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FINANCIAL INCLUSION IN INDIA"- A REVIEW ON INITIATIVES AND ACHIEVEMENTS

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Abstract

Finance is an integral part of every financial system in an economy. Both developing and underdeveloped nations need a strong financial system as it plays a crucial role in the overall improvement of their economy. In this perspective financial inclusion helps the nations to build a strong financial system in the economy. The Government, RBI, Financial institutions and other regulatory bodies are striving towards achieving financial inclusion by adopting and implementing various strategies and approaches. In this research paper the researchers had made an attempt to understand and analyse the approaches and initiatives taken by the Indian government to achieve financial inclusion in India. The paper also focuses on comparing the past performances and achievements towards achieving financial Inclusion in India. The information required for the research study has collected from RBI websites, Journals, and research articles on financial inclusion.

Key terms*: Financial Inclusion, Financial System, RBI, Financial exclusion*

Introduction

Economic development in any country is possible only when there is an active participation from all sections of the society. When small or marginal farmers and weaker section of the society finds difficult to get access to the financial services in the country It might turn to be a great threat to the all the developing nation. In the current scenario of banking it is quite noticeable that there are are lot of technological changes have taken place transforming banking from brick-and-mortar infrastructure consisting staffed branches to a system accompanied by other facilities and technologies such as automated teller machines (ATM), plastic money, online fund transfers, money transfers using various applications etc. However the most considerable point here is that these technologies seems to be constrained only to certain group of people in the society as people living on low incomes are not availing mainstream banking products and financial services such as opening bank, various kinds deposits offered by the bank, credit facilities at reasonable rates, insurance products etc.,

several research reports and surveys which are conducted on the banking industry have clearly proven that majority of population in the country is not able to get all the to basic banking facilities and financial services offered by the banking Industry. This kind of a scenario is existing not only in India but also in the whole world, this is termed as "financial exclusion". In other words, financial inclusion is the delivery of all banking and financial

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services at affordable costs to a large section of disadvantaged and low-income groups in the society. It is very important for every nation to keep provision of banking and financial services to all the section of the society as prime objective of public policy. The term "financial inclusion" has increased importance since the early 2000s, and is a result of judgments about financial and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations (Divya Joseph 2014).

Statement of the Problem

In Today's Scenario the Financial inclusion is gaining greater momentum as the various regulatory bodies, Financial Institutions, both central and state government are working intensively towards attaining inclusive growth through financial inclusion. The Present study focuses on the topic "Financial Inclusion in India"- A Review on Initiatives and Achievements".

Objectives of the study

The specific objectives of the Research paper are as follows

1. To understand the concept and importance of Inclusive growth
2. To critically evaluate the role played by the financial Inclusion in achieving inclusive growth
3. To understand the extent of financial exclusion in India.
4. To evaluate the approaches, strategies adopted by the banking institutions and steps taken by RBI and government in achieving financial inclusion.
5. To Analyze the achievements and performances of the government in reaching out to the unbaked areas under financial inclusion.

Review of Literature

1. Charan sing and Gopal Nayak (May 2017) In their research study they have mentioned about the importance of Financial Inclusion in India as it provides universal access to extensive range of financial and banking product at a an reasonable cost. The Research study also focused on the various modes through which the weaker section of the society, farmers low income group get complete access to the financial services which are available in India.
2. Radhika Dixiti & Munmun Ghosh(2013) In their research article they concluded that the strategies and mechanism adopted by the government agencies both at the central and state level are not efficient and effective enough to provide sustainability or viability perspectives and appropriate business models for achieving financial

inclusion. They also suggested that more efforts should be taken by the government to encounter the staggering issue of financial exclusion. Therefore, all the stakeholders such as regulatory authorities, banking institutions, Government, NGOs of various sectors should work towards achieving co-ordination to develop or design customized solution to address the challenges and issues of financial exclusion.

3. Divya Jospeh(2014) In her research paper she studied that there is a drastic transformation in the last ten years in the field of banking and other financial sector to overcome the problem of financial exclusion in India.The Framework of policy has been framed out of the discussion and debate on inclusive process. large number of Initiatives have been implemented by the Government to put these policies to effect. She also emphasized on the importance of bringing all the category of the people to the framework of Financial Inclusion as nobody should be deprived of the any of the financial services available in the Country.
4. Dr. Anupama Sharma, Ms. Sumita Kukreja (2013) In their research study they opined that In order to stand out on a global platform India has to focus on inclusive growth and this could be achieved through inclusive growth. According to K. C. Chakrabarty former RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population doesn't have access to formal financial services and are largely dependent on money lenders". They also mentioned in their research study that only opening no-frill bank accounts should not be the prime objective or ultimate solution to the problems. Financial institutions in the country should gain confidence and trust of the weaker section of the society by developing the strong linkages with community-based financial ventures and cooperative. They concluded that the government is playing a prominent role in achieving the desired result even though there is a long way to achieve the financial inclusion as it is not yet yielded the desired result.
5. N.Ramu(2014): in his research study he highlighted that India has the second largest number of people who are excluded from the financial services available in the country. Both government and RBI had taken lot of Initiatives and measures to address the various issues and challenges of financial exclusion. Ultimately the researcher suggested that government should make an effort on tapping the informal savings of the unbanked community for utilizing it for the development of the economy.

6. Dr. Sayantani Roy Choudary, Debhargya Bagchi (2106): The research study emphasized on the basic reasons for financial exclusion in developing country like India. The study has been concentrated on the study has been on the different regions of West Bengal, India to understand the relationship between family's saving habit, education and region which makes magnificent impact on the financial exclusion.

Concept of Financial Exclusion

When people encounter difficulties in accessing or availing financial services and products in the mainstream financial market which satisfy all their financial needs such scenario in the country can be termed as financial exclusion. In other words, financial exclusion will not enable people to lead normal social life in the society. financial exclusion apparently reveals that it is the ccombinations of inaccessibility by certain groups of people like the tribes and certain segment of people in other region of urban areas. To describe it in easy form, financial excluded person is one who does not hold neither a saving bank account or a loan account with a any of the formal financial institution most likely a banking institution.

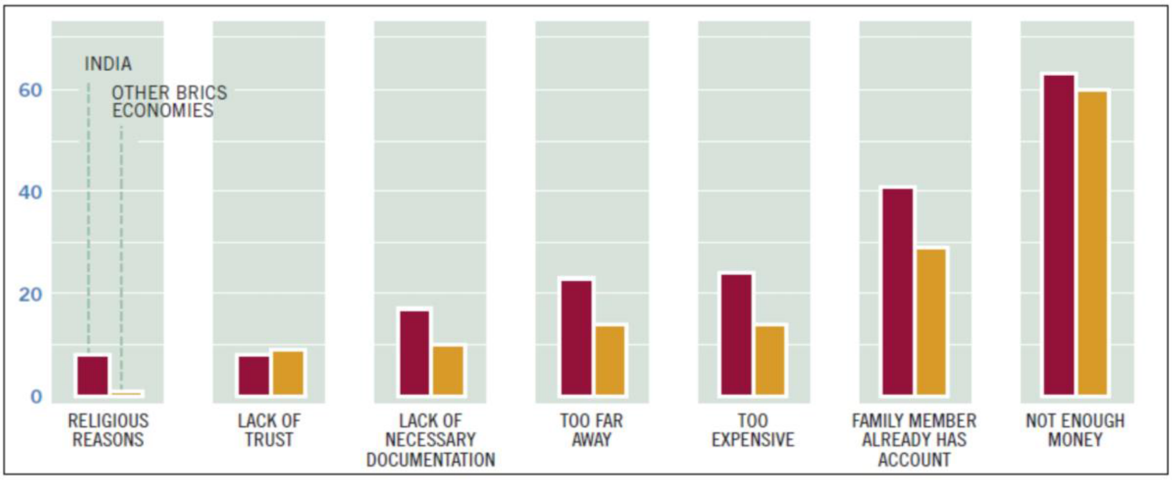
Extent to financial Exclusion in Globally

The recent studies on financial inclusion has disclosed that the concept Financial inclusion is gaining momentum globally as their lot of people have access to mobile phones and the internet, but gains have been uneven across countries. A new World Bank report on the use of financial services also revealed that men remain more likely than women to have an account. It is been disclosed that 69 percent of adults have an account in a bank. This is raised 69 percent in 2014 and just 51 percent in 2011. From 2014 to 2017, 515 million adults obtained an account, and 1.2 billion have done so since 2011, according to the Global Finder database.

Extent to financial Exclusion in India:

The Reserve Bank of India's Internal Working Group (IWG) had appraised the agricultural credit headed by Deputy Governor MK Jain has elevated several concerns on the farm front as lakhs of small and marginal farmers (SMF) are yet to be shielded by the banking system. The RBI panel had said that even though several Initiatives and schemes have been designed to achieve financial inclusion only 40.90 per cent of SMF could be covered by the scheduled commercial banks (SCBs). On the other hand, the working group has extended the concerns over SMF seeking funds outside the banking system. The RBI panel also mentioned that a significant portion, approximately 30 per cent of agricultural households, still avail credit facilities from non-institutional sources.

Figure 1: Self - reported barriers to use of formal accounts
Non- account holder reporting barrier as a reason for not having an account (%)



Source: Demirguc-Kunt, Asli; Klapper, Leora; Randall, Douglas, The Global Findex Database: financial inclusion in India

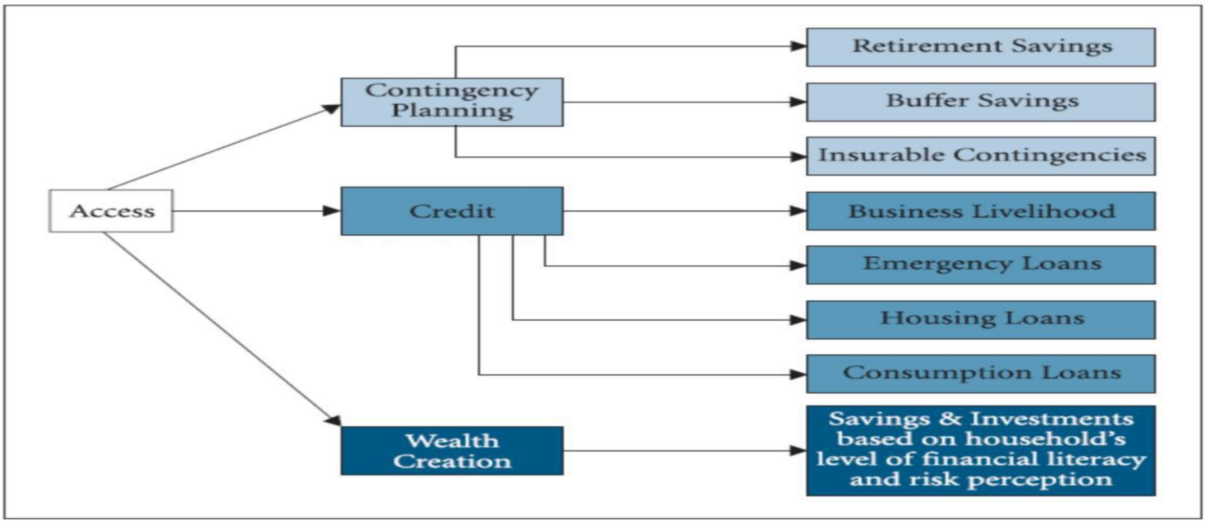
Note: Respondents could choose more than one reason. Other BRICS economies comprises Brazil, Russia, China, South Africa.

Financial Inclusion:

Concept and Definition Financial Inclusion:

Providing adequate and timely financial credit facilities to the most vulnerable or low income group at an reasonable cost can be described as financial inclusion.The committee has been framed on Financial Sector Reforms, headed by Chairman Dr. Raghuram G. Rajan defined as financial inclusion as "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 Below picture depicts the Household access to the various financial services.

Figure 2: Household Access to Financial Services



Source: A Hundred Small Steps a Report of the Committee on Financial sector reforms by **Raghuram G. Rajan**

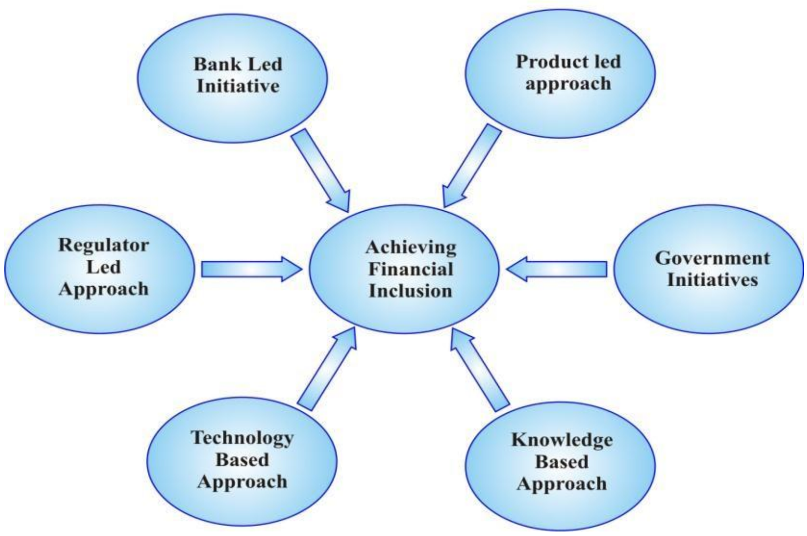
5.2 **Importance of financial inclusion:**

Effortless access to financial services would allow the population living in lower strata, to save money securely and also helps in preventing economy from permitting concentration of economic power in the hands of few individuals, thus eradicating the risks that the poor could face as a result of economic shocks. Therefore, providing access to financial services is becoming an area of concern for the policymakers as it has far reaching economic and social repercussions. Many research studies have disclosed that the most repeatedly used sources of loan medium Indian household is still moneylender. Major portion of our financial system are still hampered by political intervention and bureaucratic restrictions, limiting their potential contribution. In India poor, many of who work as agricultural and unskilled semi-skilled wage labours and low salaried workers are essentially excluded from the formal financial system. Even micro and small enterprises, find it challenging to have an access to formal sources of finance and thus are largely excluded from financial system. Over 40% of India working population earn but have no saving. Financial inclusion provides protection to poor from the control of the unauthentic money lenders.

Various approaches to achieve financial inclusion:

The various Approaches adopted by Regulator and government in attaining financial inclusion plan has been depicted in Figure 3

Figure 3: Financial Inclusion : Currently adopted Approaches



Product Based Approach: Reserve bank of India has been pre-emptive, generous and helpful in constructing policies in order to enable the financial institutions to develop the advanced products for facilitating a each and every customer to avail the benefit of the financial inclusion plan. Some of the financial products developed for the accomplishment of this approach have been cited in this paper.

No- Frills Account (NFAs):- This plan was initiated by RBI in November 2005 in order to permit access to financially excluded community to basic banking services. Under this arrangement banks allow public to open accounts with zero balance or very minimum balance requirement. In the year 2012, under RBI guidelines banks have implemented a improved version of the no-frill accounts where the people are allowed to open Basic Savings Bank Deposit Accounts (BSBDAs). These saving Bank account also provided various facilities and services to the account holder such as cheque book, passbook, ATM card, internet banking, and overdraft facility with limits at nominal charges. Nevertheless, the number of transactions could be restricted so as to prevent embezzlement of such accounts.

Kisan Credit cards (KCCs):- Under this scheme single window banking system is designed to deliver smart cards to the farmers for providing appropriate and sufficient credit support from for their agricultural needs. During the financial year 2018-19 both public sector and private sector banks together have issued 66.2 million smart cards as KCCs.

General Purpose Credit Cards (GCC):-General Purpose Credit Card (GCC) have been delivered by the banking institutions in the year 2005 under the guidelines of RBI. This card would allow the rural and semi urban citizens to avail credit up to 25,000 without surrendering any collateral security considering only household cash flow. But now as per the new guidelines issued in the year Dec 2013 banks can also fulfil Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver‟s Card etc) There will be no upper limit on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector.Security norms will be appropriate as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

Saving account with Overdraft facility: -In these days all the Banks have started to focus on providing overdraft (OD) facility to the saving bank account holders and also Small Overdrafts facility to No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

Bank Led approach:

Self Help Group - Bank Led Initiative (SLBP):- The SLBP or Self Help Group Bank Linkage Program has been the chief institutional based innovation in India for enabling access and covering the gap of reaching financially excluded population of the country in the last two decades. Under this scheme the banks try to pool up the savings by focusing on a group of local people. Once the saving bank account is opened banks will provide certain amount of credit facility against such deposits. The group takes a decision to whether to lend credit to any member of the group. Formulating the framework, accounting services and support to the group to manage their deposits and lending are completely done by the bank. Thus the model focuses on the approach of savings first, and then lending later. The banks do not have a risk in such lending as the borrower's reputation and peer pressure in the group would reduce the risk of bad loans considerably.

Business Facilitators (BFs)/Business Correspondents (BCs):- This model is designed completely based on ICT as the middlemen or intermediaries are trained with advanced and required technology in order to deliver financial products and services to the needy people Even though the model was primarily created by the banks themselves and in the later stages with improvisations and RBI policy support, the model is now capable of bridging the connectivity gap between the service seekers and the service providers.

Regulatory Approach:

i. **Simplified KYC Norms**: - Number of documents to be provided by the customer for opening an account in bank under present KYC norms.. However, the people living in rural or remote areas finding difficult to fulfil these norms. In order to enable the bank to explore this opportunity rural areas or unbanked areas and also to fulfill the objective of financial inclusion, RBI has relaxed a number of norms for opening the accounts by the people. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.

ii. **Bank branch authorization**: - RBI has deviated its usual norms by allowing banks to open branches in tier 3 to 6 city, towns, or villages without taking authorization. This would permit the government, regulators and the banking institutions to speed up the effort for financial inclusion and this make accessible to the financial services by the unbanked population of the country.

Technology Based approach:

i. **Mobile Banking: -** In order to harness the full power of technology, the banks have tied up with mobile operators to provide various financial services like payment of bills to various agencies. Online fund transfer, online ticket booking, shopping through e-commerce etc. Some examples of this model are m-Pesa by Vodafone and Airtel Money.

ii. **Kiosk / ATM based banking**: - In some of the states, the state government has taken initiatives to provide kiosk based model to help people to get access to financial services. Even the banks have also used this technology to facilitate their ATMs to virtually act like a 24x7 branches.

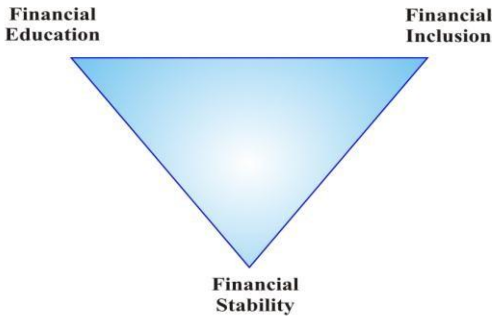
iii. **Branchless Banking:** - Some of the leading banks in India have introduced the concept where there will be a facility of online system with chat facility to assist the person to make use of various electronic machines for depositing and withdrawing cash and cheques. However this initiative is still in a very primary stage and has its own limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and therefore this concept is currently restricted to urban and semi-urban areas.

iv. **Aadhaar Enabled payment services**:- under this approach people of the country who are having Adhar number updated should be reported to RBI, as it simultaneously reported to other government department also. Whenever the payments to people working under initiatives like MGNREGA or various government subsidy schemes, the departments use this information for crediting the money directly to the beneficiary's account. This not only decreases the interruption in the benefits being received by the end user, but also lessens the chances of corruption in the distribution of the benefits under schemes.

Knowledge Based Approaches

The three important elements of Knowledge Based Approach are financial education, financial inclusion and financial stability. These elements focuses on developing fundamental strategy to empower people to make effective use of the financial services offered by the financial institutions in the country While financial inclusion works from supply side, financial education nourishes the demand side by encouraging awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together motivate superior financial stability.

Figure 4: The Financial Tripod



Government Initiatives:

The government, Regulatory bodies, Financial Institutions in the country have taken several measures and developed government promoted schemes to accomplish the objective of financial inclusion. Here are some of the Initiatives are enlisted below

i. **Swabhiman Campaign:** This scheme highlights the concept of "self-respect'. The main objective of this campaign is to instill "self-respect" and confidence among the people by creating awareness on the fiancial facilities available in the financial and banking sector in the country. This Campaign was introduced in the year 2004 on the recommendations of C. Rangrajan Committee. It is specially focuses on including rural into Banking Services and connecting them to the financial sector in India in a proper and organized way. Under this public is made aware of the benefits of financial services especially in rural areas.

ii. **Business correspondent Model**: under this model commission agents who are willing to offer financial and other banking services at every door step of the people at remote areas are appointed by the banks and other financial institutions. This process result in creating huge customer base at lower cost. Hence this model is also called as the cost-efficient model. These appointed agents would perform certain important functions such as identification of borrowers of credit, the collection of small value credit, a collection of interest and principal, the sale of micro insurance, pension schemes and products, mutual funds, other payment instruments, they also create awareness on the importance of savings and other financial products available in the country, very importantly they advise them on other financial aspects such as money management debt counselling and Banking.

iii. **Revamping of Lead Bank Scheme (LBS):** RBI Constituted A Committee of executive Directors to examine the efficacy of the Lead Bank Scheme and also to suggest the possible measures for the effective implementation of this scheme. On April 6, 2018, RBI issued guidelines on the revising of LBS Based on the Committee's recommendations to all State Level Bankers Committee (SLBC) Convenor Banks/Lead Banks, as also separately to all Lead Banks in order to enhance the effectiveness of Lead District Managers (LDMs) along with certain action points.

iv. **JAN DHAN Account-** This scheme is similar to BSBDA but with few more additional features. This scheme has been introduced in order to overcome the demerits of BSBDA. But after JHAN DHAN Yojana has been introduced this scenario has been completely changed as JHAN DHAN account holder is compulsorily issued RUPAY debit card and many more services. It certainly enable the financial institution to achieve financial inclusion and makes the bank account opening a cake walk to the customers.

Financial Inclusion Plans (FIPs)

In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs). These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts. The progress made by banks on such parameters under FIPs is given in the below table (RBI Report 2019)

Table No 1.Progress Under Financial inclusion Plans of scheduled Commercial banks and Regional Rural banks.

Particulars	16-Mar	17-Mar	18-Mar	19-Mar
Banking Outlets in Rural location – Branches	51,830	50,860	50,805	52,489
Banking Outlets in Rural location - Branchless mode	5,34,477	5,47,233	5,18,742	5,44,666
Banking outlets in Rural locations – Total	5,86,307	5,98,093	5,69,547	5,97,155
Urban locations covered through BCs	1,02,552	1,02,865	1,42,959	4,47,170
BSBDA - Through branches (No. in Million)	238	254	247	2,547
BSBDA - Through branches (Amt. in Billion)	474	691	731	87,765
BSBDA - Through BCs (No. in Million)	231	280	289	3,195
BSBDA - Through BCs (Amt. in Billion)	164	285	391	53,195
BSBDA - Total (No. in Million)	469	533	536	5,742
BSBDA - Total (Amt. in Billion)	638	977	1,121	1,40,960
OD facility availed in BSBDAs (No. in	9	9	6	59

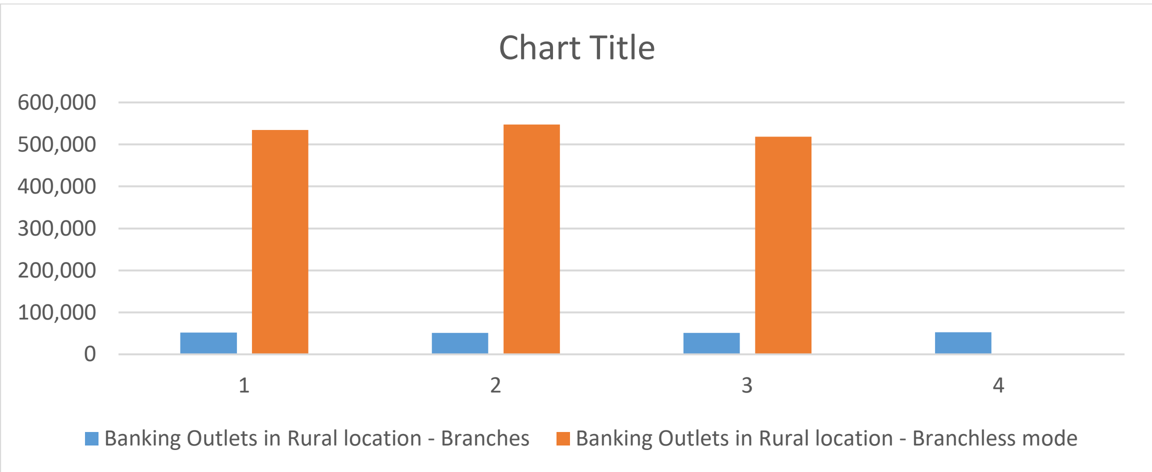
million)				
OD facility availed in BSBDAs (Amt. in Billion)	29	17	4	443
KCC - Total (No. in Million)	47	46	46	491
KCC - Total (Amt. in Billion)	5,131	5,805	6,096	6,68,044
GCC - Total (No. in Million)	11	13	12	120
GCC - Total (Amt. in Billion)	1,493	2,117	1,498	1,74,514
ICT-A/Cs-BC-Total number of transactions (in million)	827	1,159	1,489	21,019
ICT-A/Cs-BC-Total number of transactions (in billion)	1,687	2,652	4,292	5,91,347

Table2: **Banking outlets in Rural Location in Branches and outlets in Branches mode**

Banking Outlets in Rural location – Branches	51,830	50,860	50,805	52,489
Banking Outlets in Rural location - Branch less mode	5,34,477	5,47,233	5,18,742	5,44,666

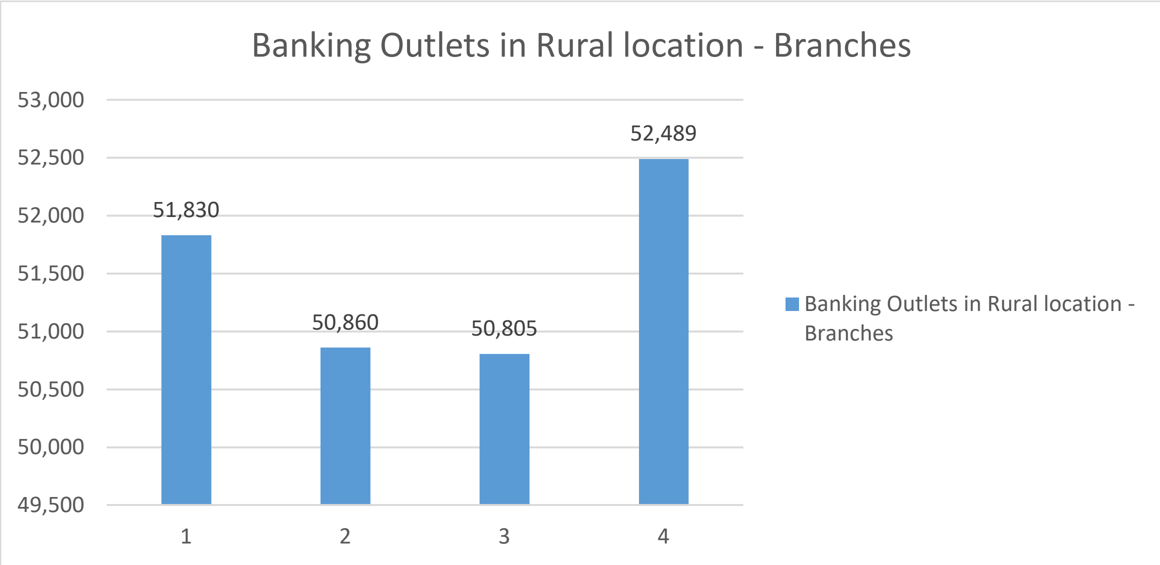
As RBI is devising intensive efforts to achieve financial inclusion, the number of bank branches and RRBs have been increased of from 51,830 in March 2016 to 52,489 in March 2019. Bank branches in the form of BCs has also been raised from 5,34,477 in March 2016 to 5,44,666 in March 2019 and other kinds of banking outlets in rural areas have also been increased from March 2016 to march 2013.(Figure 5)

Figure 5: **Banking outlets in Rural Location in Branches and outlets in Branches mode**



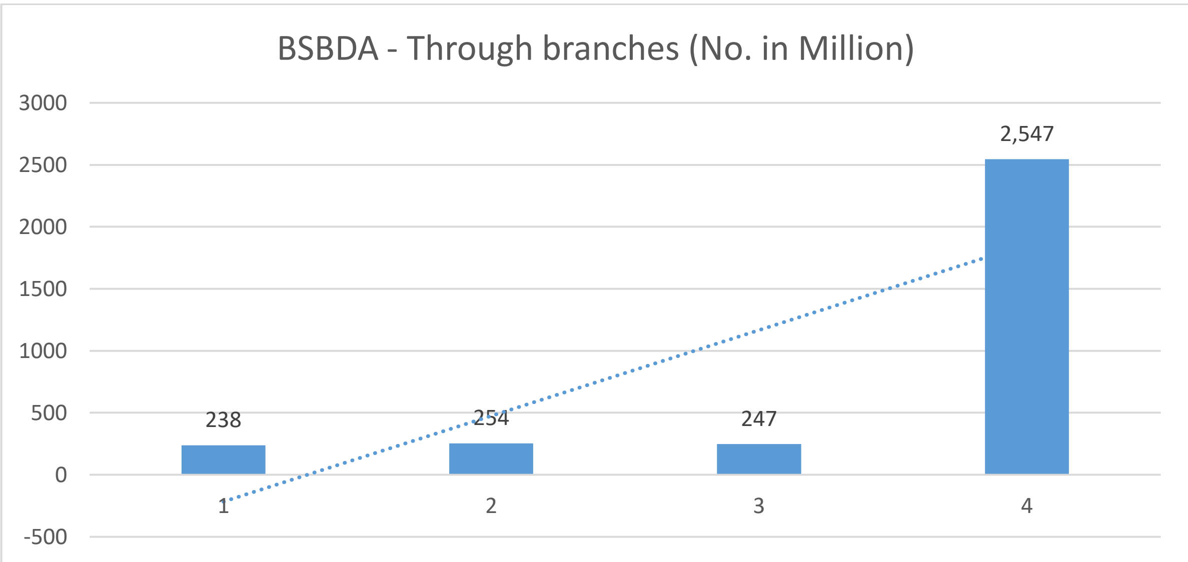
The number of banking outlets in rural location has been raised from 51,830 in March 2016 to 52,489 in March 2019 through the efforts of RRB,s SBs. The same is being depicted in **Figure**

Figure 6: Banking Outlets in Rural location - Branches



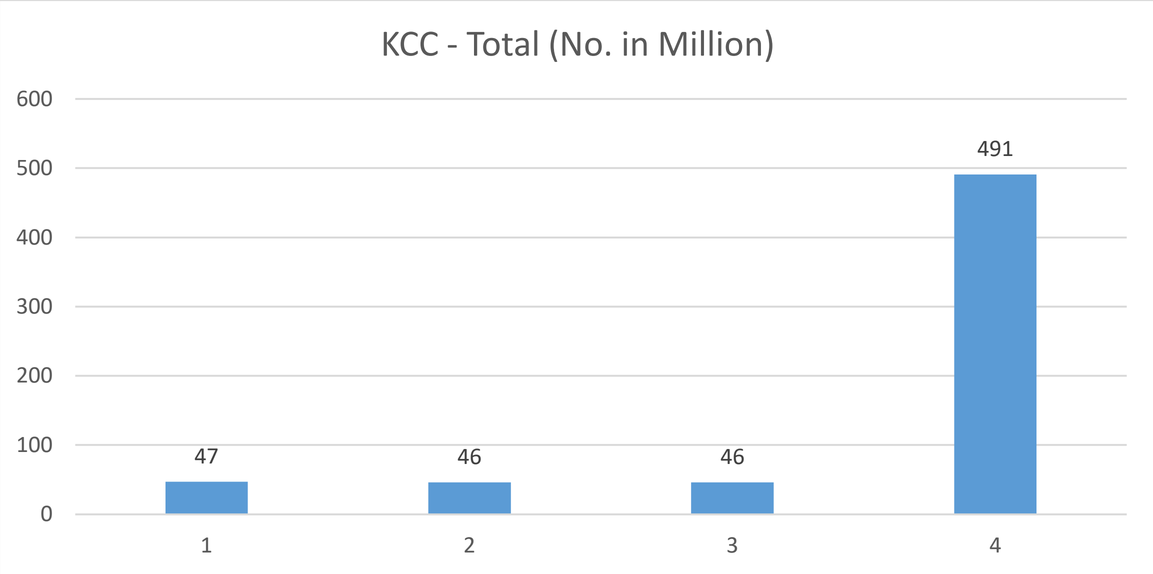
From the below table it is clear that the number of BSBD accounts opened is increased drastically from 238 million in March 2016 to 2547million in March 2019.The same information is being depicted in Figure 7.

Figure 7: BSBDA - Through branches (No. in Million)



Kisan Credit Cards (KCC) Issued:-

Smart cards have been issued by the RBI to enable farmers to avail timely and sufficient credit facilities to fulfill their financial needs under Financial inclusion.keeping this in mind



banks have issued 491 million KCCs Up to March 2019 and provided credit to the farmers.The same has been depicted in (Figure 8)

Conclusion

Even though many initiatives and measures are being taken by all the formal agencies such as RBI, SEBI and central Government and state government and others, the efforts are not yielding the desired results. The regulatory authorities has to create an appropriate regulatory environment which helps the country to satisfy the expectations of all the stakeholder in the society. The prime objective of the government to achieve viability and execution of government policies to the last mile needs to be addressed.

The easy accessibility of financial services to the each and every citizen in the country, by dividing them into tier 3 to tier 6 in wholeness needs to be achieved. The needs and expectations of the banking institution in India can be solved by implementing ICT, designing and introducing innovative financial products and service models that would fulfil the needs and expectations of the customers. A planned and systematic structured expansion and suitable regulatory norms should be developed in order to address the issues and challenges of banks in achieving financial Inclusion. Inclusive of NBFCs, MFI and SHG would surely help people to access financial services and this could also resolve the various concerns. Ultimately all the efforts and strategies made by the government should be capable of achieving financial inclusion in India.

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