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FINANCIAL INCLUSION IN INDIA: SHORTCOMINGS AND SUGGESTIONS

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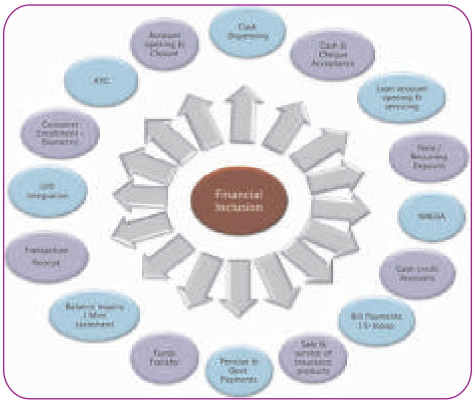
ABSTRACT: -

Financial inclusion is one of the basic components for GDP growth or economic growth of any country. The term refers to provide the banking services to those who do not have access to them. In developing countries like India, it is a revolutionary process because majority of poor population in the world lives in India. Reserve Bank of India and government has made continuous efforts in this direction. The purpose of this paper is to discuss the initiatives taken by the regulators for achieving the target of financial inclusion. Major steps like nationalization, PMJDY, BSBDAs etc have been discussed in the paper. Report on financial inclusion process issued by RBI has also been discussed along with the shortcomings. Later on, the suggestions to reach the goal have been given so that the problems occuring the process could be eliminated.



KEYWORDS: *Financial Inclusion, Reserve Bank of India, Banks.*

INTRODUCTION :

Financial inclusion is the process of making appropriate provisions and arrangements for ensuring that the various sections of the economy such as low-income groups, people living in the remote area, marginalized groups, and other weaker sections have easy access to the financial services at an affordable cost inadequate manner provided by the institutional players of financial system. There has been seen tremendous growth over the world, over the time, but taking deep insights into it, there is a big number of population that is deprived of even the basic amenities. The financial system of a country is the backbone of its all economic activities and the key factor for the economic growth. Since the inception of various dynasties, there had been some medium of exchange of resources, goods, and services. The previously prevailing system of barter economy was replaced by the monetary system of exchange. Money is now the mean of all kinds of exchange transactions taking place. For economic growth of a country, it is necessary that the masses have access to the financial services. Having limited or no access to the financial services is a serious issue in many countries.

Therefore appropriate measures must be introduced with the passage of time so that social, as well as economic welfare can be ensured. Rangarajan C (2008), "Report of the Committee on Financial Inclusion", Financial inclusion can be defined 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 does not advocate for the banking services only but also the insurance facilities and alike for the safety of future. Since banks play the major role in economic development and stability, therefore the term "financial inclusion" can also be called as banking inclusion. Another underlying fact is that there lives a majority of the Indian population in rural areas. There is more prevalent the indigenous banking since independence. Due to lack of accessibility to formal banking, they have to depend upon those moneylenders or mahajans (collectively called indigenous bankers). Indigenous banks have their own terms and conditions of operating and lending and do not come under the purview of the formal banking system; they charge a high rate of interest on the loan provided by them. From this point of view also, it becomes imperative that the rural population also becomes the key area to be covered under the financial inclusion process. For achieving this goal, the government of India and the regulator of the banking sector or Reserve Bank Of India have given numerous recommendations. The first phase of making the banking services accessible to the general public was done by the government of India by nationalizing the 14 major banks in 1969 with a minimum capital of Rs 50 crore. Lead bank scheme was a milestone step taken by RBI where in each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district mainly in matters like branch expansion and credit planning. In 1975 regional rural banks act came up with the objective of establishment of RRBs for covering the rural sector under the perimeter. Later on nationalization of another 6 banks having minimum capital of Rs 200 crore, no-frills account, simplified KYC(know your customer) norms, simplified branch authorization policy, three phase financial inclusion plan(FIP) and etc have worked as the path for policymakers As well as the banks to ensure that the customers have easy access to the banking services. Financial inclusion is just opposite to financial exclusion where people who need the financial services get excluded from the financial system. Such exclusion not only results in deprivation of the services but an impediment for the economic growth and development. Exclusion of masses results narrow financial structure leading to low volume of economic activities which then symbolized by lower per capita income, low GDP growth, low standard of living, increasing regional gaps. These consequences collectively make a country a sick economy. Therefore it is important to make ample provisions by the institutions to cover all the people, geographic areas, industrial as well as consumer sector irrespective of any prejudice under the purview of the financial system.

FINANCIAL INCLUSION IN INDIA

History of banking industry is though a few centuries old but the process of financial inclusion had started in late 1970s. The government has an objective that these services shall have its outreach throughout the nation irrespective the income, region or any kind of discrimination. Various initiatives have been taken by the regulator, Reserve bank of India. These have been discussed in the chronological order as follows:

1. Nationalization of banks:

Nationalization of bank took place in two phases as in 1969 and 1980. Major 14 banks with minimum capital base of 50 crore were nationalized followed by another 6 banks with the minimum capital base of Rs 200 crore. The main objective of this scheme was to make the banking industry free from the control of private business houses. Both the public and private banks were nationalized in this period. It had significant impact of the financial performance as well as market outreach of the banks.

2. Lead banking scheme

Gadgil study group recommended for introduction of Lead banking scheme in 1969. Main objective of this scheme was to make the banking services available in each district of the state. A bank was given responsibility of acting as Lead Bank in the district to coordinate the efforts of other banks and meet the credit needs of rural economy. The main reason behind the scheme was that till 1967 only 5000 villages were covered by the commercial banks although a big population of India was living in the rural area.

3. The basic savings bank deposit accounts(BSBDA)

A basic savings bank deposit account is also called as No-Frills account. A no-frills account is the one in which the accountholder maintain minimum even zero balance. It was introduced in 2006 for enabling those people to have a bank account who were resisting due to the minimum balance requirements. The services

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offered on a no-frills account are less than a saving bank account. Even there is not given any interest on the amount kept in it.

4. Simplified KYC norms:

The RBI has simplified KYC regulations, especially for clients and small amount transactions. This is because, in a country like India where documents and identity proof are not with many, it is very difficult to attract them towards stringent KYC norms. Hence essential and basic level identities are needed under this simplified KYC regime. The customer needs not to furnish any document if he has a balance of Rs 50000 in his account or has the loan of up-to Rs 100000. He needs to furnish only the UID number i.e. Adhaar card.

5. Adoption of Business Correspondents (BCs):

In 2006, the RBI issued the guidelines for the banks to employ non-bank intermediaries as business correspondents to supply the banking and other financial services to those areas where the banks did not have a brick and mortar branch system.

6. Recommendations of Rangarajan committee:

It was the first time when the term "financial inclusion" was coined in India. The committee headed by Dr. C. Rangarajan advised the government to make RBI to make necessary arrangement to establish 250 branches every year over the country. The then finance minister P Chidambaram said that it would be a key step in the banking industry. Establishment of branches at this level would mean that every year 12.5 million accounts will be opened.

7. Use of technology:

Technology has the very important role in the present digital world even in the banking sector. RBI recognizes the significance of IT for giving pace and ease to the banking system. Use of ATM services, RTGS, ECS, and NEFT etc. has made it possible to receive and transfer fund across the country in very short period of time. Therefore guidelines are being issued by RBI for ensuring that money could be better and quickly circulated in the economy.

8. 1:4 licensing rule:

Recognizing the need of rural India to have availability of banking facilities, RBI came up with another resolution that the banks are applying for the establishment of the branch in the urban banked area, they will have to first establish 4 bank branches in the unbanked rural area. By this, it was intended that there will now rural population have banking services at the nearest point.

9. Financial Literacy Programme :

Financial Literacy Centers were started by the commercial banks at the request of RBI to bring awareness and education to the public to access financial services and products. Here, RBI's policy was that financial inclusion should go along with financial literacy. RBI provides support to Financial Literacy and Credit Counseling Centers (FLCCs) being run by the banks.

10. Financial inclusion programme

Financial inclusion programme was started in a phased manner by the RBI. Under the first phase 20010-13, all those villages with population more than 2000 will be covered by all commercial banks(private and public both) through State Level Banking Committee(SLBC) by BC model, ATM, mobile banking etc. for the next phase 2013-16, emphasis was laid to cover the villages with population 2000 or less under its purview.

11. Pradhan Mantri Jan-Dhan Yojana (PMJDY) policy:

The NDA government came up with a very appreciating step of attracting people of rural as well as an urban area of the country to open a bank account under the scheme called Pradhan Mantri Jan-Dhan Yojana. Under this scheme, anyone could have a bank account by fulfilling the nominal formalities. It had an objective of making familiar the socially and financially excluded people with the banking services.

12. Other policy initiatives

Apart from the initiatives taken, significant efforts have been done by the government and RBI such as the Kisan Credit Card and Kisan Gold Card especially for farmers, MUDRA loan for micro and small-scale entrepreneurs under Pradhan Mantri Mudra Yojana, Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jivan Jyoti Yojana and financial literacy programmes etc. All these steps have worked in light of the coordination of policymakers, RBI, and the banks.

PROGRESS UNDER FINANCIAL ICLUSION PLANS, ALL SBBs INCLUDING RRBs								
SR NO.	VERIABLE	MAR-13	MAR-14	MAR-15	MAR-16	ABSOLUTE CHANGE		
						APR13-MAR14	APR14-MAR15	APR15-MAR16
1	Banking Outlets in Villages - Branches	40,837	46,126	49,571	51,830	5,289	3,445	2,259
2	Banking Outlets in Villages – Branchless Mode	227,617	337,678	504,142	534,477	110,061	166,464	30,335
3	Banking Outlets in Villages – Total	268,454	383,804	553,713	586,307	115,350	169,909	32,594
4	Urban Locations covered through BCs	27,143	60,730	96,847	102,552	33,587	36,117	5,705
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	101	126	210	238	25	84	28
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	165	273	365	474	108	92	109

7	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	81	117	188	231	36	71	43
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	18	39	75	164	21	36	89
9	BSBDA Total (in million)	182	243	398	469	61	155	71
10	BSBDA Total (Amt. in Rs. billion)	183	312	440	638	129	128	198
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	4	6	8	9	2	2	1
12	OD facility availed in Basic Savings Bank Deposit Account (Amt. in Rs. billion)	2	16	20	29	14	4	9
13	KCCs-Total (No. in million)	34	40	43	47	6	3	4
14	KCCs-Total (Amt. in Rs. billion)	2,623	3,684	4,382	5,131	1,061	698	749

15	GCC-Total (No. in million)	4	7	9	11	3	2	2
16	GCC-Total (Amt. in Rs. billion)	76	1,097	1,302	1,493	1,021	205	191
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	250	329	477	827	-	-	-
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	234	524	860	1687	-	-	-

The above presented table shows the progress made by banking sector under the financial inclusion programme. There has been seen noticeable growth in the banking outlets in the villages. It rose from 268,454 million in march-2013 to 586307 million in march-2016 which is indicates that banking outlets have doubled within very short time span. The BSBDAs have increased from 182 million in march-13 to 469 million in march-16. The growth in KCCs and GCCs has shown a positive sign that the efforts of banks are going in the desired direction.

SHORTCOMINGS TO FINANCIAL INCLUSION

Though there is seen massive growth in the Indian economy over the period of time, there are still plenty of shortcomings like lack of education, food; social security etc. lack of availability of financial services is also one of the key measures that must be addressed by the government. Although the availability of banking services has increased to 58.7% in 2011 from 35.5% in 2001, if the figure is taken in numeric terms, still there is the vast gap which is needed to be filled up. There are various hurdles coming in the path of success of inclusion process, some of them have been discussed as under:

1. Lack of financial literacy:

Financial illiteracy is the biggest key issue in the process of achieving the target of financial inclusion. There is lack of even elementary education in different parts of the country due to which all the efforts made by the bank go to waste.

2. Lack of infrastructural facilities:

Even after 70 years of independence, India lacks in the infrastructure development. There are a big number of villages where no concrete road has been made. Lack of electricity in villages is the biggest issue that the banking services cannot reach to the rural masses.

3. Rural banking as the matter of compliance only:

Banks are basically meant for earning the profits by acting as an intermediary between the borrower and depositor. The volume of business and profits are low in the rural areas whereas it costs same of an urban area. Therefore banks prefer opening the new branches in the profitable areas only. Regulatory norms of RBI are

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applicable on all the banks and the banks have to strictly conform to these provisions. They establish the branches in the rural area so that they can fulfill the minimum legal requirements. Thus, there is a fault on the part of banks also.

4. Geographical constraints:

Geographical constraints such as low population and low density of population make the banks not establish their branches over there. North-eastern parts of India include so many remote areas where it is almost impossible to provide the banking services.

5. Technological issues:

Banking personnel in India is not techno-friendly as much as required for the financial inclusion. Indian banking was mainly paper-based banking. People recruited a couple decades ago were not familiar with the electronic banking. Apart from this, financial inclusion involves mobile banking as well internet banking but due to resistance from customers (risk of frauds in mobile banking), less stringent IT act makes doubtful that it will be adopted by them or not.

6. Low income:

Banking services can be used by those people who have sufficient disposable income and savings left after that. But there is a big community living on very low income. They don't have enough income that they can deposit tin the bank. Therefore the automatically get excluded from the financial system.

7. Dormant accounts:

Till 31 Dec 2016, 26.03 crore bank accounts were opened under PMJDY scheme. But the major issue lying before the success of this policy is the dormancy of most bank accounts. A large number of banks accounts are inoperative since they were opened. Therefore it becomes difficult for the bank to ensure the extent of goal achievement under financial inclusion.

SUGGESTIONS:

Economic growth and development of the country are directly related to financial inclusion. India has worked a lot in the light of achievement of 100% inclusion but still there many problems which need to be addressed timely so that it does not cost too much later in the future. There are following suggestions for the government and the banks to achieve this target:

1. Financial literacy:

Financial literacy has worked as one of the most useful tools for generating awareness among people to use financial services. There has seen growth in the bank accounts from 101 million in March 2013 to 238 million till 2016. But still more efforts are needed to put so that the excluded population comes under the structure. By running the training centers, awareness programmes giving basic education etc to people, the goal can be achieved.

2. Infrastructural development

Key issue lying before the phenomena under study is needed for infrastructural development. There should be provided electricity to the villages or rural areas where banking services are being provided or to be provided. Internet availability is another problem which must be solved as soon as possible. Thus infrastructural development can play a key role in financial inclusion process.

3. Channeled transfer payments:

Channeled transfer payments refer to the transfer of payments i.e. scholarships, pensions etc directly to the account of beneficiary from the banks. By this, a large group of people would come under the boundaries of financial inclusion.

4. Role of RBI:

RBI being the regulator of the financial sector has the responsibility of issuing guidelines from time to time to direct the operations of banks towards the achievement of the goal of monetary policy, economic growth. Therefore, by issuing guidelines such as low rate of interest to be charged on priority sector lending, loans to economically weaker section and framers etc by RBI to ensure optimum credit flow in the economy.

5. Branch expansion

Branch expansion is the essential tool for providing banking services to the economy. The more is an availability of branches in an area; more will be the accessibility to the banking services. As per the recommendations of Rangarajan committee report, 250 branches were to be set up by the banks every year. Its intended goal will be released only when these branches are opened me the unbanked area. By this way, it will become possible to achieve the financial inclusion in India.

6. Promoting the Self-help groups:

Self-help groups are the village-based financial intermediaries consisting of 10-15 members. They save their money to further lend it to members or non-member people of a village. Thus establishing a contact with SHGs, banks can have a cost-effective way to provide financial services and credit to the rural population.

7. Offer diverse products according to different categories:

India is a diverse country with exceptional regional and occupational characteristics, and following diverse cropping pattern and income streams, it is necessary to have diverse products for its unbanked masses. Thus, there is a need to have different schemes for rural areas and urban areas. Further, distinct schemes can be introduced on the basis of nature of employment of people. For example, daily wage laborers can be permitted to make very small deposits on the daily basis.

CONCLUSION:

Access to the banking services access can really boost the financial condition and standards of living of the poor and economically weak population of the country. Lack of easy access, appropriate financial services has always been a big hindrance in the path between overall growth and India. There have been made continuous efforts by the government of India as well as the apex bank by formulating various policies. The banks have played a crucial role towards the success of the policies. There has been seen a considerable performance of banks with respect to outreach to the customers. But still more is to be done in this direction. New banks like Bandhan bank, IDFC bank have started to provide the doorstep banking facilities. RBI has directed all kinds of banks, be it of small financial banks or the payment banks, to coordinate for financial inclusion. The recommendations made till now, have shown that the efforts have led to achievement of the intended objective. It is hoped that all the pillars of banking sector will keep on working with their best intentions for ensuring that all the people have access to the banking services. Thus financial inclusion can be treated as key pillar for economic growth.

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