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A STUDY ON FINANCIAL INCLUSION IN THE CONTEXT OF INDIA; CHALLENGES AND OPPORTUNITIES

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ABSTRACT

Financial inclusion has been evidenced as a powerful tool for ensuring equitable and balanced regional growth. It has a prominent role for social progress especially among the rural people. Through the credit facilities the poor can be lifted from the one stage to another stage of prosperity.

The objectives of financial inclusion are pressurizing number of socio and economic factors. As we know India is really struggling for balanced regional growth, financial inclusion could be perfect and best solution to address these kinds of problems in India has for a long time realize the social and economical contributions of financial inclusion and has made enormous contribution to economic development by finding effective ways to empower the poor.

This paper analyzed financial inclusion in Indian perspective and an attempt is made to identify the opportunities and challenges faced by financial inclusion.

KEY WORDS: *Financial Inclusion, KYC (Know your customers), Micro Finance.*

INTRODUCTION

The financial inclusion missions have played significant role in an emerging economy like India. It is found that financial inclusion programs are highly successful in rural and backward areas. Thus financial inclusion is the process of guaranteeing equal and open access to financial services for all, especially vulnerable groups such as poor and weaker sections of society. Financial inclusion can be defined as delivery of financial product and services at cheap costs to vast sections of disadvantaged and economically back region. It primarily concern with a bank account with deposit insurance, affordable credit facilities, payment and transfer system.

The main problem of Indian banking system has not been able to serve vast segment of the population especially the underprivileged sections of society and rural areas. The present formal financial system in India has failed to bring financial stability and security among weaker sections of society. Financial stability is not prime focus of the Reserve Bank of India as per statute. But since balance of payment crisis in the early1990s and 2004 financial policy have focused on financial stability. Now the financial stability is one among the objectives of Reserve Bank of India. The central bank is considered financial inclusion is a mean to reach it objective of financial stability. In 2005 by Reserve Bank of India direction commercial banks are obligated to adopt financial inclusion policies. The frame work for financial inclusion programs of banks in India has been closely regulated and supervised by central bank over the period of time.Whereas financial inclusion programs of non banking financial companies are strictly regulated through the regulatory direction of Reserve Bank of India.

In the recent past financial inclusion has been one of the top priority of Reserve of India. Thus Reserve Bank of India has made many efforts such as open commercial bank branches in rural areas, special banks like Rural Cooperative Banks, regional banks etc and national level institutions like Small Industries Development Bank of India, National Bank for Agriculture and Rural Development established in backward areas in order to cater service.

Despite of tremendous progress of financial system in backward areas over the last decades, the majority of world's population is still not served their basic financial requirements. The complete success of financial inclusion is possible only when it reach out to the people whose needs of formal systems are still in their dreams. So a sound financial inclusion programs meet and serve people financial service needs such as saving, payments and transfers and so on. Generally financial inclusion more promoted in the context of economic inclusion. It can improve economic position and standard of living of poor. Further open and easy access to financial service would lead to increase economic activities and general economic condition.

The history of financial inclusion was first coined in British lexicon when it was found that majority of people didn't have access to financial system. The concept financial inclusion got renewed and became more popular when Noble prize winner Mohammed Younus came with the idea of micro finance. Through his idea it could help to reach millions of people in Bangladesh. The idea of financial inclusion in India came when cooperative movement took place during the year 1904. Subsequently in 1969 government initiated to nationalize 14 major commercial banks and lead banks scheme was also introduced immediately after that. Even though theses initiative didn't touches the height of success as was failed to cater financial requirement of economically backward areas. The end result of this was a policy and its prime objective was financial inclusion. It was presented in Reserve Bank of India Midterm Review of Monetary Policy in 2006. As the result of this many policies and initiatives came into exist such as opening of easy accounts, issuing of credit cards so on.

The underscoring principle of financial inclusion is sustaining equitable growth by offering equal and comfortable access to financial service. Such missions would give support economically unsound people as it provides opportunities to have saving and avail credit. Undoubtedly financial inclusion facilitates an avenue for bring the saving of people into formal financial system and channel them into investment.

It also said to be financial inclusion and financial stability are correlated and coexisted. A sound financial inclusion is not possible without financial stability of the system.The recent periods indicates the need that pursuit of financial inclusion. It is no longer an option but compulsions to each and every nation.

RESEARCH OBJECTIVES

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 descriptive research methodology was used to analyse the present study.The research was conducted by using secondary source of information.

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.

1.1Financial inclusion in Indian Perspective:-

At present minority of the Indian population is engaged with the formal financial system. If we consider account activity of saving bank account as an indicator than ownership of account, the financial inclusion in India will certainly much lower.

In the past the Reserve Bank of India and central government are always making efforts to widen the coverage of formal financial structure in the country. Some of them are induction of State Bank of India in 1955 and followed by nationalization of commercial banks in 1969 and 1975, introduction of self help group and bank linkage program in 1992, introduction of Kisan Credit Card scheme in 2001 and Jan DhanYojana in 2014.

Nowadays Financial inclusion is one of the main policy talks in India. Recently Government of India has initiated an ambitious program called Jan DhanYojana with help of public sector banks to start bank account with zero balance. But majority ofpeople arguing that government has to look financial inclusion programs beyond just opening of a banks account. Moreover there are large variances in the level of financial inclusion programs undertaking in the north east states. The Reserve Bank of India has been offering multi pronged strategies to reach out financial products and service to the people. Futher Reserve bank of India, some of the financial policies are also aimed to make financial inclusion more effectively. The recent policies like removal of restrictions on Automatic teller machine and introduction of KYC (Know your customers) are really aimed to increase out reach.

There are several obstacles including culture, income and wealth distribution, financial literacy, location barriers, high transaction cost, attitude of bank officials etc prevent access to formal banking system in India. There are many measures are being taken by Reserve Bank of India and commercial banks in order to improve the reach of financial products and services to the weaker sections of society. But unfortunately many of these policies failed to achieve the desired objectives. It is desirable to frame series strategies to reach out formal financial system to all. The important strategies are to educate financial products and services and easy and convenient and ensure affordable services among vulnerable sections of society.

1. Table showing degree of Financial Inclusion

	(.01 million Adults)		(.01 million Adults)		(As percentage of GDP)		(As percentage of GDP)	
Country	**No of Branches**	**Rank**	**No of ATM**	**Rank**	**Bank Credit**	**Rank**	**Bank Deposit**	**Rank**
India	10.91	7	05.44	9	43.62	5	60.11	3
France	43.11	1	110.07	4	56.03	3	39.15	7
Brazil	13.76	5	120.62	3	29.04	7	47.51	6
Austria	11.81	6	48.16	6	35.26	6	32.57	8
UK	25.51	3	64.58	5	467.97	1	427.49	1
US	35.74	2	173.75	2	46.04	4	53.14	4
Mexico	15.22	5	47.28	7	16.19	9	20.91	9
Korea	18.63	4	250.29	1	84.17	2	74.51	2

Source: World Bank, Financial Inclusion Survey

The above table shows the coverage of banks and number of ATMs per 0.1 million adults as well as percentage of bank credit and bank deposits as a percent of GDP of the country. As the table shows France is ranked first on the basis of number of branches, whereas India is ranked seven. Korea is ranked first on the basis of the number of ATMs, where as India is ranked as nine.

1.2 Major Opportunities in Financial Inclusion

A country said to be developed when there is a sustainable equitable growth in all region of the country. Financial inclusion is the most appropriate way to ensure equitable growth and standard of living of people in rural and economically backward areas. As the people having easy and comfortable access to financial services, it enhances economic opportunities of people. A sound economy is characterized by habit and practice of investment and saving among the people. The program like financial inclusion really opens a powerful mean for the poor that open opportunities to have a habit of saving, make investment and avail financial assistance. Similarly contingencies like illness, loss of job, death of family member, natural calamities etc are badly affected by economically backward people because of lack of financial support. Thereby under this kind of situation financial inclusion protect and useful to overcome such problems.

Beside this complete economic development of people can only achieve when society is educated and literate about financial system. In fact financial inclusion facilitates and ensures intense participation by different sections of society. The larger participants in formal financial structure resulted in improving overall efficiency of financial services such as innovative financial products and services. This would lead to reduce financial cost and efficient functioning of the financial system.

Whereas lack of access to formal financial services push the people to rely upon informal financial system in order to fulfill their financial service requirements. Certainly fierce presence of informal financial system in an economy can be detrimental to the formal financial system and economy as well.

Financial inclusion is a good supplier or channel of fund. Obliviously a sound financial inclusion will be generated fund through bringing the savings of the poor into the formal financial system. Undoubtedly large number of low cost deposit will be benefited to bank by reducing dependence on high cost deposits. Similarly financial inclusion programs are most promising one to generate extra income for banks. The most underlying benefit of financial inclusion is bank can provide financial services with low cost and assured reasonable income. As now banking sector is under competitive pressure, financial inclusion would be the appropriate option for banks in order to survive in the market. Many studies indicating that Indian average income groups in rural areas are increasing tremendously. In addition to this some people arguing that the bank cost of serving poor are significantly lesser than the cost of serving economically developed region.

The success of a financial system is highly depends up the degree of base deposits. Financial inclusion is one of the best ways to accelerate more stable retail base of deposit. As the recent financial crunch also point out that stable retail source of deposit helped the financial institutions to reduce the volatility base deposit. Even during the period of depression normally low income depositors and poor continue as source of fund. Usually poor and low income group tend to maintain stable financial behavior as compared to other customers.

In addition financial inclusion is a better tool against exploitation of poor. Financial inclusion will make it possible for government to make payment and assist such as distribution of subsidies, social security payments, wages payment and other government assistance to bank account of beneficiaries through electronic fund transfer. This will help to ensure proper distribution and utilization of funds and reduce transaction cost as well.

Furthermore the extended financial inclusion is good remedy to people's unrest in the rural areas. Nowadays availability of financial service is considered as a basic criterion for the standard of living of people. It is also useful for combating the financing of terrorism and anti national movements and tool for anti money laundering activities.

Finally financial inclusion may reduce the gap between income and wealth inequalities among the society and offer a platform for all for an equal chance for development and prosperity. This may lead to foster and achieve social and political stability.

1.3Major Challenges and Issues in Financial Inclusion:-

Normally just opening a bank account is claimed as achievement of financial inclusion. In fact when we consider account activity or amount in saving bank account will certainly help tounderstand how well financial inclusion is executed. So the degree of success of financial inclusion should be measured on the basis of account activities or amount kept in account rather than just ownership of account.

Financial illiteracy and lack of awareness of banking products and service is one among the major challenges of financial inclusion. There is a strong concern about the pathetic attitude of the banks to arrange regular campaigns for spreading awareness about financial inclusion and financial literacy need to be intensified.

Customer service is another issue which may face by banks. The attitude, perception and culture at the grass root level find extremely different. Banking business regulators like Reserve Bank of India, banks, service providers and consumers themselves have to play vital role indeveloping a comprehensive approach to consumer protection.

The regulations relating to the banking operation is also hurdle for financial inclusion. The regulations like minimum balance requirement, limits and charges for deposit and withdrawal of cash at the bank branches as well ATMs etc. Thus strict and unnecessary regulations are hardship for achieving ultimate objectives of financial inclusion.

It also said to be fostering of financial inclusion could be source of financial instability. For instance,US subprime crisis in 2008. It point out that over extension of lending may affect quality of credit portfolio of banks. Thus financial inclusion may lead to complete financial instability.

CONCLUSION

The problems of financial inclusion need to be tackled with urgencyin order to ensure equitable sustainable growth in India. The proper implementation of financial policies could be the solution to address the problems of financial inclusion. The entire word is looking at this experiment in India and it is important that government rise up to this challenge and meet country successful growth. It is also important that financial stabilitycan't be achieved unless it ensures global level financial inclusion. Undoubtedly financial inclusion may be the social responsibility for the banks but it could be turn to business opportunity in the future. Financial inclusions for the banks are not just an option but it is a compulsion.

Further, it is found that India is at molecular level regarding financial inclusion as compared to other countries regarding number of branches, ATMs, bank credit and bank deposits. RBI have adopted various strategies such as no-frill account, use of regional languages, simple KYC norms etc to strengthen financial inclusion. Financial institutions have to promote financial inclusion in a sustainable manner in order o achieve financial stability. This research suggests that Reserve Bank of India have to adopt appropriate regulatory frame work for innovations in policies, procedures and products meant for financial inclusion.

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