

Financial Inclusion in India: Challenges and Opportunities

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ABSTRACT

A robust and strong financial system is an essential pillar of sustainable development, economic growth, and progress of an economy because it helps in meeting national objectives of creating a market-driven, productive and competitive economy. Inclusive growth of an economy is possible only with the help of proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an innovative term which includes techniques in promoting the banking habits among the rural people because, India is considered as largest rural people consist in the world. Thus, financial inclusion can be defined as the delivery of financial services at an affordable cost to various sections of low-income and disadvantaged segments of society. An all-inclusive financial system is essential because it enhances efficiency and welfare by providing scope for secure and safe saving practices and by facilitating a wide range of efficient financial services. The present study will focus on the challenges and opportunities of financial inclusion in India.

KEYWORDS:

Finance, banking habits, rural areas, financial inclusion.

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INTRODUCTION

For achieving economic power and self reliance, it is essential for every economy to create congenial conditions for individuals, households and private institutions. The major facilitators of developmental and expansionary activities are the availability of strong banking facilities and bank branch network. Financial inclusion can be defined as delivery of the financial system of an economy among its members. Since most of the financial services are coordinated with the help of banks, financial inclusion can be approximated by banking inclusion. Thus, in the context of banks, financial inclusion is concerned with spreading of banking activities among various sections of the population. The committee on financial inclusion, defined the term 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 at an affordable cost (Rangarajan Committee, 2008). India has a well-structured banking system which caters to the financial needs of individuals and households and also contributes towards the growth, development, improvement and

advancement of the nation. For achieving the financial needs, necessary reforms and continuous monitoring is required to ensure a modern and up-to-date banking practice, for ensuring healthy competition, financial inclusion. Indian banking sector consists of the Reserve Bank of India (RBI), which is the central bank of India, commercial banks and co-operative banks. Nationalization of banks brings a major shift in the focus of banking from class banking to mass banking. For taking the banking services to poor people regional, rural banks are also established.

An inclusive financial system is essential in all the countries due to many reasons like firstly, it helps in efficient allocation of productive resources. Secondly, with the help of financial inclusion access to financial services will significantly improve the management of finances. And third, an all-inclusive financial system will help reduce the informal sources of finance like moneylenders in rural areas which tries to be exploitative. Thus, an all-inclusive financial system will enhance efficiency and welfare by providing scope for safe and secure saving practices and by helping a wide range of financial services. India is mainly an

agrarian country in which 65% of the population is still residing in rural areas and the majority of people stills does not have access to banking services. To obviate the situation government of India had directed reserve bank of India to take suitable steps to facilitate inclusive growth. Financial inclusion can also be defined alternatively as financial exclusion, which means the inability to have an access to necessary financial services in an appropriate form. This exclusion may be the result due to problems with access, prices, marketing, conditions, or self-exclusion in response to negative experiences or perceptions.

OBJECTIVE OF STUDY

The present study will focus on the challenges faced and opportunities presented by financial

Inclusion in India and also on various steps taken by Reserve bank of India to facilitate financial inclusion.

RESEARCH METHODOLOGY

The study is mainly descriptive in nature. The data is mainly collected from secondary sources like magazines, internet websites, journals etc. Various studies on this subject have also been referred in this study.

LITERATURE REVIEW

Rangarajan C (2008), "Report of the Committee on Financial Inclusion", Financial inclusion can be defined 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.

Michael Chibba (2009), "Financial Inclusion is an inclusive development and poverty reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history".

Raghuram G. Rajan (2009), "A Hundred Small Steps - Report of the Committee on Financial Sector Reforms" Financial Inclusion, broadly defined, refers to 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.

RBI, 2006a, “Financial inclusion has been defined as the “provision of affordable financial services” to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include “payments and remittance facilities, savings, loan and insurance services”

Mandira Sharma and Jesim Paise (2008) suggest that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socioeconomic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by the road network, telephone and internet usage, also play a positive role in enhancing financial inclusion.

Oya Pinar Ardic et al (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses

the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

Carbo et. al. (2005) have defined financial exclusion as broadly the inability of some societal groups to access the financial system.

FINANCIAL INCLUSION – RBI POLICY INITIATIVES

In India, RBI has taken several measures and also adopted bank led model to achieve greater financial inclusion in the country. For achieving the targeted goals RBI has adopted conducive regulatory measures and also provided institutional support to banks in accelerating their financial inclusion efforts. Various financial inclusion initiatives are:

- Basic Saving Bank Deposit (BSBD) accounts: Reserve bank of India advised all banks to open BSBD accounts which are having minimum common facilities like which requires no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money

through electronic payment channels, facility of providing ATM card.

- Relaxed and simplified know your customer (KYC) norms: RBI relaxed requirements for opening of bank accounts, especially for small accounts whose balances are not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. In addition, banks are allowed to use a unique identification number (UID) i.e. Aadhar Card as a proof of both identity and address
- Simplified Branch Authorization Policy: To address the issue of uneven spread bank branches, domestic Scheduled commercial banks (SCBs) are permitted to freely open branches in Tier 2 to Tier 6 centers with a population of less than 1 lakh under general permission, subject to reporting. In the North-Eastern States 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 towns, 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 encouraging the opening of branches in rural areas and to improve penetration of banking services and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of Business correspondents (BC), was felt. Accordingly, banks have been mandated in the monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.
- Financial Inclusion Plan (FIP): Public and private sector banks are advised to submit to board three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping targets which are self-set in respect of rural brick and mortar branches opened, BCs employed, which includes the coverage of un-

banked villages having 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.

- Financial Literacy Centres (FLCs): In June 2012, RBI has revised guidelines on financial literacy centers (FLC) and all the rural branches of scheduled commercial banks should take financial literacy efforts through conduct of outdoor Financial Literacy Camps should be organised 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 the 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.
- Opening of no-frills accounts: RBI facilitates basic banking i.e. opening of no-frills account which requires no or very low minimum balance as well as nominal charges that make such accounts accessible to vast sections of the population. Banks have been

advised to provide small overdrafts in such accounts.

- Use of technology: RBI recognizes that technology is having the potential to address to the issues of outreach and credit delivery in rural and remote areas in a viable manner. Banks are advised to make efficient use of information and communications technology (ICT), so as to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.
- Generally, credit cards: With a view to help the poor and the disadvantaged sections with easy access to credit, banks have been asked to consider the introduction of a general purpose credit card facility up to `25, 000 at their rural and semi-urban branches. The main purpose of this scheme is to provide hassle-free credit to the bank's clients based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.



OPPORTUNITIES

1. With the help of financial inclusion concept, by saving small amounts over time, poor people can arrange funding for the lump investment needed in businesses like for purchasing equipments or buying goods at a wholesale price.
2. By fostering financial inclusion and encouraging saving habits can also provide provides funds for searching more productive sources of employment by providing access to easy finance and banking services to even in rural areas.
3. Electronic benefit transfer (EBT): With the help of EBT and information and communication technologies, banks can transfer social benefits electronically to the bank account of the beneficiary and can deliver government benefits at the doorstep of beneficiaries, thus reducing dependence on cash and lowering transaction costs.
4. For achieving commercially sustainable universal access, banking systems will be updated to new technologies like EBT to ensure the availability of financial services to all sections at a reduced cost and enhanced benefits like makes banking convenient which ensures being able to transact near where they live and work and ensuring trust among the peoples that they are putting their money with such organizations that seem to care for them and who they feel are going to be there for them when they need them the most.
5. Financial inclusion provides opportunities to the banking sector to cut across various strata's of society, regions, gender, and income and encourage the public to embrace banking habit. Reserve Bank of India has intervened for the success of financial inclusion by introducing various enactments, financial literacy drives, leveraging technology etc.
6. Financial inclusion paves a way for growth and development by ensuring timely and quick availability among the needy sectors.
7. Financial inclusion will provide not only safe savings, but also offer many other allied services like insurance cover, entrepreneurial loans, payments and settlement facilities etc.
8. With an increase in business opportunities, national income of our

country will also increase, which in turn results in increased GDP.

9. With the help of KYC norms and UID financial inclusion process speeds up the banking process which reduces the cash and noncash costs to both banks and customers.
10. Financial access will also attract global market players in our country that will result in increasing business and employment opportunities.
11. Financial inclusion will help the poor in meeting various needs with the help of a wide range of financial services which are readily available and affordable also. Financial services will provide tools which will help in providing easy financing facilities in many fields like microenterprises' investments in new production technologies, helping in farmers' purchasing productivity-enhancing inputs such as fertilizers, laborers' search for better job opportunities, or children's education and to mitigating people's exposure to large Lifecycle events or unpredictable risks.

Thus, financial inclusion offers plenty of opportunities for growth and development in India.

CHALLENGES

The path of financial inclusion is full of various challenges like:

1. Financial services are used only by a section of the population, the excluded sections are rural, poor areas where it is difficult to provide these financial services which is mainly relying on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. The main challenge of financial inclusion is to include the rural and poor people in the coverage area.
2. Financial Illiteracy is also one of the challenges in the area of financial inclusion. Lack of basic education prevents the people to have an access from financial services.
3. Poor living even in urban areas does not fully utilize the financial services as they find them costly and unaffordable which deter the poor from accessing them.
4. Another challenge in the area of financial inclusion is that access to formal financial services requires various documents of proof regarding persons' identity, income, birth certificates, etc..But poor people

generally lack these documents and thus are devoid of these services.

5. Poor and rural sections may sometimes subscribe these financial services initially, but may not use them as active as others due to high distance between the bank and residence, poor infrastructure etc.
6. Low income level is another challenging area in the process of financial inclusion because they think banks provides services only to rich class.
7. Due to difficulty in understanding formal languages, various documents and many formalities in banking procedure people are not comfortable in using financial services.
8. Many people who live in remote localities find it difficult to reach the areas where banks are generally situated.
9. Many people, who lack basic knowledge and education, do not know the importance of financial products like insurance, finance, bank accounts, cheque facilities etc is also the challenge in the implementation of financial inclusion.
10. Many financial institutions not able to justify on commercial grounds the

establishment of broad-based infrastructure to serve poor households so they sometimes pull back to their physical presence in rural or poor areas and also place some restrictions to discourage the custom of poor people (e.g. high minimum account balances). As a result, they also pass the access cost on to customers, who had to travel to distant branches and face long queuing time. As a result, many poor people reject financial institutions that serve the middle and upper classes.

FINDINGS AND RECOMMENDATION

1. With the help of financial inclusion, banking technology has progressed at a faster rate and realized that even poor sector can contribute towards a pool of financial resources.
2. Due to the 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 the length and breadth of the country.
3. 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.

4. Poor people usually avoid going to banks because of complicated forms, procedures, formalities etc. This simple structures and procedures will lead to higher savings in the banks.

5. In rural areas, ATM Network accounted for only 10.1% of total ATMs network in the country as on March 31, 2013. So, banks should enhance their ATM network among the rural and un-banked areas so as to serve poor villagers. But while doing so, proper care should be taken regarding safety and security issues.

6. Migrants are facing many difficulties in opening their bank accounts. So commercial banks should take care of the needs of the migrant population in their financial inclusion plans.

7. To deal with poor villagers, banks should initiates training programmes to train the frontline staff and managers as well as BCs on the human side of banking.

8. In rural areas, post offices (POs) are closest to the rural population as compared

to bank branches. As on March 31, 2011, there are 1, 54,866 post offices in India, of which 1, 39,040 (89.8%) were in rural areas. Thus, more POs should be engaged to become BCs of banks due to well-known advantages.

CONCLUSION

The concept of financial inclusion has gained substantial importance in the Indian context. Financial Inclusion can be defined as the wide range of financial products and services to which everybody can have an access which allows them to efficiently manage their finances, regardless of their level of income or social status. For achieving the financial inclusion people need to have a minimum and, some basic financial literacy, financial skills, product knowledge and understanding. Bank nationalization was the first step towards financial inclusion in India. Regional rural banks are created to take the banking and financial services to the rural people.

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