.1	14.7	12.7
Urban Aggregate deposits	12.9	11.9	13.0	13.7	12.4
Urban gross Bank credit	11.9	10.5	9.8	9.8	9.2

Source: Statistics relating to commercial banks at a glance RBI



- ✓ The table 1 Shows that the number of commercial banks in India in December 2014 was 146 and in December 2016 it was 149, it clearly states that in the year 2015, there was slight increase in number of commercial banks
- ✓ Though there was increase in number of Scheduled commercial banks the number of regional rural banks the figure kept constant to only 56, which is a measure drawback to banking system.
- ✓ The rural aggregate deposit in Dec 2014 was 15.8 which was correspondingly decreased to 11.0, showing a major set back to banking services whereas the urban aggregate deposit has shown an upward trend from Dec 2014 to Dec 2015 by 0.5 which is far better than Rural
- ✓ From the table this is again clear that Rural gross bank credit has tremendously decreased from 12.7 to 11.5 from Dec 2014 to Dec 2015

Suggestions and recommendations:

- ✓ Based on the above findings the following suggestions and recommendations have been suggested for the further improvements of the financial inclusion services of the banking sectors in India,
- ✓ The financial literacy of rural and semi urban population of India should be increased by teaching them new avenues of banking. Technological innovations like integrated machine that has functionality of cash withdrawal and deposit and biometric identification of users, voice commands and narration for all facilities in multi-language format could help increase banking literacy.
- ✓ It is necessary to have diverse products for its unbanked population. Thus, there is a need to have granular schemes, preferably different schemes for rural areas and urban areas. Further, distinct schemes can be made on the basis of nature of employment of people. For example, daily wage laborers can be allowed to make tiny deposits on daily basis.
- ✓ Number of commercial bank in India should be increased though maximum population is in Banking system, if more banking services are provided to remote and rural area it might improve their living standard
- ✓ Awareness of mobile banking is significantly low and there is reluctance, especially amongst rural people, probably because of low technological and financial literacy. In



addition, there were practically no efforts, an observation based on our survey and consultations with unbanked people and commercial bankers

- ✓ There is need to seek help from local governments, both in villages and cities. The panchayati raj institutions, municipalities and city councils can help not only in identifying but encourage the unbanked to start operating in formal banking channels
- ✓ The banking sectors have to liberalized the security level of the borrower to borrow money from the bank in an easiest way, they banking sectors have to announce the new schemes offered by them to all the citizen of India for the proper utilization of the fund
- ✓ Though many of the banks are providing the technical services to the customers, most of the customers are not aware of the services provided by them
- ✓ All the banks are installing the ATMs in all the places, which are still sometimes in accessible to remote and rural population to avoid that practical knowledge and proper training to guardian of ATMs should be provided and knowledge to the rural and remote customers regarding the usages and the services available in the banking sectors should be given.

Conclusion:

Though excessive efforts are being put in by all the concerned stakeholders ie. Government, Reserve Bank of India, Commercial banks and other financial Institutions still not much response is visible towards promotion of financial Inclusion. The perspective of the government towards execution and enforcement of government policies till the last stone unturned. For standing out on a global platform, India has to look upon the inclusive growth and for this have to focus on the financial inclusion. There is a long step ahead and lot more need to be done in this respect. “Even today the fact remains that around half of the Indian population doesn’t have reach to formal financial service system and are still not part of Indian banking system. Simply by providing opportunity to open no frill account will not serve the purpose or will be commencement of Formal financial services.

The Banking Institution must gain trust and credence of the rural population through sturdy and strong bond. The banking sectors have to create the awareness to the members and the customers about the services provided by them, hence the banking populations can use all the financial and non-financial services of the all the banks in India.

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