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Status and Journey of Financial Inclusion in India

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ABSTRACT

Inequality and exclusion are the two biggest problems of economy and world. The roots of these problems are gone very deep. So to eradicate the problems of exclusion, inclusion growth is so much necessary. Many researchers have realized that the problems of exclusion create obstacles in the path of inclusion. Thus the inclusive growth is mandatory for the sustainable growth and development of economy. Providing opportunities for every person for improving his standard of living is necessary for a developing and prosperous economy and country. People's growth is possible when they are connected with vital networks of modern economy. Many people, especially women, still lack access to financial services as well as financial literacy, which is a key for social inclusion. Financial access means access to a full suite of financial services provided with quality for everyone who can use financial services. It is necessary that every person understand the importance of **financial inclusion**. It is necessary to understand that the key ingredient of inclusion is financial inclusion. Inclusive growth refers to both pace and pattern of economic growth. Financial inclusion means to provide sustainable, affordable, safe, accessible life to human being with the help of a tool which is called finance. It helps in mobilizing the saving of person, make money from money,

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taking affordable loans, deposit money into banks, taking insurance for protecting their own lives and their families. Thus in this paper my main emphasis on the financial inclusion and economic growth.

INTRODUCTION

Even after many years of India, a big section of population was unbanked. India is a fast growing country. To make it developed country from developing, unemployment and poverty are the biggest problems of our economy. A person births in debt, lives in debt and dies in debt. The main objective of fifth five year plan is the garibi hatoo and the objective of sixth five year plan is to provide employment. For this purpose integrated rural development programme **(IRDP),** training for rural youth and self-employment **(TRYSEM)** etc schemes are launched by Indian government. But unfortunately many persons of India are unemployed. So the Indian government started a new concept which is called financial inclusion. , RBI has been pursuing the goal of financial inclusion for a long time.

FINANCIAL INCLUSION

It can be described as the method of offering banking and insurance services to every individual of society without any form of discrimination. Primary aim of financial inclusion is to provide basic financial service without looking at a person's income or saving. It is also committed to being transparent while offering financial assistance without any hidden transaction costs. Financial inclusion broadens the financial system by developing and mobilizing savings among large section of rural populations and low income group within the perimeter of formal banking sector. The goal of financial inclusion is sustainable and inclusive growth.

PILLARS OF FINANCIAL INCLUSION

- Financial literacy programme
- Micro insurance
- Micro credit
- Unorganised sector
- Providing bank account
- RuPay debit card

LITERATURE REVIEW

- **Dixit and Ghosh (2013)** tested the status of financial inclusion of India and in Indian states. She did her research the position of financial inclusion before the independence of India and the after independence. The study is based on that there is no significant association between the rate of financial inclusion and unemployment as the states with highest extent of financial inclusion demonstrate high rate of unemployment which to be studied and analyzed further.
- **Sujlana and Kiran (2018)** conducted a study on status of financial inclusion of India in past few years. The study is based under numerous other financial indicators like credit deposit ratio, technology enabled services and emphasis upon that India is at a fast pace towards achieving financial inclusion

and this can be speeded up by collaborative efforts of government, Reserve Bank Of India and citizens of the country.

- **Sharma and kukreja (2013)** explained in their study that formal financial institutions must gain the trust and goodwill of the poor through developing strong linkages with community based financial ventures and cooperative. Financial inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side.
- **Divya Joseph (2014)** explained the financial inclusion and financial literacy. Initiatives and experimental services have been launched to put the policies into effect, we cannot become complacent and become victim of own success. Not only should people have access to basic financial service as well as access ensuring long term sustainability of current initiatives and tackling new forms of exclusion and marginalization as they arise.
- **Chellasamy and Selvakumar (2018)** explained in their study that financial inclusion through mudra yojna increases the opportunities for credit requirement and refinance. It perceives that because of dispatch of this plan, monetary consideration has expanded towards positive heading. So it can be say that it is implemented properly. It may work as a game changing financial inclusion initiative of government of India and may boost the Indian economy.

OBJECTIVES OF PAPER

1. To study and understand meaning of financial inclusion in India.
2. To understand about the status of financial inclusion in India.
3. To study the operation of banks regarding financial inclusion.
4. To study about the importance of financial inclusion for our economy.
5. The main aim of this study to know about the steps taken by government for financial inclusion.

RESEARCH METHODOLOGY

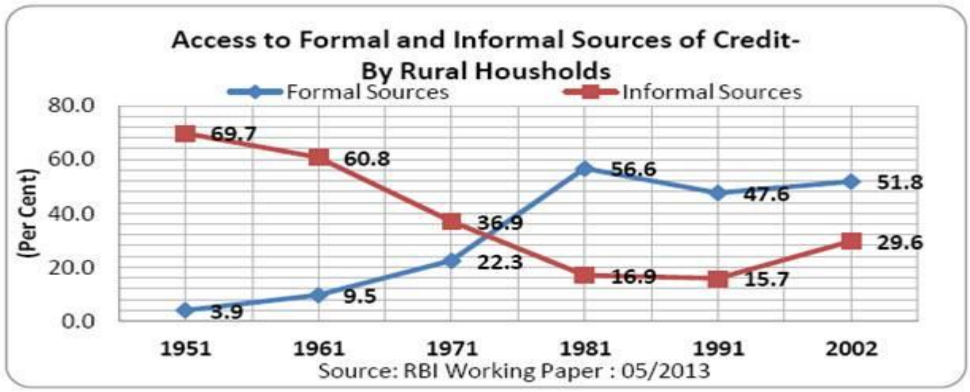
The study is descriptive in nature. The research has been done using secondary data. Data is collected from RBI Report, World Bank and UNO Report. Many newspapers, books and internet sources are used for collecting data. Most of data collected from RBI.

NEED OF FINANCIAL INCLUSION IN INDIA

NSSO 59TH ROUND SURVEY RESULTS (JANUARY- DECEMBER 2003)

- 51.4% of farmer households are financially excluded from both formal/ informal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- Financial exclusion is more acute in central, eastern and north eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.
- Of total farmer households, only 27% access formal sources of credit, one third of this group also borrowed from non formal sources.

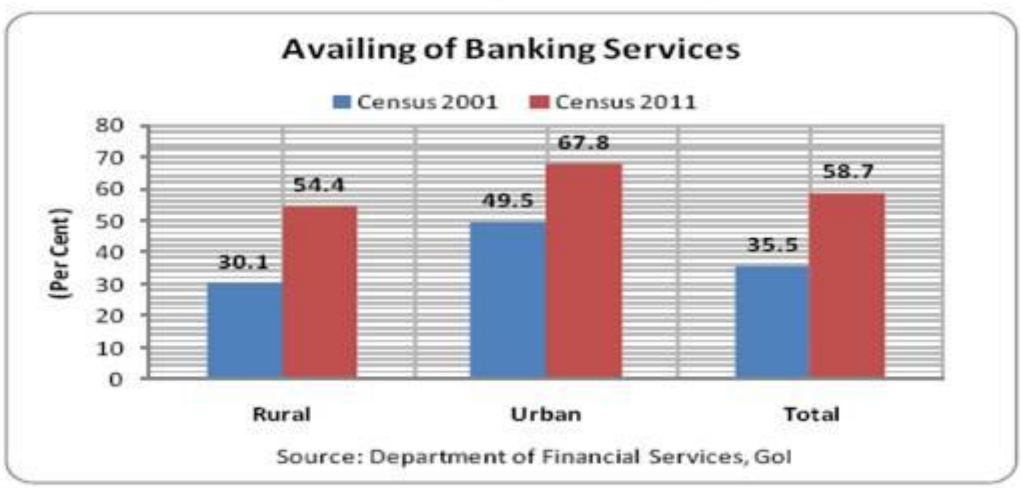
Chart 1: Access to Formal and Informal Sources



INDIAN POPULATION CENSUS 2011

According to the census 2011, only 35.5% rural households are availing banking services in India. And in urban areas 58.7% households are availing banking services. As comparison with 2001 census, the numbers of households are increased but not satisfactory.

Chart 2: Availing of Banking Services



JOURNEY OF FINANCIAL INCLUSION IN INDIA BEGIN WITH RBI

RBI's financial inclusion efforts can be traced back to the 1960s when the focus was on channelizing of credit to the neglected sectors of the economy and weaker sections of the population. While the Government of India nationalized the banking operations of few commercial banks in two tranches in 1969 and 1980; RBI also took initiatives like laying down priority sector lending requirements for banks, Lead Bank Scheme, establishment of Regional Rural Banks (RRBs-1975-76), Service Area Approach (1989), Self-Help Group-Bank Linkage Programme (1989-90), setting up of Local Area Banks etc.

The term financial inclusion has gained importance since the early 2000s, a result of identifying exclusion and it is a direct correlation to poverty according to the World Bank. The united nation defines the goals of financial inclusion as follows:

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"Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services payment and transfer service, credit and insurance. Sound and safe institutions governed by clear regulations and industry performance standards."

Financial inclusion policies enter in to the banking system after recommendations of **Rangarajan Committee** report in 2008. The aim of this committee is to attract the stakeholders towards banking services. "Financial inclusion may 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. In 2015, at 80th anniversary celebrations of the Reserve Bank of India has constituted a committee in the chairmanship of Deepak Mohanty, executive director of RBI with the objective of working out a five year measurable action plan for financial inclusion. To know about supportive payment system and customer protection framework, taking into account the recommendations made by various committees set up earlier.

Deepak Mohanty, RBI executive director chaired the committee. The job of this committee will also include articulating the underlying policy and instructional framework, covering consumer protection and financial literacy as well as delivery mechanism of financial inclusion. It will also study the cross country experience in financial inclusion to identify key learning's, particularly in the area of technology based delivery mode that could inform policies and practices. Followings are the recommendations of this committee:

1. Banks have to make efforts to step up account opening for females, and the government may consider a deposit scheme for the girl child- sukanya shiksha-as a welfare measure.
2. Given the predominance of individual account holdings (94 per cent of total credit accounts), a unique biometric identifier such as Aadhaar should be linked to each individual credit account and the information shred with credit information companies to enhance the stability of the credit system and improve access.
3. Introduction of a system of unique identification for all MSME borrowers and sharing of such information with credit bureaus.
4. To further step up financing of the MSE sector a framework for movable collateral registry may be introduced.
5. A geographical information system to map all banking access points.
6. To restore tax exempt status for securitisation vehicles for efficient risk transfer.

ROLE AND OBJECTIVE OF FINANCIAL INCLUSION

- Financial inclusion intends to help people to procure financial service such as deposits, fund transfer, loans, insurance, payment service etc.
- It aims to establish financial institutions to cater the needs of poor people.
- Financial inclusion aims to build and maintain financial stability and sustainability.
- Financial inclusion also intends to increase awareness about the benefits of financial services.
- Financial inclusion aims to bring digital service for people and institutions.
- Mobile banking, e banking also a part of financial inclusion.
- It aims to provide tailor made financial inclusion and solutions to poor people.

- Promotes the savings of people and open accounts of poor people in remote areas by government and non government agencies.
- Financial inclusion intends to increase awareness about the benefits of financial services among economically privileged sections of society.
- Financial inclusion also intends to have numerous institutions that offer affordable financial assistance so that there is sufficient competitions that client has a lot of options to choose from.

FINANCIAL INCLUSION PROGRAMMES ORGANISED BY RESERVE BANK OF INDIA

- Reserve bank of India provides qualified financial assistance to achieve the objectives of financial inclusion. RBI takes steps which are needed to be followed by each bank.
- The RBI has instructed every bank to open a basic saving bank deposit account (BSBDA) of economically weaker sections of the society. These are no frill accounts and users are no need to maintain a minimum balance in their accounts. These accounts are opened with the zero balance. The main aim of this step is to increase the banking habits of people. They are given the facilities of ATM and electronic payments channels.
- Reserve bank of India instructs the banks to link the accounts of customers with their aadhar numbers. KYC (know your customer) is mandatory for every account holder. RBI finds that many rural people don’t open accounts due to strict KYC norms. So the RBI simplified the KYC norms for people who want to open account less than Rs.50000.
- Reserve bank of India instructs the banks to open their branches in the remote areas and villages. There are many villages in India where there are no transportation services and no banks there is no possible for villagers to go to town for opening accounts in banks. Thus they exploited by money lenders and sahukars.
- In January 2006, RBI permitted banks to engage business facilitators and business correspondents as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in cash out transactions, thus addressing the last mile problem.
- CSC is a rural electronic hub with a computer connected to the internet that provides e governance or business services to rural citizens.
- GCC: with a view to helping the poor and disadvantaged with access to easy credit , banks have been asked to consider introduction of a general purpose credit card facility up to 25000 at their rural and semi urban branches.

FINANCIAL INCLUSION SCHEMES IN INDIA

The government of India has been introducing several schemes for the purpose of financial inclusion. These schemes help in social security for low income group of people.

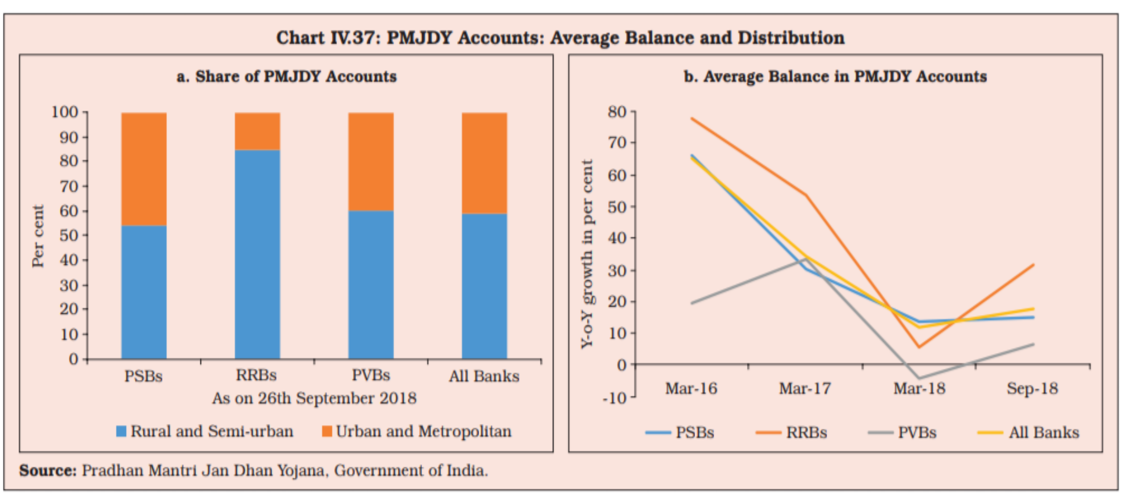
- Pradhan Mantra Jandhan Yojna(PMJDY)
- Atal Pension Yojna(APY)
- Pradhan Mantri Mudra Yojna(PMMY)
- Pradhan Mantra Suraksha Bima Yojna(PMSBY)

- Sukany Samriddhi Yojna
- Pradhan Mantri Jeevan Jyoti Bima Yojna(PMJJY)
- Credit Enhancement Guarantee
- Varishtha Pension Bima Yojna
- Direct benefit transfer LPG (DBTL)
- Jeevan suraksha bandhan yojana
- Stand up India scheme

PROGRESS IN FINANCIAL INCLUSION

- **PRADHAN MANTRI JAN-DHAN YOJANA (PMJDY):** PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities at least one basic banking account in every household, financial literacy, access to credit, insurance and pension facility. The initiative envisages channelling all Government benefits (from Centre / State / Local Body) to the beneficiaries' accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government.

Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in August 2014 has been implemented in two phases - Phase I (August15, 2014 - August 14, 2015) and Phase II (August 15, 2015 - August 14, 2018). Phase I aimed at providing universal access to banking facilities, basic banking accounts for saving and remittance, and RuPay Debit card with an in-built accident insurance cover of □ 100,000.Phase II incorporated inter alia overdraft facilities of up to □ 5000, creation of a Credit Guarantee Fund for coverage of defaults in overdraft accounts, and micro-insurance and unorganised sector pension schemes like Swavalamban.



- **WHITE-LABEL ATMS:** The growth of White-label ATMs (WLAs) has tapered off in recent years, although the number of WLAs crossed 15,000 during 2017-18 In order to facilitate cash availability for WLA operators, sourcing cash from retail outlets in addition to banks was allowed from December 2016. As WLAs were conceived to allow non-banking entities to deploy ATMs in relatively under

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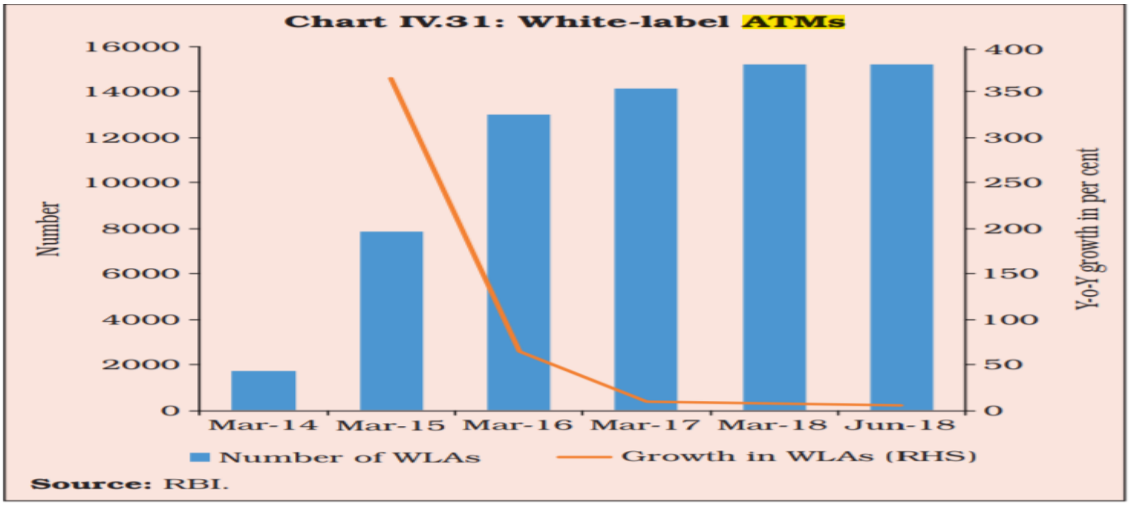
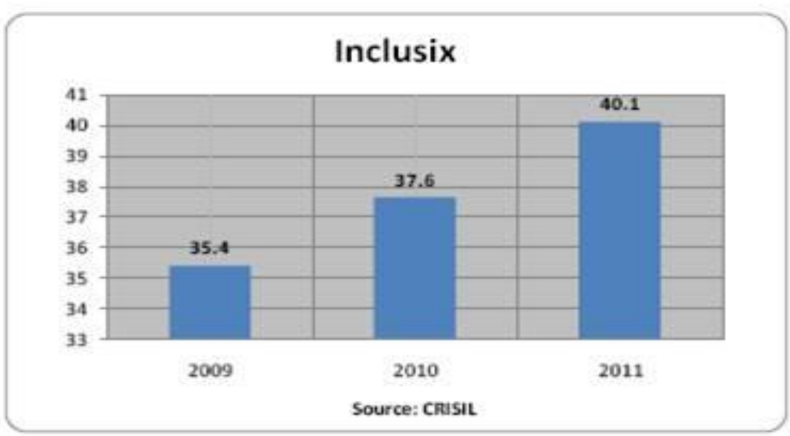
banked Tier III to VI centres to help achieve financial inclusion, around three-fourth of the WLAs were deployed In rural and semi-urban centres.



- **CRISIL-INCLUSIX:** In June 2013, CRISIL first time published a comprehensive financial inclusion index for constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration, deposit penetration and credit penetration. The CRISIL Inclusix indicates that there is an overall improvement in the financial inclusion in India. CRISIL –Inclusix (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

Chart 3: CRISIL - Inclusix



- **MICRO CREDIT:** Pradhan Mantra Mudra Yojna is a great initiative taken by the government of India. Due to it there is a big change in the area of micro finance. With the help of this scheme loan is sanctioned to weaker sections, low income group and poor people. Financial inclusion with the help of PMMY makes the life of people easy and helpful in attaining new opportunities.

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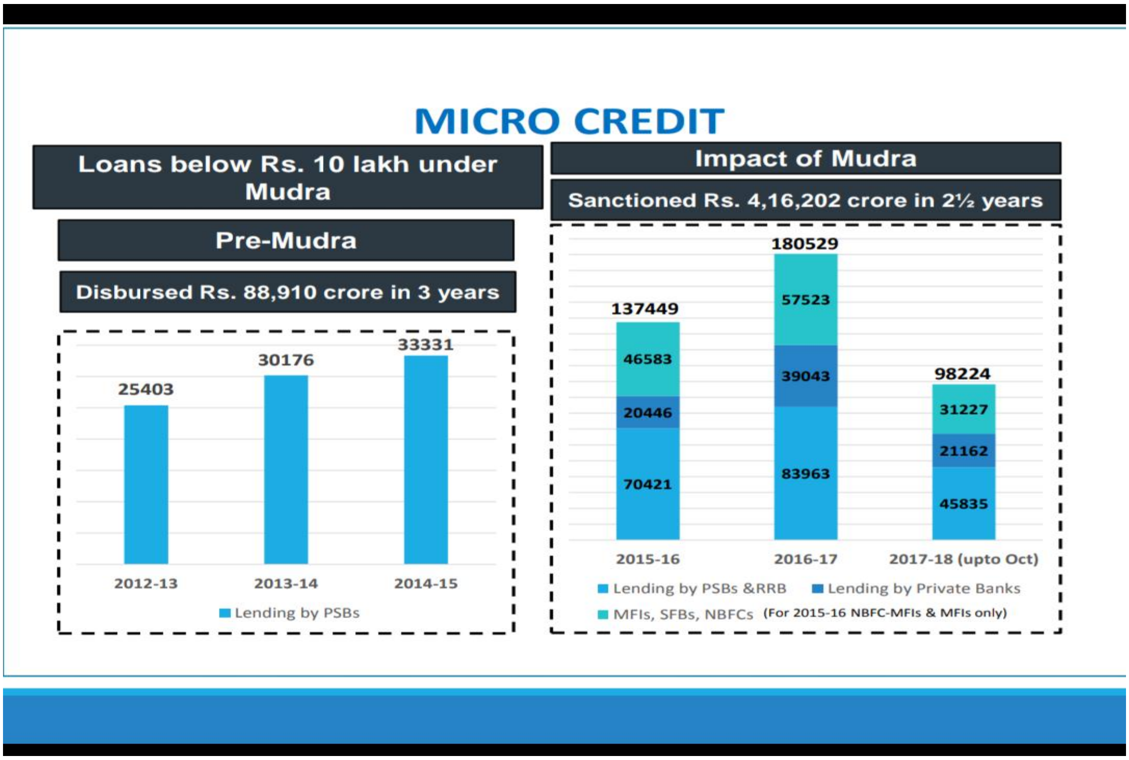
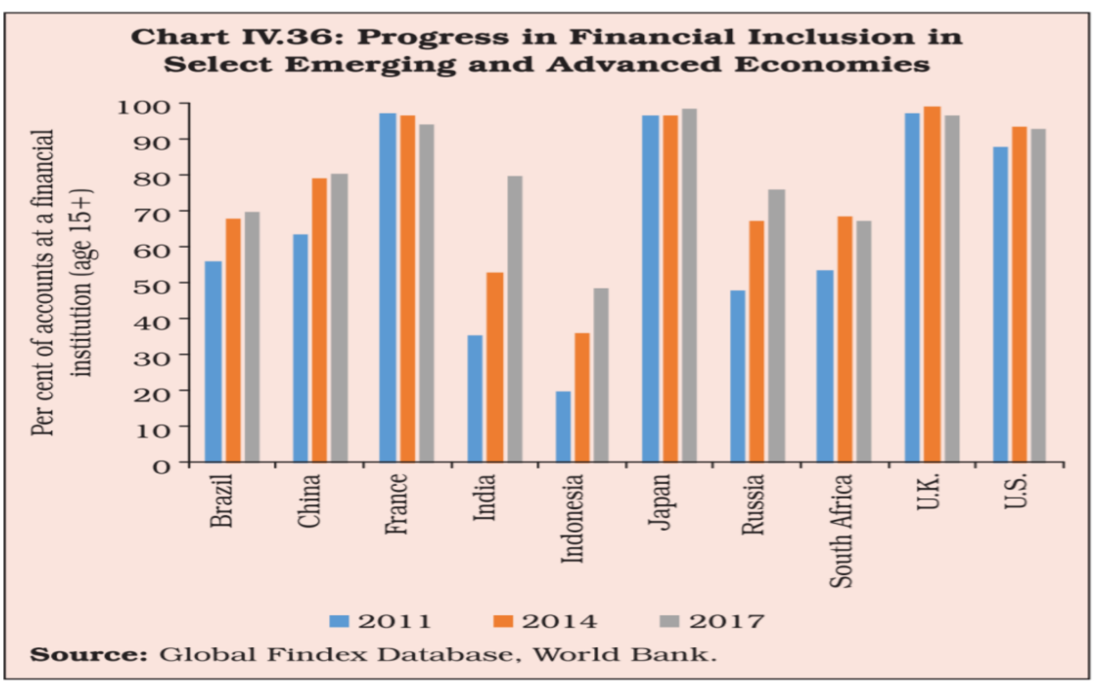


COMPARISON OF FINANCIAL INCLUSION OF INDIA AND OTHER COUNTRIES



AGENDA FOR 2018-2019 OF RESERVE BANK OF INDIA

In order to ascertain efficacies, the reserve bank of India would undertake the following steps on credit delivery and financial inclusion:

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- Preparation of a framework for credit delivery to tenant farmers
- Integration of financial inclusion plan data with automated data extraction project (ADEPT) to enable automated and timely extraction from core banking solution of banks
- Impact assessment of pilot centre of financial literacy (CFL) project by an independent agency
- Strengthening of BC model by capacity building of BCs through the train the trainers programme.

CONCLUSION

Financial inclusion, financial stability and financial literacy are the three principles of inclusive growth. Financial inclusion supply the various financial services, financial literacy feeds the demand side by promoting awareness among the people regarding needs and benefits of financial services offered by banks and financial institutions. Inspite of this, financial stability is promoted by these two strategies. The combination of these elements brings inclusive growth. And this era of modernisation, globalisation, financial inclusion is a boon for the economic growth.

SUGGESTION

Before many years financial inclusion is a new term for banks and every person. But now it becomes a pillar of growth of an economy. Still there is lack of awareness among people regarding it. So, central board of secondary education, UGC and NCERT should include financial inclusion as a chapter in their curriculum. It will provide awareness among children about financial inclusion. Financial literacy is mandatory for financial inclusion.

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