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FINANCIAL INCLUSION: A CONCEPTUAL FRAMEWORK

Prof. Sou. Dikonda Rupali Govardhan
Assistant Professor,Department of Economics ,
Arts & Commerce College, Madha.

ABSTRACT:

Today's one million of our brothers are moved above the poverty line day after day. The present economic growth process is not sustainable for maintaining either growth or the stability and unity of the country. So inclusive growth is important view of national unity.Inclusive growth is possible only if all citizens are participating in growth process. Financial inclusion could contribute to economic development and inclusive growth. Financial inclusion promotes and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. Financial inclusion provided all financial services by poor would lead to their consumption and investments in health, education, and income. So inclusive growth is not possible without financial inclusion.

KEYWORDS : *Financial inclusion, inclusive growth,NRFIP,Eleventh five year plan*

INTRODUCTION

The banking sector in India has undergone for reaching changes in terms of coverage, credit disbursement and banking technology in providing the banking services during the last four decades .The nationalization of 14 commercial banks in1969 was a major landmark in the journey of Indian banking towards mass banking from class mitigating to some e relent the regional inequalities in the availabity of banking services. Thousands of new banking centers even in remote villages stated appearing on the banking map of the country. Institutional innovations in rural credit delivery system were introduced. But it was realized that the banking system in yet to reach a wide section of the population both in rural and urban areas.

With the opening of branches both in rural and urban centers, the number of bank customers has increased substantially the number of savings bank accounts has increased from 2.36 crore in 1971, to 42.91 crore as on march 2008, according to the latest data available. The total number of deposit accounts is 58.16 crore. While the urban and metropolitan branches have 18.29 crore saving banks accounts, the rural branches handle 13.30 crore accounts and semi-urban branches have 11.32 crore accounts (RBI 2009).

RESEARCH METHODOLOGY:-

This study is based on a review of key literature and descriptive analysis of secondary data.

OBJECTIVES:-

1) To highlight the concept & Definition of financial inclusion.
2) To highlight Recent Thrust on Financial Inclusion
3) To highlight financial inclusion strategies in different countries.

HYPOTHESIS:-

1) Financial inclusion a need of Economics Development.

RECENT THRUST ON FINANCIAL INCLUSION

The governor of reserve bank of India in the Annual policy statement for 2006-7 announced two of the major policy prescriptions relating to the need for improving the rural credit delivery mechanism. Recognizing the need for enlarging the coverage of rural household and enhance the scope and content of rural credit, banks have been advised to initiate action in these areas. Achieving 100 percent finamation of grassroots level agency for counseling the debt –ridden farmers is distress were the two significant programmers emerging from the policy statement for initiating the necessary steps to achieve financial inclusion. in SLBC conveners in all states and union territories would be advised to identify at least one district in their area for achieving 100 percent financial inclusion by providing a no-frills account and a lines of the initiative taken in Pondicherry since then, banks have been directed to extend their services to ensure 100 percent financial inclusions, at least in some selected districts to begin with.

Bank embarked upon a massive programme for reaching out to the hitherto unreached persons by opening their savings bank accounts. To hasten to the process of enrolling new customers pertaining to the minimum balance to be maintained in the account. Zero balance savings bank accounts were introduced by banks. Some which were mercilessly charging earlier a fine for defaults charging earlier a fine for defaults in maintaining minimum balance.

COMMITTEE ON FINANCIAL INCLUSION:

The government of India constituted a committee on financial inclusion under the chairmanship of Dr. C. Rangarajan on Jun 26, 2006 and its final report was submitted in January 2008. This committee has defined financial inclusion as the process of ensuring access to financial service and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income group at an affordable cost".

With a view to achieve financial inclusion in a holistic manner, it is essential to ensure that a range of financial service is available to every household these services are:

- Opening no-frills banking account for making and receiving payments.
- Operating savings bank accounts suited to the poor households.
- Offering money transfer facilities.
- Extending small loans for productive, personal and other purpose.
- Providing micro-insurance (life and non-life)

Opening a savings bank account is the first step in introducing individuals to the banks. Illiteracy and lack of awareness of banking transactions, coupled with meager income, almost compel the rural poor to remain away from the banks. And often the banks also do not care to initiate steps to bring such people to the banking fold.it is therefore suggested that the banks should open no-frills accounts with very little amount of minimum opening balance or zero balance No-frills banking account enable the account holder to receive and make payments through the bank. The operational conditions of the savings bank account should be suited to the pattern of cash flows of poor household money to their village or to children studying in cities. Extension of small loans for productive purpose or for personal needs is one of the most essential ingredients of financial inclusion providing micro-insurance, both life and non-life, in another very important service banks can undertake in the rural areas.

The recommendations of the committee include the following.

1. Launching of a **National Rural financial inclusion plan (NRFIP)** in mission mode with a target to provide access to comprehensive financial services, including credit, to at least 50 percent (Say 55.77 million) of the financially excluded rural cultivator / non cultivator households. By 2012 through rural/semi urban

branches of commercial banks and regional rural banks. The remaining households have to be covered by 2015.

2. For the purpose, a **National Mission on financial inclusion (NaMFI)** is proposed to be constituted comprising financial inclusion within a specific timeframe.

3. **Constitution of two fund with NABARD:-**

- Financial inclusion promotion and Development fund (FIPF) this fund will focus on interventions like, "farmers' service groups and their federations '' "developing human resources of banks" promotion of resource centers '' and capacity building of business facilitators and correspondents."
- Financial inclusion Technology fund (FITF) with an initial corps of RS 500 crore each to be contributed by Government of India /RBI/NABARD. This fund will focus on funding of low- cost technology solutions. (This recommendation has already been accepted Government of India).

4. **Deepening the outreach of microfinance programme through financing of SHG/JLG (Joint Liability Groups)** and setting of a risk mitigation mechanism for lending to small marginal farmers/tenant farmers through JLG.

FINANCIAL INCLUSION CONCEPTUAL FRAMEWORK

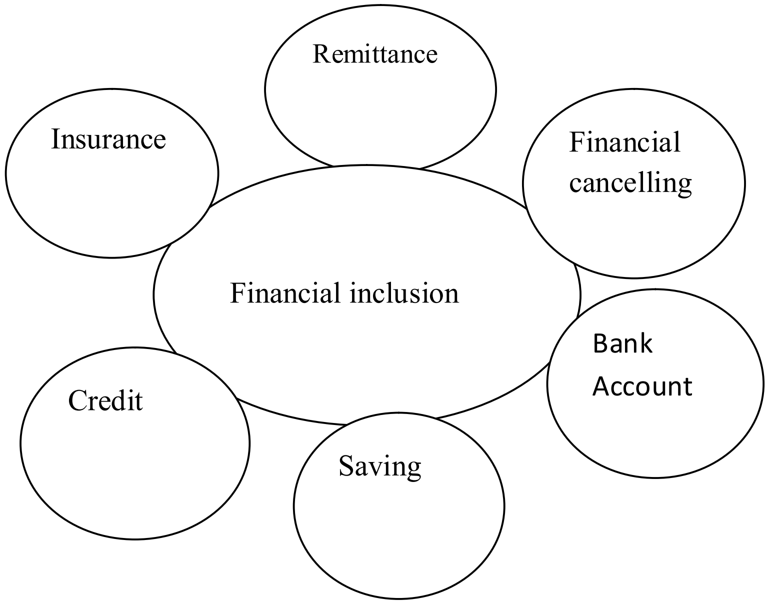
Financial inclusion has recently become the buzzword among the policymakers and bankers and bankers in academic research it is considered as an integral part of the efforts to promote inclusive economic growth access to safe, easy and affordable financial services for poor, vulnerable groups, disadvantaged areas and lagging sectors is a sine qua non for accelerated growth and for reducing income disparities and poverty In fact, access to affordable finance enables economic activities and to take advantage of growth opportunities.

A cleated definition and understanding the various dimension of financial inclusion and understanding the various dimensions of financial inclusion is, therefore, considered crucial for identifying underlying factors that lead to financial exclusion and developing an appropriate policy framework for policy intervention. In this paper , an attempt is made to look in to the conceptual and measurement problems involved in providing a broad framework to empirically examine the provision of financial services based on the conceptual framework, an attempt is also made to identify the factors contributing to financial inclusion and strategies adopted in different countries as a backdrop for the study.

CONCEPT AND DEFINITION

Financial services or products provided by banks, finance companies, postal saving banks, credit unions, insurance companies and microfinance institutions and other formal financial institutions generally from the Basis for financial inclusion. The financial services rendered by the informal sources such as moneylenders, traders etc., do not come under the purview of financial inclusion as they are limited in supply and exploitative in nature. The formal financial institutions help mobilize savings and efficient allocation of founds for development. In addition, they provide payment services that facilitate the exchange of goods and services. Efficient and well-functioning financial institutions are, thus crucial in channeling founds to the most productive uses and thereby boosting economic growth.

Despite critical importance of access to financial services from formal financial services from formal financial system. It is estimated-that globally over two billion people are currently excluded from the access to financial services (UN, 2006) They normally depend on their own limited resources or informal sources of finance at exorbitantly exploitative terms unless the financial system is inclusive, the benefit of financial services is likely to elude many individuals and enterprises and thereby, denying much of the population the benefit of growth opportunities.



Sources: Report of the Rangrajan Committee on Financial Inclusion.

FINANCIAL INCLUSION STRATEGIES IN DIFFERENT COUNTRIES:-

The problem of financial exclusion is a global phenomenon globally over two billion population are found excluded from access to financial services in landmark research work titled “Building inclusive financial sectors for Development” the UN had raised the basic question “ why are so many bankable people unbanked”?(UN 2006)

In most developing countries, financial services are only available to a minority of the population. The financially excluded outnumber the financially included. The situation is worse in the least developed countries particularly sub-Saharan African countries, where more than 80 percent of the population is excluded from access to formal financial system. The problem of financial exclusion is also found even in several developed countries to the extent of 10 to 20 percent the population “financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the under- developed, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives. Instead of a selected few: (UN 2006).

Tom Easton (2005) in a study using the World Bank data relating to 54 countries (excluding India), has shown a positive correlation bet the GDP per capita and the financial inclusion in terms of the percentage of households having bank accounts. Bangladesh has the lowest percentage of household having access to banks less than 5 percent. Thailand and Malaysia, though not very rich in terms of per capita GDP having rations of 49 percent and 60 percent banking penetration respectively Singapore the city state the distinction of having almost 100 percent access to banking facilities. In Brazil, it is less than 30 percent and Russia has it less than 20 percent.

Historically, the problem of financial exclusion was tackled mainly on supply side in different countries broadly governments in different countries intervened in two ways.

- Through state-driven intervention by way of enacting appropriate statutory instruments.
- Through voluntary effect by the banking institutions to provide afford ate banking services to all without discrimination.

The measures undertaken include nationalization of private banks, promoting specialized banks including national savings banks. Concessional lending to low-income groups, enactment of legislations defining the right of access to formal banking services and promoting community-based savings and credit societies and mutual saving banks most Asian and African countries resorted to nationalization of private banks to expand banking services to the excluded and established specialized state-owned banks to serve low-income segments. The strategies adopted included inter alia expansion of branch networks and promotion of micro-finance institutions and self-help groups. In Bangladesh, the establishment of grameen bank played the lead role in pushing the frontier of finance for the poor.

The developed countries have also initiated specific measures to bring financially excluded people within the fold of financial system. The measures adopted, among others, include legislation backed norms, voluntary code of practices basic bank accounts and subsidized accounts for the low-income groups in UK, one out of 12 households does not have bank account with any bank. A Treasury committee on financial inclusion set up in 2006, identified three priority areas for the purpose of financial inclusion, namely access to banking services, access to affordable credit and access to free face-to face money advice.

Among the initiatives taken to promote financial inclusion include:

1) Establishment of financial inclusion found of UK pound 120 million to support initiatives to take financial exclusion.
2) Set up a fund of UK pound 45 million for free face-to-face money advice targeted in areas of high financial exclusion the found is administered by the Department of trade and industry (DTI) and the face advice is provided by citizen's advice bureau, community development groups etc.
3) Assignment of responsibility to banks and credit unions to remove financial exclusion.
4) Introduction of no-frills basic bank account and 24 hours basic banking services.
5) Creation of post office current account for those unable or unwilling to access a basic bank account.
6) Introduction of a savings gateway for those on low-income employment under this arrangement, for every UK pound saved by those on low-income employment, the state will contribute an equivalent UK pound subject to limit up to UK pound 25 per month.

CONCLUSION:-

All these clearly show that in both developing and developing and developed countries, the financial inclusion was recognized as an important instrument for socioeconomic development of the poor and disadvantaged group. As banking services are considered as quasi-public good, it is essential that availability of banking services to the entire population without discrimination should constitute one of the prime objectives of the banking policy. To this end, strategies for building inclusive financial system have to be creative, flexible and appropriate to the national situation. Various proactive and positive actions have been initiated in this direction by the direction by the governments in different countries worldwide; which can be used to drown lessons for policy formulation on financial inclusion in the Indian context.

It may be expedient to remember that even in the developed countries having advanced banking facilities; hundred per cent financial inclusion has not been achieved in the real sense of the term. This however, should not deter us from planning for achieving total financial inclusion, adopting programme compatible with the diversities prevalent in the India.

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