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Financial Inclusion: Role of Banks

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Abstract: *Financial inclusion is the recent concept which helps to achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. The issue of financial inclusion is a development policy priority in many countries. Around 50% of the Indian population suffers from chronic poverty and hunger. Only 31% of the Indian population has access to Banking services. The rest 69% are still deprived of bare minimum banking services for which they are totally dependent on informal banking sources like private money lenders. While the need to solve this mammoth problem is great, we are unable to reach large numbers of the poor with products, services and information they need to achieve financial security. It is been proven, levels of human development and financial inclusion in a country move closely with each other. This paper points to the importance of financial inclusion and highlights various policies that have been adopted in India to increase the same. Banking on the poor is a viable option in India as there are huge mass at the bottom of the pyramid. Use of technology plays an important role in leveraging banking services to rural areas as it lower the cost of maintaining the account. Also there should be convergence between regulator, banks, telecom companies and software companies. Financial literacy and credit counseling programmes can create critical mass for financial services which make financial inclusion viable. Financial Inclusion has far reaching consequences, which can help many people come out of abject poverty conditions.*

Key Words: *Financial Inclusion, Financial Services, Indian Banking, Self Help Groups, Financial products*

1.Introduction

Financial inclusion is the recent concept which helps achieve the sustainable development of the country, through available financial services to the unreached people with the help of financial institutions. Financial inclusion can be defined as easy access to formal financial services or systems and their usage by all members of the economy. The committee on financial inclusion, of government of India, has defined financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups such as the weaker sections and low income groups at an affordable cost (RRangarajan Committee, 2008). The Indian banking industry has made a commendable progress in terms of deposits, advances, branch network and diversity of financial products offered etc. since the banking reform programme started in 1991. Despite this admirable progress, the task of ensuring the access of financial services by vulnerable group such as weaker section and low income groups was left unattended for last 20 years.

It may not be justified to take conclusion from this that there were no initiatives on behalf of Government of India or regulatory bodies. Rather, the steps like nationalization of banks, formation of Regional Rural Banks (RRBs) or Self Help Groups (SHGs), State Level bankers' Committee (SLBC), Lead bank scheme, Co-operative movement and setting target for banks for meeting priority sector advances etc. were aimed to ensure deepening the financial services of banks. However, the reality lies in the fact that all those measures were insufficient to achieve desired results, which may be better described by following data.

DEFINITION OF FINANCIAL INCLUSION:

The Rangarajan Committee has defined financial inclusion 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. In other words, it means delivery of the banking services and credit at an affordable cost to the vast sections of the disadvantaged and low income groups. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling/advisory services by the formal financial system. An open and efficient society is always characterized by the unrestrained access to public goods and services. As banking services are in the nature of public goods, financial inclusion should, therefore, be viewed as availability of banking and payment services to the entire population without discrimination of any type.w

Nature of Financial Exclusion:

The United Kingdom has one of the most innovative and diverse financial services sectors in the world. Despite this, many individuals struggle to gain access to basic financial products such as bank accounts, credit, insurance and financial advice. Financial exclusion or lack of access to appropriate financial products and services can arise for a variety of often interlinked reasons. Witnesses suggested a variety of causes including.

- Exclusion due to inappropriate or excessively high charges: interest rates for doorstep lenders and other alternative credit products may be high and lead to a long-term cycle of over-indebtedness.
- Exclusion due to religious beliefs or other cultural barriers: financial services may not comply with Islamic Law, which forbids the charging of interest, for example.
- Exclusion due to disability: disabled people might find it difficult to access premises, or find it difficult to read marketing material.
- Exclusion due to being on lower incomes or being long term recipients of benefits, which impacts most on the disabled, ethnic minority groups, the elderly and those excluded from the labour market.
- Locational exclusion: Lack of access in the person's locality to appropriate financial services.
- Regulatory requirements: regulations imposed by the Government or the FSA play a valuable role in enhancing consumer protection, but, where regulations are excessive or are implemented in a way which does not take account of particular

circumstances faced by individuals, they might accenturate financial exclusion.

Objectives of the Paper

- To analyze various important regulatory initiatives taken by the Reserve Bank of India to strengthened financial inclusion in India.
- To study the current position of Financial Inclusion Program in India.

Need for Financial Inclusion

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds institutional or otherwise. Hardly on fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e.75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGOs and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood.

Financial Inclusion: India's perspective

India has, for a long time, recognized the social and economic imperatives for inclusive financial inclusion and has made a huge contribution towards economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self help group-bank linkage programme, etc., numerous steps have been taken by the RBI over the years to increase access to the poorer segments of society. In India, financial inclusion first featured in 2005, when it was launched by K. C. Chakraborthy, the chairman of Indian Bank. Mangalam village became the first village in India where all households were provided with banking facilities. RBI has been undertaking financial inclusion initiatives in a mission mode through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. Some of these steps are: facilitating no-frills accounts and General Credit Cards(GCCs) for small deposits and credit, norms were relaxed for People intending to open accounts with annual deposits of less than 50,000. GCCs were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, RBI permitted commercial banks to make use of the services of non-governmental organizations (NGO/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries act as business facilitators or business correspondents by commercial banks. The bank directed the commercial banks in different regions to start a 100% financial inclusion campaign on a route-finder basis. As a result of the campaign states or UTs like Pondicherry, Himachal Pradesh and Kerala announced 100%

financial inclusion in all their districts. However, illiteracy and the low income savins and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is also inadequate legal and financial structure. The table 1 shows that the progress under financial inclusion plans, all SCBs including RRBs is given below:

Tabel 1: Progress made under financial inclusion plan – as an September 2016

S.No	Particulars	Year ended March 2010	Year ended March 2016	Half year ended September 2016
1	Banking Outlets in Rural locations – Branches	33378	51830	52240
2	Banking Outlets in Rural locations – Branchless mode	34316	534477	537609
3	Banking Outlets in Rural locations - Total	67894	586307	589849
4	Urban Locations covered through BCs	447	102552	91039
5	BSBDA-Through branches (No. in million	60.2	238.2	247.4
6	SBDA-Through branches (Amt. in billions)	44.3	474.1	537.9
7	BSBDA-Through BCs (No. in million)	13.3	230.8	247.8
8	BSBDA-Through BCs (Amt. in billion)	10.7	164.0	181.0
9	BSBDA-Total (No. in million)	73.5	469.0	495.2
10	BSBDA Total (Amt. in billion)	55.0	638.1	719.0
11	OD facility availed in BSBDAs (No. in million)	0.2	8.0	8.4
12	OD facility availed in BSBDAs (Amt. in billion)	0.1	14.8	18.1
13	KCCs -Total (No. in million)	24.3	47.3	46.4
14	KCCs -Total (Amt. in billion)	1,240.1	5130.7	5543.4
15	GCC-Total (No. in million)	1.4	11.3	11.5
16	GCC-Total (Amt. in billion)	35.1	1493.3	1613.2
17	ICT-A/Cs-BC- Total number of transactions (in million) *	26.5	826.8	550.6
18	ICT-A/Cs-BC- Total amount of transactions (in billion)*	6.9	1686.9	1199.2

For the reporting period FY 2009-10/FY 2015-16/Half Year April-September 16

Source: Report on Trend and Progress of Banking in India September 2016

Financial Inclusion – Globally

Financial inclusion has become one of the most significant aspects in the present era of inclusive growth and development all over the world. All over the World the importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Globally many countries now look at financial inclusion as the way to more inclusive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation's progress. Financial regulators, governments and the banking industry have taken several initiatives for Financial Inclusion all over the world. The banking sector has taken a lead role in promoting financial inclusion. Legislative measures have been initiated in some countries. For example, in the US, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods. In France, the law on exclusion (1998) emphasizes an individual's right to have a bank account. The German Bankers Association introduced a voluntary code in 1996 providing for a so-called "everyman" current banking account that facilitates basic banking transactions. In the UK, a Financial Inclusion Task Force was constituted by the government in 2005 in order to monitor the development of the process. In South Africa, a low-cost bank account, called Mzansi, was launched for financially excluded people in 2004 by the South Africa Banking Association. Several Asian & African countries have harnessed the unique strengths of mobile banking to drive financial inclusion.

Conclusion

Financial inclusion is the road which India needs to travel towards becoming a global player. An people invest and save more and more will remove vicious circle of poeverty and unemployment, it also act as a source of empowerment, better control of finance and allow people to participate more effectively in the economic and social process thereby increase per capita income. More financial access will attract more global market players to our country that will result in increasing employment and business opportunities. Financial inclusion is now accepted as a significant for achieving inclusive growth, which itself is required for ensuring overall sustainable growth. Recognizing the importance of inclusive growth in India, efforts are being taken b the Government of India (GOI) and RBI to make the financial system more comprehensive. 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 purpose. Indian banking sector is going great guns. The sector was one of the foremost contributors to help the country to overcome the global economic recession. But the question arises whether the banking sector is just a sector of financial activities or has helped the country to achieve inclusive growth. India's GDP could achieve 8.5% growth rate in the current financial year, after dipping during the recession period.

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