FINANCIAL INCLUSION: AN OVERVIEW

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Abstract : The growth of any economy depends on its capability to channelize the resources from top to bottom. Financial inclusion is one alternative way which aims at capitalizing the resources from rich to poor and from urban to rural people. Financial inclusion means providing banking and financial services to rural population of India at an affordable and fair rate. The Reserve Bank of India setup a Commission (Khan Commission) in 2004 to look into financial inclusion and the recommendation of the committee was incorporated in the Mid-term review of the policy (2005-2006). The paper aims to overview the financial inclusion in India and the steps taken by RBI to implement the policies for financial inclusion. The paper also suggest the problem facing Financial Inclusion.

Keywords: Financial inclusions, Policy initiatives, Direct benefit transfer.

INTRODUCTION

There is a close relation between economic growth and financial development. The importance of financial inclusion is realized worldwide. An inclusive financial system is desirable for many reasons such as allocation of productive resources, access to financial services can improve the day to day management of finances, and will also to help reduce the informal growth of financial resources which tend to be more exploitative. Thus all inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

The Rangarajan committee 2008 defines Financial inclusion "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost" Financial inclusion is a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy.

OBJECTIVES OF THE STUDY:

- ♦ The research paper aims to achieve the following objective in the course of research:
- ♦ To study the steps taken by RBI to implement Financial Inclusions.
- ♦ To study steps taken by selected banks to implement Financial Inclusion.
- ♦ To study the current status of Financial Inclusion in India.
- ♦ To study problems faced in implementation of Financial Inclusion.

RESEARCH METHODOLOGY:

The methodology used for this paper is exploratory in nature and is based on information collected from secondary sources.

FINANCIAL INCLUSION – RBI POLICY INITIATIVES

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

BOX: FINANCIAL INCLUSION INITIATIVES:

- Advised all banks to open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels.
- Relaxed and simplified KYC norms to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year.
- Simplified Branch Authorization Policy, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centers, subject to certain conditions.
- Compulsory Requirement of Opening Branches in Un-banked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- Opening of intermediate brick and mortar structure, for effective cash management, documentation, and redressal of customer grievances and close supervision of BC operations, banks has been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.
- Banks have been advised that their FIPs should be disaggregated and percolated down up to the branch level. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- In June 2012, revised guidelines on Financial Literacy Centres (FLCs). Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

PROGRESS IN FINANCIAL INCLUSION:

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

NUMBER OF BRANCHES OPENED (INCLUDING RRBS):

- Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country.
- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

VILLAGES COVERED:

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010. From 27,353 in 2010 to 82,300 in the year 2012 branches in areas with population less than 2000 and from 26,905 in the year 2010 to 65,234 in the year 2012 in villages with population more than 2000.

TOTAL BANK OUTLETS (INCLUDING RRBS):

Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

BSBD ACCOUNTS OPENED

- The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013.
- RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

KISAN CREDIT CARDS (KCC) ISSUED:

Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion.

GENERAL CREDIT CARDS (GCC) ISSUED:

Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts.

ICT BASED ACCOUNTS - THROUGH BCs:

- In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.
- The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period.

EXPANSION OF ATM NETWORK:

The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013.

GROWTH IN SHG-BANK LINKAGE:

This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India).

GROWTH OF MFIS:

- Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs.

- At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crores as at end Sept 2013.

BANK CREDIT TO MSME:

- MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations.
- Bank credit to MSME sector witnessed a CAGR of 31.4% during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76%, while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 31, 2012.

INSURANCE PENETRATION IN THE COUNTRY:

The total insurance (life and non-life) penetration, in terms of the ratio of insurance premium as a percentage of GDP increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration as a percentage of GDP stood at 4.40 in 2010-11 while the non-life insurance penetration remained at 0.71 during the same period12. In other words, there is vast untapped potential as regards insurance penetration.

FINANCIAL INCLUSION INITIATIVES – PRIVATE CORPORATES:

A few large private corporate have undertaken projects such as E-Choupal/ E- Sagar(ITC), Haryali Kisan Bazaar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.

ISSUES, CHALLENGES & STRATEGIES IN FINANCIAL INCLUSION IN INDIA

There are many challenges in the implementation of financial inclusion in India some of them are:

1. Change in the approach of Banks: Few banks do not have the desire to achieve financial inclusion. At places lack of cooperation from the bank employees is one of the major cause hampering the basic policy of financial inclusion. Providing affordable credit impacts the profitability of the banks and low cost credit to the poor or disadvantaged and low income group is the risky affair. Thus all this factors impact financial inclusion in India.

2. No operation in bank account: Only access to credit or banking facility in unbanked area is not financial inclusion. Studies reveal that there is hardly any transaction in such accounts.

3. Microfinance Institutions (MFIs): The MFIS has served the underserved /unserved populace in the last few years and improved access to credit. However there have been quite debatable issues on the style of corporate governance and ethics of conducting the business.

4. Business Facilitators (BFs)/ Business Correspondents (BCs): Viability of BFs/ BCs model in general has remained a critical issue. Further banks and their BFs/ BCs also exposed to huge risk of cash management. There is also requirement of training of the BFs/ BCs to enhance the trust level of the end customer.

5. Mobile Banking: The use of mobile has increased very rapidly and bank have started collaborating with mobile companies to develop alternate channel of delivery of banking business. However banks are yet to exploit this resource even for their existing customers.

6. Innovative product lines and processes: There is a need for innovation in the products offered in rural and urban area because the requirement of two different locations is totally different.

7. Financial literacy & awareness: Banks are reluctant to organize regular campaigns for spreading awareness about financial inclusion and financial literacy.

8. Universal financial inclusion: The current policy objective of inclusive growth cannot be achieved only by bank alone. The policy should be supported by regulators, government, IT solution providers, media and the public at large.
9. Viable business proposition: Bank must view financial inclusion as a viable business proposition rather than just a policy or regulatory obligation. To remain viable banks need to offer various products and services to the customer so that they retained for a long period.

CONCLUSION:

Financial inclusion is a strategy that every bank in India has to take care of. All commercial banks and the RBI have been working in this area and have adopted various measures for its effective implementation. All these efforts have shown results also in areas like number of branches, number of ATMs, BSBDA, number of credit cards issued, provision of micro finance etc. However, on the other side there are issues like approach of banks towards FI, governance of microfinance viability of the BFs/BCs model; financial literacy and awareness need serious attention. Thus it can be concluded we have taken the correct path, we started walking on that path also but still the journey is long and the destination is far away.

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