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" FINANCIAL INCLUSION : EFFORTS BY RBI AND GOVERNMENT "

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Abstract : The main theme of this paper is to highlight the efforts by Government, RBI and banks. The government of India & RBI has been out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population. Financial inclusion is the road that India needs to travel toward becoming a global player. This paper attempts to focus on challenges to spread financial inclusion and recommendations for growth of financial inclusion. A comparison has been made between India and some other selected countries regarding no of branches, ATMs, bank credit etc to identify India's position regarding financial inclusion as compared to other selected countries. The study found that with this initiative the poorer section of the society will get benefit for their development and growth.

INTRODUCTION

Financial inclusion refers to the delivery of financial services in a convenient manner and at an affordable cost to vast sec¬tions of disadvantaged and low income group population. It refers to a customer having access to a range of formal finan¬cial services. Recognising the importance of inclusive growth in India, efforts are being taken to make the financial system more inclusive. A committee on financial inclusion was formed under the chairmanship of C.Rangarajan and the committee defined the term financial inclusion as, "The process of ac¬cess to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."India is a country where a sizeable amount of population lives in rural areas who are engaged into agriculture and allied activities. Most of these people are poor and they do not have access to any formal financial services. The prime objective of financial in¬clusion is to extend the financial services to such areas.

OBJECTIVES

- To know the strategies adopted by RBI for strengthening financial inclusion
- To evaluate the role of banks towards "financial inclusion"
- To know the efforts taken by Government for growth of Financial inclusion.

ADVANTAGES OF FINANCIAL INCLUSION

- Extending formal banking system among underprivileged in rural and urban India.
- Equipping poor with the confidence to make informed financial decisions.
- It provides an avenue for bringing the small savings of the poor into the formal financial intermediation system and channels them into investment.
- It promotes financial literacy of the rural population and guides them to avoid the expensive and unreliable financial services. .
- In the situation of economic crisis, the rural economy can be a support system to stabilize the financial system. Thus, it helps in ensuring a sustainable financial system

CHALLENGES TO FINANCIAL INCLUSION

It is quite clear that the task of covering a population of 1.27 billion with banking services is gigantic. Both demand side factors (customers) and supply side factors (banks and other financial institutions) are responsible for financial inclusion. So, banks and other financial institutions are largely expected to mitigate the supply side constraints that prevent poor and disadvantaged groups from gaining access to the financial system.

Demand side challenges are: Low literacy levels, lack of awareness about financial products and services, lack of sufficient income, lack of trust in formal banking institutions etc., and availability of easy credit from money lenders.

Supply side challenges are: Non-availability of branches in areas, high rules and regulations and high bank charges, and limited number and types of financial service providers.

LITERATURE REVIEW

Role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion. . Banking industry has shown tremendous growth in volume during last few decades. Rules and regulations have been simplified. Banks have set up their branches in the remote corner of the country. It has been noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the in-vestment opportunities in an India.

RBI AND FINANCIAL INCLUSION

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis.

STRATEGIES ADOPTED BY RBI FOR STRENGTHENING FINANCIAL INCLUSION

In India, RBI has initiated several measures to achieve greater financial inclusion. Some of these steps are as follows:

No-Frill accounts: RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. No-frills account requires no or negligible balance leading to lower costs both for the bank and individual .Usage of Regional language: RBI asked banks to provide all the material related to opening accounts, disclosures etc in the regional language.

Simple KYC norms: In order to ensure that persons belonging to low income group do not face difficulty in opening the bank account due to procedural hassles, the KYC procedure have been simplified.

Easy credit facilities: RBI asked banks 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 rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest rate on the facility is entirely deregulated.

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

Simplified branch authorization: To address the issue of un-even spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting.

GOVERNMENT AND FINANCIAL INCLUSION

Pradhan Mantri Jan Dhan Yojana

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 INCLUSION - INDIA’S POSITION COMPARED WITH OTHER COUNTRIES

Table 1 : India’s position in financial inclusion as compared with other countries:

	(per 0.1 million adults)		(per 0.1 million adults)		(as % of GDP)		(as % of GDP)	
Country	Number of Branches	Rank	Number of ATMs	Rank	Bank Credit	Rank	Bank Deposit	Rank
India	10.91	7	5.44	9	43.62	5	60.11	3
Austria	11.81	6	48.16	6	35.26	6	32.57	8
Brazil	13.76	5	120.62	3	29.04	7	47.51	6
France	43.11	1	110.07	4	56.03	3	39.15	7
Mexico	15.22	5	47.28	7	16.19	9	20.91	9
UK	25.51	3	64.58	5	467.97	1	427.49	1
US	35.74	2	173.75	2	46.04	4	53.14	4
Korea	18.63	4	250.29	1	84.17	2	74.51	2
Philippines	7.69	8	14.88	8	27.57	8	53.02	5

Source: World Bank, Financial Access Survey (2010)

CHALLENGES TO SPREAD FINANCIAL INCLUSION:

It is quite clear that the task of covering a population of 1.27billion with banking services is extremely large. Both demand side factors (customers) and supply side factors(banks and other financial institutions) are responsible for financial inclusion. Banks and other financial institutions are largely expected to reduce the supply side constraint.

DEMAND SIDE CHALLENGES ARE:

- low literacy levels
- lack of awareness about financial products,
- irregular income,

- lack of trust in formal banking institutions etc.

Supply side challenges are:

- Non-availability of branches in rural area
- High rules and regulations and high bank charges
- Limited number and types of financial service providers

SUGGESTIVE LINE ACTION

Technological Intervention: Biometric voice interactive Hand held devices backed by technical support rendered by telecom service provider can be effective instrument for banking in unbanked areas for real time settlements at extreme low cost. Once the data base and track record is established then an array of financial services can be offered apart from general banking transactions like utility payments, loans and insurance products.

EFFICIENT DELIVERY MECHANISM:

Banks should enter into agreement with postal authorities to use their wide area network and reach of post offices as business correspondents to outreach the masses by leveraging the proximity of the postman to the local population.RBI should set framework on use of business correspondents and facilitators as outsourcing agents and review the process in regular basis to provide solidity. The use of MFIs as indirect mode for credit disbursals to large segment of poor and needy customers can add another dimension one helping banks to minimize credit risk and the second social upliftment.

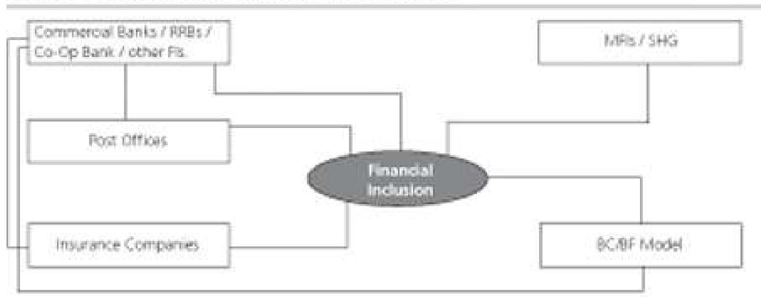
SPREADING FINANCIAL LITERACY:

Promoting intensive awareness by adult education programme, enacting village stage shows, public campaigns, usage of mobiles phones, using electronic media for promoting innovative advertisements, village Panchayats , local school masters, and platforms like e-choupal and Srei Sahay can provide extra edge to reach the goal. Banks should avail the support of social organizations and village leaders who are well informed and undergone schooling to spread the need of joining the mainstream and remove any unnecessary fear housing in their minds.

PRODUCT INNOVATION:

Financial inclusion is not limited to only opening saving bank account with zero balance facility but it means to offer a wide array of financial services from credit counseling, offering insurance and MF products, remittances facility etc. Product innovation will help in great way in spreading financial deepening as it will be easy to approach masses and provide easy solutions.

Chart 2: Model For Delivery Mechanism



APPROPRIATE BUSINESS MODEL YET TO EVOLVE:

Appropriate strategies and business model needs to be developed as penetration in rural belts and low income urban and semi urban population is altogether a different challenge. Unconventional business modeling needs to be advocated which will require attitude, will power and support from government machineries.

REGULATORY AND POLICY INTERVENTIONS:

RBI needs to regularly monitor whether the financial institutions are adhering to the commitments made both to Government and the public. Mere formulation of policies and half hearted efforts will not help the cause. Single minded focus, diligent efforts and involvement of all is the prerequisite for financial inclusion.

CONCLUSION

From the above study, it can be concluded that India is at moderate level regarding financial inclusion as compared to other countries regarding number of branches, ATMs, bank credit and bank deposits. RBI have adopted various strategies such as no-frill account, use of regional languages, simple KYC norms etc to strengthen financial inclusion. To cope up with challenges to spread financial inclusion, there is a need of viable and sustainable business models with focus on accessible and affordable products and processes, synergistic partnerships with technology service providers for efficient handling of low value, large volume transactions and appropriate regulatory and risk management policies that ensure financial inclusion.

The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives. Even though various measures have been taken and more flow of credit to various sectors of the economy is made, still majority of the rural population have not come under the purview of financial inclusion. Therefore, there is a need for coordinated action between the banks, the Government and other related institutions to facilitate access to bank accounts amongst the financially excluded.

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