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FINANCIAL INCLUSION IN INDIA-CHALLENGES AND OPPORTUNITIES

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Arun.K.V[1]

[1]*Asst.Professor*
Department of Commerce and Management Studies
Safi Institute of Advanced Study
Vazhayoor
Malappuram, Kerala
India

Sabik.K[2]

[2]*Asst.Professor*
Department of Commerce and Management Studies
Safi Institute of Advanced Study
Vazhayoor
Malappuram, Kerala
India

ABSTRACT

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. 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 focuses on the challenges and opportunities of financial inclusion in India

KEY WORDS: *Financial inclusion, Finance, Banking habits, Rural population, financial instability*

INTRODUCTION

Financial inclusion is the delivery of financial services & products to sections of disadvantaged and low income segments of society, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty.

It is estimated, that about 2.5 billion people or about half of the global population do not have access to any kind of formal banking services. In India, only 55% of the population has deposit accounts. Less than 20% of Indian population has life insurance coverage and only 10% have an access to any other kind of insurance coverage. The number of credit cards has hovered around 20-25 Million mark for last 4 years.

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 still do 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.

OBJECTIVES OF THE STUDY

- To understand the opportunities and challenges of financial inclusion in India.
- To know the RBI initiatives and guidelines for 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.

IMPORTANCE OF FINANCIAL INCLUSION IN INDIA

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:

1. Creating a platform for inculcating the habit to save money:-

The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings. The absence of savings makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the habit to save. Capital formation in the country is also expected to be boosted once financial inclusion measures materialize, as people move away from traditional modes of parking their savings in land, buildings, bullion, etc.

2.Providing formal credit avenues:-

So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. A classic example of what easy and affordable availability of credit can do for the poor is the micro-finance sector.

3. Plug gaps and leaks in public subsidies and welfare programmes:-

A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This laudable effort is expected to reduce government's subsidy bill (as it shall save that part of the subsidy that is leaked) and provide relief only to the real beneficiaries. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.

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 Sates 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 unbanked (Tier 5 and Tier 6) rural centers.
- **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 unbanked 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'.
- **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.
- **General Purpose 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 OF FINANCIAL INCLUSION IN INDIA

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 IN ACHIEVING FINANCIAL INCLUSION

The various challenges involved in financial access to low income families are set out below.

1. **Socio-economic factors**: Financial exclusion is closely related to the social exclusion of lo w income households, who are not able to access the available financial products and services due to constraints such as illiteracy, lo w income, low7 savings, unavailability o f identification documents, and generally low levels of awareness.
2. **Geographical factors**: A review by the Rangarajan Committee' shows that financial exclusion is highest among households in the Eastern, North -Eastern and Central areas of the country partly due to poor infrastructure coupled with remoteness and spare population in some areas resulting in problems with access.
3. **High operational costs**: Most financial service providers are wary of providing products and services appropriate to lo w income families on account of the high transaction costs intrinsic to small value accounts with limited numbers of transactions. In the perception of bank managements this reduces financially inclusive services to corporate social responsibility rather than real business.
4. **Limited availability of appropriate technology**: The key driver of widespread financial inclusion is the proliferation of e-financial inclusion or the application of innovative, stable and reliable Information and Communication Technology (ICT). The challenge is to integrate the daily transactions done through hand held devices with the bank's main server. Furthermore, the devices should be capable of handling transactions related to at least four main types of banking products: savings cum overdraft accounts, pure savings products, remittance products and entrepreneurial credit such as KCC and GCC.
5. **Financial inclusion and banks' business plans**: Since banks have a tendency to view financial inclusion as a part of corporate social responsibility rather than serious business, financial inclusion is rarely core to the banks business strategy. The lack of infrastructure and cost effective technology for facilitating small volume transactions at the doorstep of the account holder compounds the perception of high costs and thus discourages banks from providing financial services to lo w income individuals.

CONCLUSION

Financial inclusion enhances the economy. In the contemporary era of running for economic power and self reliance, it is imperative for any regime to create congenial conditions for individuals, households and private institutions which included the availability of banking services. The availability of banking facilities and strong bank branch network are the major facilitator's of developmental and expansionary activities. A strong and sturdy financial system is a pillar of economic growth, development and progress of an economy. A financial system, which is inherently strong, functionally diverse and displays efficiency and flexibility, is critical to our national objectives of creating a market-driven, productive and competitive economy. The economic agents facilitate in growth and one of the important facilitator is Financial Inclusion. The problem of financial exclusion needs to be tackled with urgency if we want our country to grow in an equitable and sustainable manner. Traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion in India. Banks, therefore, need to innovate and think 'out-of-the-box' for solutions to overcome the problem of financial exclusion in India. They need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner. This way banks in India would be doing a great service to the cause of financial inclusion and make their name in history.

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