"FINANCIAL INCLUSION IN INDIA – A MUST FOR INCLUSIVE GROWTH"

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Abstract :"Financial Inclusion" means providing financial services to the disadvantaged and low-income sections of the society at affordable costs. "Financial Exclusion" means financial services not being made available or not being affordable to the disadvantaged and low-income segments of the society. Financial Services are the economic services provided by the finance industry which include a broad range of organizations that manage money including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds, real estate funds and some government sponsored enterprises. The term financial inclusion has gained importance since the early 2000. Khan Commission was set up by Reserve Bank of India in 2004 to look into financial inclusion in India. Even after 67 years of independence, in India, a large number of low-income group people still do not get access to financial products and services. They do not have any bank account and hence they do not get the services given by banks.

Financial inclusion is gaining momentum in the country. Prime Minister Shri Narendra Modi, in his first Independence Day address to the nation announced "Pradhan Mantri Jan Dhan Yojana"(PMJDY) – a new plan of action for comprehensive financial inclusion in India. On the inauguration day itself 1.5 crore bank accounts were opened under this scheme and by September, 2104, nearly 3.02 crore accounts were opened with around Rs.1,500 crore being deposited under the scheme. We still have a long way to go.

In this paper an attempt is made to study the importance and growth of financial inclusion in India.

Key words: Financial Inclusion , organizations , stock brokerages.

INTRODUCTION

"Financial Inclusion" means providing financial services to the disadvantaged and low-income sections of the society at affordable costs. "Financial Exclusion" means financial services not being made available or not being affordable to the disadvantaged and low-income segments of the society. Financial Services are the economic services provided by the finance industry which include a broad range of organizations that manage money including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds, real estate funds and some government sponsored enterprises. The term financial inclusion has gained importance since the early 2000. Khan Commission was set up by Reserve Bank of India in 2004 to look into financial inclusion in India. Even after 67 years of independence, in India, a large number of low-income group people still do not get access to financial products and services. They do not have any bank account and hence they do not get the services given by banks.

Former United Nations Secretary-General, Kofi Annan, on 29 December, 2003, said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives." Reserve Bank of India has initiated several measures to achieve greater financial inclusion. Financial inclusion has topped the agenda of Indian finance in 2014. Reserve Bank of India (RBI) governor Raghuram Rajan has said that financial inclusion will be a key priority. The Reserve Bank of India constituted a committee headed by Dr. Nachiket Mor on Comprehensive Financial Services for small business and low income households.

REVIEW OF LITERATURE

Financial inclusion is recognized as an important part of the mainstream thinking on economic development today. Financial inclusion will help in a big way for inclusive growth of India. Empirical evidence shows that inclusive financial system significantly raises growth, alleviates poverty and expands economic opportunity. (Pawar, Joshi, Chandra, 2008). Financial inclusion means provision of affordable financial services, viz. access to paymnts and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. (Thorat, 2007). As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. (Leeladhar, 2005).

In this paper an attempt is made to study the importance and growth of financial inclusion in India.

The main objectives of the study are:-

1.1 OBJECTIVES :-

1.To understand the importance of financial inclusion in India.
2.To examine the growth of financial inclusion in India
3.To assess the challenges in financial inclusion in India.

1.2 METHODOLOGY :-

The present research is a descriptive research based on the secondary data collected from official websites, published research papers, journals and various reports of research studies.

1.3 LIMITATIONS OF THE STUDY :-

The study is purely based on the secondary data and is restricted to the importance and growth of financial inclusion in India.

1.4 HYPOTHESIS :-

The present study is based on the hypothesis that the growth of financial inclusion in India is satisfactory.

1.5 SIGNIFICANCE OF THE STUDY :-

The present study will help the academicians and policy makers in understanding the importance and growth of financial inclusion in India.

1.6 IMPORTANCE OF FINANCIAL INCLUSION IN INDIA :-

The Indian economy is a growing economy in the world. Majority of the population in India resides in rural areas. Thus, development of rural India is a key step towards economic development for a country like ours. Proper access to finance for the rural people is a key requisite to employment, economic growth and poverty reduction which are primary tools of economic development. Institutional credit means credit offered by financial institutions like banks. India has a huge network of institutional credit and Indian financial system is considered to be one of the finest systems in the world. However, financial awareness has not been able to penetrate into the rural sections of the society. With over 150 million financially-excluded households, India is the home for the world's second largest population of financially-excluded population after China.

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas basically for the following important pressing needs:-

•Creating habit to save money: In rural areas, due to lack of banking facilities, habit of saving money is not developed. Even if people save money, it is invested in land, building, bullion etc. If the same money is deposited in banks then it can improve our country's capital formation.
•Providing formal credit avenues: Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses.
•Plugging the gaps and leakages in public subsidies and welfare programs: A considerable sum of money that is meant for the poorest of the poor does not actually reach them. Government is, therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments.

1.7 GROWTH OF FINANCIAL INCLUSION IN INDIA:-

Expansion of Banking Infrastructure: As per Census 2011, 58.7% households are availing banking services in the country. There are 1,02,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. To extend the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) are taking various initiatives from time to time, some of which are enumerated below:-

(a)Opening of Bank Branches: Government had issued detailed strategy and guidelines on financial inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts.
(b) Each household to have at least one bank account: Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.
(c) Business Correspondent Model: Banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs).
(d) Swabhimaan Campaign: Under "Swabhimaan"- the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74,000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs).
(e) Setting up of Ultra Small Branches (USBs): Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under financial inclusion.
(f) Banking Facilities in Unbanked Blocks: All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van.
(g) Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.
(h) Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005.
(i)Use of technology: Banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics.
(j) Adoption of EBT: Banks have been advised to implement Electronic Benefit Transfer (EBT) by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary..
(k) GCC: Banks have been asked to consider introduction of a general purpose credit card (GCC) facility up to Rs. 25,000 at their rural and semi-urban branches.
(l) Simplified branch authorization: To address the issue of uneven 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.
(m) Prime Minister Shri Narendra Modi, announced "Pradhan Mantri Jan Dhan Yojana" (PMJDY) on 15th August,2014. Under this scheme bank accounts will be opened with zero balance for 15 crore poor people. All bank accounts opened under this scheme are to have overdraft facility of Rs.5,000/- after six months of satisfactory operation in the account. Each SB account holder would be given ATM/Debit (RuPay) card.

The card will have inbuilt accident insurance of Rs.1 lakh. These accounts would be linked to Aadhaar number of the account holder and would become the single point for receipt of all Direct Benefit Transfers from the Central Government/State Government/Local bodies. The other features of this scheme are taking financial literacy to village level, providing Kisan Credit Cards, micro-insurance and pension Schemes like Swavalamban through the business correspondents for the unorganized sector.

1.8 CHALLENGES IN FINANCIAL INCLUSION IN INDIA AND CONCLUSION:

Several social issues can arise from easy availability of credit. Aggressive micro-credit to enhance financial inclusion can result in over-indebtedness and increase suicides. Building a financially aware and empowered India is a great challenge before us.

From the study undertaken, we can conclude that financial inclusion has gained momentum in India with significant rise in the new savings accounts, increase in agricultural credit accounts and expansion of bank branches in deeper geographies. We accept the hypothesis that the growth of financial inclusion in India is satisfactory but we must say that still we have a long way to go. However, the CRISIL Inclusix score at 42.8 on a scale of 100 still reflects under-penetration of formal banking in the country. Financial inclusion is a must for inclusive growth of India. Inclusive growth implies equitable opportunities for economic participants during economic growth with benefits incurred by every section of the society. We must achieve the national mission of financial inclusion named as Pradhan Mantri Jan Dhan Yojana of integrating the poorest of the poor with bank accounts in the planned two phases bebore 14th August, 2018 to achieve inclusive and sustainable growth of our economy.

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