THE STUDY OF FINANCIAL INCLUSION FOR DEVELOPING NATIONS WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

In the developing country they have low literacy level and low awareness of financial inclusion. Financial inclusion refers to the delivery of all types of financial services in a convenient manner and at the payable cost to major sections of the population and low income group population. Financial inclusion is that pathway for India needs to travel toward becoming a global player. A comparison has been made between India and some other selected countries regarding numbers of bank branches, ATMs, bank credit etc. for the identification of India's position in financial inclusion. It also attempts to know the various strategies adopted by Reserve Bank of India for strengthening the inclusion. Financial inclusion or inclusive financing is the provide to better facilities of financial services in banking system, at minimize costs, to reduce sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as point out the gap between the sections of society that are financially excluded within the formal financial system, providing them financial literacy and strengthening credit delivery mechanisms. This is the way to improved the financial economic growth of a nation. A nation can grow economically and socially if its weaker section can turn out to be financial independent.

KEYWORD: Financial inclusion, developing nation, bank and financial services

INTRODUCTION

Financial Inclusion is the main theme to solve the main objective of all developing nations since from last decade. Developing nations were trying to entry in main streem in development with the help of financial inclusion. In the developing country their research analysis shows that the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. In the reference of all developing country they are standing on the level of development, the stages of Financial Inclusion differs from another countries. It's been surprising fact that India ranks second in the world in terms of financially excluded households after china. In the inclusive growth active process of economy growth the central bank has also provided high importance to the financial inclusion in country.

The recent developments in banking technology have transformed banking from the traditional brick and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, online money transaction, internet banking, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society. Many of research reports and surveys clearly show that large numbers of population does not have an access to basic banking and financial services not only in India but also whole world. This is termed “financial exclusion”. Such type of people, particularly, those stander of living low incomes, cannot be comes in mainstream financial services and products like bank accounts which are used for doing payments and saving money, remittances, affordable credit, insurance and other financial services, etc.

REVIEW OF LITERATURE

According to Massey, 2010 said that, role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion.

According to Roy, 2012 studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

According to V. Ganesh kumar, 2013 noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in an India.

According to Karthikeyan Kothandaraman 2011 in his research paper “Financial Inclusion In India” has concluded that In achieving inclusive growth in India, Financial Inclusion will play a vital role and help the nation to drive away not only rural poverty but also urban poverty in India. He also stressed on the fact that it is the duty of every Indian citizen to ensure that all the Indians will have bank account and everybody should take part actively in achieving 100% financial inclusion in India.

According to Atul Raman 2012 in his research paper “Financial Inclusion and Growth of Indian Banking System” has explained the opportunities, scope and challenges for financial inclusion and concluded that Financial inclusion plays a major role in driving away poverty from the country and a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion.

According to Shivani, 2013 in her research paper “Financial Inclusion In India” has concluded that in achieving inclusive growth in India, Financial Inclusion will play a vital role and help the nation to drive away not only rural poverty but also urban poverty in India. It is the duty of every Indian citizen to ensure that all the Indians will have a bank account and everybody should take part actively in achieving 100% financial inclusion in India.

OBJECTIVES OF THE STUDY

In this research paper the main objectives:

1. To understand the financial inclusion and its importance.

2. To explore the need of financial inclusion for economic and social development of society.

3. To analyze the current status of financial inclusion in Indian economy.

4. To study the access of rural people in bank branches and the number of ATM opened in those areas.

5. To study the progress of State Cooperative Banks in financial inclusion plan.

IMPORTANCE OF FINANCIAL INCLUSION

Easy access to financial services will allow the population leaving in lower strata, to save money safely and help in preventing concentration of economic power with a few individuals, thus mitigating the risks that the poor could face as a result of economic shocks. Therefore, providing access to financial services is becoming an area of concern for the policymakers as it has far reaching economic and social implications. When we analysis about India, we got the there are very few people have interest of loan. The medium and lower populations of Indian are dependent on still moneylender. The problem faced by all people in the financial inclusion large parts of our financial system because still they are not supported by political intervention and bureaucratic constraints, limiting their potential contribution. India's poor, many of who work as agricultural and unskilled semi skilled wage laborers and low salaried workers are largely excluded from the formal financial system. Even the problem faced by micro and small enterprises, to find it difficult and access to formal sources of finance and thus are largely excluded from financial system. They are faced a large documentation in simple opening a saving account in their banks. If we conversation about Indians almost 40% of Indian working population have earn money but they have no saving. With the help of financial inclusion they provide protection to poor from the control of the trap of money lenders.

FINANCIAL EXCLUSION AT GLOBAL LEVEL

As per the report of the World Bank, in survey of 148 economics approximately 2.5 million people do not have a bank account and totally excluded from mainstream financial services and products. They do not have access to affordable financial services which is an ultimate tool for overcoming poverty and minimize income inequalities. Research of the World Bank submitted their report on the financial inclusion challenges in India is that only 50 % adults population have an account in formal financial institutions while rest of remain population were unbanked. They have not a single account in banks or post office. Where 54.7 % male adults have an account in formal financial institutions, only 46.3 % female adults have an account. World Bank provided their report that 20.9 % of adults population are use an account in their bank to receive their salary and wages and only 22.4 % adults saved at formal financial institutions in the past year. Only 9.0 % adults have taken loan from formal financial institutions in the year of 2011. And only 55 % of borrowers in developing countries use only informal source of finance inclusion.

FINANCIAL EXCLUSION IN INDIA

India is place of the largest unbanked population where, only 35 % adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. About 50 % of adult's reports in Andhra Pradesh and Delhi NCR and 40 % in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. Regarding the World Bank data in 2011, India is having population of around 1.22 billion on the behalf of only 65 % of adults across the country are excluded from the formal financial system. As per the report of World Bank, for India there are only 35.2 % of the adults above the age of 15 years have an account at formal financial institutions, and only 55 % population has deposit accounts in banks and only 9 percent population have credit accounts with formal financial institutions. This reports show that there are single bank branch per 14,000 persons. Just 18 % populations are used debit card holders and less than 2 % of populations are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB‟s and SCB‟s has still stood only 48000 in a country to provide service to 6 lakh villages. Very serious matter is that only one bank branch over the 12.5 villages of populations. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts.

The most common reason for not having a bank account in formal financial institutions is lack of enough money, a barrier reported by 63 % of unbanked adults. The second major reason: a family member already having an account was cited by 41 % respondents. At the level of Distance, cost factor, and lack of necessary documentation were face the problem at the rate of 20 % of population become unbanked respondents, rates exceeding those in other BRICS economies. Thus, financial inclusion has become equally important issue of under – developed, developing and developed economies for inclusive growth. Last with the process of financial inclusion we can overcome the dangerous situation of the financial exclusion.

NEED OF FINANCIAL INCLUSION

According to the United Nations the main goals of inclusive finance are as follows: 1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required

3. Financial and institutional sustainability as a means of providing access to financial services over time.

4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

INITIATION OF FINANCIAL INCLUSION CONCEPT IN INDIA

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

SURVEY REPORTS ON FINANCIAL INCLUSION

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011, which included face to face interviews of 3,518 respondents. The sample excluded the north eastern states and remote islands representing approximately 10 per cent of the total adult population. The survey suggest in developing countries India lags behind in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. In India, 35 per cent of people had formal accounts versus the global average of 50 per cent and the average of 41 per cent in developing economies as can be seen from the table 1 . The survey also points to the slow growth of mobile money in India, where only 4 per cent of adults in the Global index sample report having used a mobile phone in the past 12 months to pay bills or sends or receive money. Keeping in view the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centre’s.

Statistics on Financial Inclusion In India: A Survey

Share with an account at a formal financial institution				Adult saving in the past year		Adult originating a new year loan in the past year		Adult with a credit card	Adult with an outstanding mortgage	Adult playing personally for health insurance	Adult using mobile money in the past year
	All adults	Poorest income quintile	Women	Using a formal account	Using a community based method	From a formal financial institution	From a family or friends				
1	2	3	4	5	6	7	8	9	10	11	12
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Source: Asli Demirguc - Kunt and Klapper, L. (2012): „Measuring Financial Inclusion", Policy Research Working Paper, 6025, World Bank, April

Thus a lot has to be done to bridge the gap between the formal financial institutions and the rural people needs. To make them aware of the fact about the facilities available for their benefit and which can help

India to turn out to a developed nation from a developing nation. As can be seen from the below table-2 that the financial inclusion plan has shown a tremendous growth in the past two years. Banks are gaining momentum in areas like opening up of new banking outlets in rural areas, deploying new business correspondents (BC"s),opening of new frills accounts, granting more credit through KCC(Kisan Credit Card) AND GCC"s(General Purpose Credit Card).

ACTIVITIES UNDERTAKEN BY FINANCIAL LITERACY CENTERS

In India, a number of initiatives have been taken by a number of authorities with regard to financial inclusion. These are: a) Rangarajan Committee Report (2008) instituted by the National Bank for Agriculture and Rural Development (NABARD), b) Raghuram Rajan Committee Report (2009) set up by Planning Commission c) Malegam Committee Report (2011) to study issues and concern in the Microfinance Institute (MFI) established by the Reserve Bank of India (RBI) and d) Microfinance Institutions (Development and Regulations) Bill (2012) instituted by the Finance Department, Government of India. The RBI had in September 2013, appointed Dr. Nachiket Mor Committee on Committee on Comprehensive Financial Services for Small Business and Low Income Households to examine the challenges to Financial Inclusion.

Particulars	During year ended March 2013	During year ended March 2014
No. of Outdoor Activities conducted	40,838	56,985
Outdoor Activities - No. of persons participated	1,733,198	3,178,425
Indoor Activities - No. of persons participated	483,980	647,643
Total No. of persons participated –Outdoor & Indoor activities	2,217,178	3,826,068

Source: rbi.org.in

To achieve meaningful financial inclusion, the financial literacy efforts are primarily directed towards spreading of simple messages of financial prudence, in vernacular languages, through large awareness campaigns across the country combined with strong roll out of financial inclusion plans by banks, insurance and pension funds and others. Financial education can be a social infrastructure facilitating inclusive growth.

Financial Inclusion Plan-Summary Progress of all Banks including RRBs

	March 2011	March 2012	March 2013	March 2014	Progress 2011-2014
Banking outlets-Total	1,16,208	1,81,753	2,68,454	3,83,804	267,596
BSBDAs Total (No. in millions)	104.7	138.5	182.1	243.0	138.3
KCC (in millions)	27.11	30.24	33.79	39.9	12.79
GCC(in millions)	1.70	2.11	3.63	7.4	5.7

Source: Annual Report of RBI (Various Years)

The data outcomes from the report of RBI, analysis the progress made by banks under the 3-year FIP (April 2010-March 2014) on key parameters is depicted in above outcomes.

1. The number of banking outlets has gone up to nearly 3,83,804. Out of these, 2,68,454 banking outlets were opened during 2013. This shows bank connectivity has improved.
2. More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year taking the total number of BSBDAs to 243 million.
3. Numbers of Kisan Credit Cards outstanding have gone up from 27.11 million in 2011 to 39.9 million in 2014.
4. Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2014, banks had 7.4 million GCC accounts. Numbers of General Credit Cards outstanding have gone up from 1.70 million in 2011 to 7.4 million in 2014.

CHALLENGES AND CONCERNS

- The banks are faced with high working cost in providing the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also creating the problem.
- The problem of high transaction cost and outreach faced by the banks can be dealt with the use Information Technology based solutions, such as mobile phones and smart cards, create data base for credit risk management and pricing.
- There are over 403 million mobile phone users today of which around 187 million (46 per cent) do not have a bank account. The Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) can be used to (i) fund support for capacity building of BCs and BFs and render promotional support for SHGs and other institutions; and (ii) financial support for rural kiosks, IT and such other technological solutions for financial services in rural India.
- Further, reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode.
- The key indicators show that the banks are enabling financial inclusion and promoting inclusive growth though such initiatives are challenges in size and scope.
- Inclusive financial sectors can break the vicious circle of poverty if implemented properly. It can empower the poor and ensure that poor people have access to a wider range of financial services, for this persistent effort from all the stakeholders is required.
- The Reserve Bank remains committed to create a conducive regulatory environment where financial entities can ensure hassle free financial services to the poor without jeopardizing financial stability.
- The level of financial inclusion in the country, both qualitatively and quantitatively can improve substantially by expanding the size and scope of the rural financial system landscape and, thereby, addressing the persistent and emerging challenges relating to rural finance.
- Financial Inclusion has emerged as a tool for the socio-economic development of the society. The basket of financial services under Financial Inclusion will create an opportunity to capture the underserved market fulfilling corporate social responsibility thereby driving the economic growth of the country.
- The underserved population in India needs social improvement and attention to basic needs. Once the underserved are socially and economically stable, financial literacy, formal sources of microfinance and appropriate delivery channels can aid inclusive economic growth.

- Financial inclusion is back in the public interest after Prime Minister of India announced the launch of Pradhan Mantri Jan DhanYojana, a scheme to bank the poor. The spirit of pushing economic development agenda by making a mandate of Sabka Saath, Sabka vikas will definitely guide banks towards better stability and growth.

CONCLUSION

For standing out on a global platform India has to look upon the inclusive growth and financial inclusion is the key for inclusive growth .There is a long way to go for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor “Even today the fact remains that nearly half of the Indian population doesn’t have access to formal financial services and are largely dependent on money lenders”. Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while 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.

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