



## FINANCIAL INCLUSION IN INDIA: A KEY TO GROWTH



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### ABSTRACT

**F**inancial inclusion and financial literacy have been important policy goals for quite some time of our economy. Traditionally it has been understood to mean opening new bank branches in rural and unbanked areas. Now a days, however, financial inclusion is seen to be something more than just opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. The present article focuses on the concept of financial inclusion, why there is need of financial inclusion, and major initiatives taken to promote the financial inclusion.

**KEYWORDS:** Financial inclusion, financial services, institutional sustainability, poverty, biometric teller machines

### INTRODUCTION

Even after the many years of independence ,large section of population in india is still do not have access to banking facilities which leads to financial instability and poverty among the lower income group who do not have access to financial product and services.

Financial inclusion means delivery of financial services at affordable costs to the disadvantaged people and low income segments of the society. Financial inclusion has got importance during the early 2000s. **According to united nations goals of financial inclusion is** to have an access of full range of financial services including (savings or deposit services, payment and transfer services, credit and insurance) at reasonable cost for all households, sound and safe institution governed by clear regulation and industry performance standards, financial and institutional sustainability to ensure continuity and certainty of investments and competition to ensure choice and affordability for clients.

IN INDIA , the term financial inclusion was used first time in april 2005 in annual policy report given by Y. venugopal reddy , governor of RBI

**According to RBI financial inclusion** is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

### WHY THERE IS NEED OF FINANCIAL INCLUSION IN INDIA

Financial inclusion is the key policy concern as there are more than 600 million citizens who does not have access to banking and financial services. In India , there is a strong linkage between financial exclusion and poverty .one of the most important reason behind rising



farmer suicides in the countryside is the lack of access to cheap credit from banks and financial institutions. Hence there is a need of financial inclusion in India

#### ☆ **Creating habit to save money:-**

Lower income group people usually live in financial stress due to the absence of savings. The presence of banking services and products will make it possible to save more. Hence capital formation is one of the reasons to boost financial inclusion in India as people will switch from traditional modes of savings such as investing their savings in land, building etc to modern phase. If the weaker sections are provided with the facility of banking services the savings can be mobilised which is normally piled up at their households and can be effectively utilized for the capital formation and growth of the economy.

#### ☆ **Providing formal credit sources:-**

Unbanked population depends upon informal credit system such as taking loans from money lender at high interest rate. Financial inclusion will make it possible for the unbanked population to take credit from formal sources such as micro finance sector.

#### ☆ **To stop Leakages in public subsidies and welfare programmes**

An amount which is meant for the poor people does not reach them due to the government bureaucracy. So government is planning for direct cash transfers through their bank accounts. For this purpose an efficient banking system is required. Therefore there is a need of financial inclusion.

### **SOCIAL OBJECTIVES**

Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances. It helps in improving the standard of living of the people in the weaker sections of the society.

#### **Measures taken by RBI to support financial inclusion:-**

- ☆ **Kisan Credit Card (KCC) Scheme** was launched in 1998-99 to provide insurance cover to the farmers. Also **General Purpose Credit Card** scheme was started to ensure easier credit facility to the people without surplus. The total number of GCCs issued by banks as on end March, 2009 was 0.158 million.
- ☆ **No frill account** : In November 2005, the RBI asked banks to start no frill accounts to bring unbanked people into the system. No frill account has been introduced by the RBI for the basic

facilities of deposit and withdrawal to account holders by reducing extra frills that are of no use for the lower section of the society.

#### ☆ **Business correspondents system:-**

Business correspondents are the bank representatives which help the villagers to open bank accounts for examples NGOs, self help group, micro finance institutions etc. This mechanism facilitates banking services to those areas where banks are unable to operate.

#### ☆ **Electronic benefits transfers:-EBT**

indicates the transfer of subsidy payments electronically into the beneficiary's account. This will reduce the leakages that are present in transfer of payments through the different stages of bureaucracy.

#### ☆ **Simplification of Know your Customer (KYC) procedures** : KYC

requirements have been simplified for opening accounts under the financial inclusion drive.

#### ☆ To build up strong financial system, measures like Rural Employment Guarantee

Scheme, the Bharat Nirman programme and the Sarva Shiksha Abhiyan have been started.

#### ☆ **Setting of Biometric ATMs in rural areas for meeting needs of illiterate customers** :

Biometric authentication systems are especially effective in rural areas with low literacy rates. Customers no longer have to rely on signatures or filling out documents - they can simply provide their fingerprints to authenticate themselves and access their accounts through specialized biometric teller machines (BTMs).

#### ☆ Removing usage fee on ATMs for use of other Bank ATMs

Financial Literacy and Credit Counseling (FLCC) centers were started.

### **MAJOR INITIATIVE TO PROMOTE FINANCIAL INCLUSION**

#### **Jan dhan yojana:-**

This programme was launched in India on 28th August, 2014. The initial target of this plan is to cover the 75 million unbanked households by 26th January 2015. Government stated that 15 million bank accounts were opened across the country under this initiative on an inaugural day.

Jan dhan yojana has two phases

- ✳ The objective of first phase of programme is to facilities universal access to banking facilities with the help of banking correspondents or bank

branch, zero -balance bank accounts with overdraft facilities of rs 5000 after six months and rupay debit cards with insurance coverage of 100000 and for those who has opened accounts by 26th January, 2015 , will be given life insurance with the coverage of 30000.

- ✳ The second phase of yojanan focuses on providing additional financial services such as micro insurance and pension schemes for unorganised workers.
- ✳ The Jan Dhan Yojana aims to cover 60 per cent of the country's population that does not have access to formal banking services.
- ✳ Beneficiaries of Government Schemes will get Direct Benefit Transfer in their accounts.

### Mobile Banking:-

Banks can help in financial inclusion through mobile banking as mobile penetration is increasing in rural areas. Mobile banking provides banking facilities at low cost using technology. Transactions at bank branch is 15 times expensive than mobile banking. For the rapid expansion of mobile banking in the country a pro-active participation of big technology players and communication companies with the banking system is required. Banking license to a joint venture between one phone company and an existing commercial bank with a specific mandate for inclusive banking can speed up the spread of mobile banking in the country

### RECOMMENDATIONS

- ✓ Government should increase number of banks branches in remote areas.
- ✓ Banks should focus more on products which should be simple, affordable , and should have high utility.
- ✓ RBI should frequently check whether the financial products are actually utilized by customer effectively, if not it should analyse the reasons. Banks should do regular surveys in villages for understanding the financial needs of the people.
- ✓ NGOs and other not for profit organisation/ social organisations / Non Governmental organisations etc. may be involved more to propagate the financial services to the remote and non accessible areas.
- ✓ Banks should allow customers to provide feedback about the product services. RBI should allow service providers to provide better mobile banking products at affordable price.

- ✓ Micro Finance Organisations/ Non Banking Financial organisations may be given permissions to do limited financial services in remote areas.
- ✓ Enlist many intermediaries/ agents with incentives to facilitate popularising Financial products in remote areas.
- ✓ Opening of Bank Accounts without minimum balance condition should be allowed at all branches and places.
- ✓ The banks are facing with high operating cost in extending the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also adding to the problem. Hence adequate measures should be taken to reduce maintenance cost.
- ✓ Reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode. Hence communication barriers should be reduced.

### CONCLUSION

We need to solve the financial exclusion as soon as possible if we want to see our economy in growing phase. Traditional and conventional banking solutions can not be used to tackle financial inclusion in India. We need to deploy new technologies and new financially efficient model to solve this problem in an effective manner. Banks can consider Financial inclusion practices as the part of their social responsibilities in short run but in long run it will provide new business opportunities to banks. Hence it can be stated that financial inclusion will remove poverty and social exclusion in long run which leads to growth of individuals and business with equality. Thus increase in GDP level and contribution towards economic growth will be the result of financial inclusion. It will also attract global players to invest in our economy which will again increase level of employment and economic growth.

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