FINANCIAL INCLUSION-AN OVERVIEW

Dr. (Mrs.) Vrinda V. Nishandar

Birla College, Kalyan.

Abstract : Financial inclusion may 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

INTRODUCTION

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

OBJECTIVE OF THE STUDY

To study of financial inclusion
To study initiatives taken by RBI

DATA COLLECTED FROM SECONDARY SOURCES

Financial inclusion is the process of ensuring access to financial services and sufficient credit where and when needed by underprivileged groups such as weaker sections and low earning groups at a reasonable cost. In other words, financial inclusion means the delivery of banking services and credit at a reasonable cost to the vast sections of deprived and low income groups. The banking industry in India has shown tremendous increase in volume and coverage during the last four decades. However, in spite of making significant improvement in the areas relating to financial feasibility, effectiveness and competitiveness, still there are concerns about the presence of financial exclusion.

According to the latest World Bank estimates, there are still around 2.5 billion people in the world who do not have a bank account. Global Findex data for 2012 reveal that only around 50% of adults (people aged 15 and above) in the world have at least one bank account in the formal financial system. However, this percentage of individuals with a bank account varies considerably between developed and developing countries. In developing countries, banking penetration rates are far below the average. In Africa, the percentage of adults with a bank account is 20%, and in Latin America 39%. The problem of involuntary financial exclusion requires intervention to address market failures such as asymmetric information, lack of competition in the markets or insufficient infrastructure. These failures make it difficult for certain population groups, low-income groups or those who have traditionally been more vulnerable, such as women, young people or people who live in rural areas, to use formal financial services.

WORLD BANK 'FINANCIALACCESS SURVEY' RESULTS

From the table given below, it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, and bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world. Government of India Population Census 2011 As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas

Select indicators of financial inclusions, 2011.

Sr. No	country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
	Country	Per 1000 KM		Per o.1 million		As % to GDP	
1	India	30.43	25.43	10.64	8.9	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
6	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
7	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
8	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
9	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
10	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
11	UK	52.87	260.97	24.87	122.77	406.54	445.86
12	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
13	France	40.22	106.22	41.58	109.8	34.77	42.85
14	Shri Lanka	41.81	35.72	16.73	14.29	45.72	42.64

Source: Financial Access survey, IMF; figures in respect of UK is shown as on 2010

Financial inclusion includes accessing of financial products and services like: saving facility, credit card and debit card access, Electronic fund transfer, all kinds of commercial loans, overdraft facility, cheque facility, payment and remittance services, low cost financial services, financial advice, pension for old age and investments schemes, access to financial markets, micro credit during emergency, entrepreneurial credit etc.

SOME OF THE INITIATIVE TAKEN BY RESERVE BANK OF INDIA (RBI) INCLUDES:

No-Frill accounts: In November 2005, RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. Normally, the savings account requires people to maintain a minimum balance and most banks now even offer various facilities with the same. No-frills account requires no (or negligible) balance and is without any other facilities leading to lower costs both for the bank and the individual. The number of no-frills account has increased mainly in public sector banks from about 0.4 million to 6 million between March 2006 and March 2007.

The number of No-frill accounts in private sector banks also increased from 0.2 million to 1 million in the same period. No significant increases were there in foreign banks. This is understandably so as majority of rural and sub-urban bank offices are in public sector banks.

Usage of Regional language: The Banks were required to provide all the material related to opening accounts, disclosures etc in the regional languages.

Simple KYC Norms: In order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the KYC procedure for opening accounts has been simplified for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs.1,00,000/-) in a year.

Easier Credit facilities: Banks have been asked to consider introducing General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches. GCC is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. The limit for the purpose can be set Based on assessment of household cash flows; the limits are sanctioned without insistence on security or purpose. The Interest rate on the facility is completely deregulated. A simplified mechanism for one-time settlement of overdue loans up to Rs.25,000/- has been suggested for adoption. Banks have been specifically advised that borrowers with loans settled under the one time settlement scheme will be eligible to re-access the formal financial system for fresh credit.

Other rural intermediaries: Banks were permitted in January 2006, to use other rural organisations like Non- governmental organizations, self-help groups, micro-finance institutions etc for furthering the cause of financial inclusion.

Using Information Technology: A few Pilot projects have been initiated to test how technology can be used to increase financial inclusion.

Few important measures are:

- ✶ Smart cards for opening bank accounts with biometric identification;
- ✶ Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.
- ✶ Some State Governments are routing social security payments as also payments under the National Rural Employment Guarantee Scheme through such smart cards. The same delivery channel can be used to provide other financial services like low cost remittances and insurance.
- ✶ The use of IT also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up.

Financial Education: RBI has taken number of measures to increase financial literacy in the country. It has set up a multilingual website in 13 languages explaining about banking, money etc. It has started putting up comic strips to explain various difficult subjects like importance of saving, RBI's functions etc. These comics explain myriad and complex concepts in an entertaining manner.

RECENT MEASURES –

Licensing of New Banks: The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

Discussion Paper on Banking Structure in India – The Way Forward: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014

with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority".
On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

FINANCIAL EXCLUSION

Now we focus on the segment of the population which is financially excluded, so they do not use formal financial services. This exclusion can be either voluntary or involuntary, and it is connected with the difference between access and use. There are people who decide not to use formal financial services, either because they do not need them or because they have alternative preferred options. Unfortunately, there is scant information about these self-excluded people. Alternatively, there are those with an effective demand for formal financial services who face market failures so they are involuntarily excluded. Market failures could make that individuals for whom the marginal benefit is greater than its marginal cost, are excluded. Access to formal financial services is mostly related to supply, while use is determined by both supply and demand. We are interested in studying common patterns of those individuals who do not use or access formal financial services because they are prevented by some sort of barrier.

SUGGESTIONS

It is found that large no of population and rural house holds of India do not have access to banking and other financial services. So GOI and RBI have taken various initiatives. Many obstacles are there in the way of promoting and achieving financial inclusion for building customer awareness. E- banking and mobile banking training should be conducted. New bank branches have been opened and new ATMs have been installed for the purpose of achieving financial inclusion. The banks need to redesign their business strategies to incorporate specific plan to incorporate financial inclusion of low income group treating it both a business opportunity as well as social responsibility.

CONCLUSION

Although a lot of work has already been done, there is still a long way for FI to go in Peru. The information for implementing inclusive strategies needs a strong commitment from both public and private institutions, working together to achieve the goals. Better financial information, including behavioural issues, for households and enterprises is essential to make progress. The development of specific FI surveys could be an important tool to help in the design of policies to create incentives to include enterprises and households in the formal financial system, and to mitigate market failures that limit access to banking. financial inclusion is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

Financial inclusion is a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them.

REFERENCES:

1.Financial inclusion in India –an assessment
(speech delivered by Shri P. Vijaya Bhaskar, Executive Director, Reserve Bank of India at the MFIN and Acess-Assist Summit organized in New Delhi on December 2013)
http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862
2.Factors that Matter for Financial Inclusion: Evidence from Peru retrived from http://socialprotectionet.org/sites/default/files/factors_that.pdf
3.http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862
4.EMPOWERING FINANCIAL INCLUSION THROUGH FINANCIAL LITERACY http://www.skoch .in/images/29/BalashriShankaJalgar.pdf