Financial Inclusions in India

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ABSTARCT

Financial sector is the backbone for any developing economy. So the focus has to be on growth and stability of financial position of all citizens of the country in order to ensure continuous development. Consequently financial inclusion plays an indispensable role in inclusive growth of an economy. In simple terms financial inclusion strives to address the challenge of poor access of financial services to rural masses in India. Financial inclusion stands for delivery of appropriate financial services at an affordable cost, on timely basis to vulnerable groups such as low income groups and weaker section who lack access to even the most basic banking services The origin of financial inclusion can be traced back to the year when United Nation initiatives were undertaken which specified the provision of credit, insurance, savings and other banking services to all bankable households." Government of India has been very active towards improving the level of financial inclusion and for this numerous efforts have been undertaken by government. Through this paper an attempt has been made to provide an overview on status of financial inclusion in India in past few years.

Keywords*: Financial inclusion, inclusive growth, banks, Indian economy.*

INTRODUCTION

Financial sector acts as a multiplier and mediator for economic stability. In India a large chunk of society is deprived of access to formal financial services due to which they have to depend on informal sources of finance which bears huge cost. So experts from banking sector and government identified need of some initiatives which can be devoted towards provision of banking services to economically weaker sections of the society. The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries. 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". These people, particularly, those living on low incomes, cannot access mainstream financial services and products such as bank accounts which are used for making payments and keeping money, remittances, affordable credit, insurance and other financial services, etc.

OBJECTIVE OF THE STUDY

The following are the objectives of the study

- To give an insight into various aspects of financial inclusion
- To understand the financial inclusion and its importance.
- To understand the various initiatives taken by the Government and RBI towards Financial inclusion.

DATA COLLECTION

This paper is an attempt of exploratory research, based on the secondary data from Ministry of finance website and publications, published data of banks, newspaper clippings, economic survey and other reports of government of India, published and unpublished research works of various eminent scholars in the field. The researcher has tried to derive meaningful results from the new government schemes.

IMPORTANCE OF FINANCIAL INCLUSION

Easy access to financial services will allow the population leaving in lower strata, to save money 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. In India, The single most frequently used source of loan for medium Indian household is still moneylender. Large parts of our financial system are still hampered by political intervention and bureaucratic constraints, limiting their potential contribution. Indians who work as agricultural and unskilled semi-skilled wage laborers and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Over 40% of Indian working population earn but have no saving. Financial inclusion provides protection to poor from the control of the spurious money lenders.

INITIATIVES TAKEN BY RBI TOWARDS FINANCIAL INCLUSION

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

- **Opening of no-frills accounts:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

- **Relaxation on know-your-customer (KYC) norms:** KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.
- **Engaging business correspondents (BCs):** In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs 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. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this. In the grass-root level, the Business correspondents (BCs), with the help of Village Panchayat (local governing body), has set up an ecosystem of Common Service Centers (CSC). CSC is a rural electronic hub with a computer connected to the internet that provides e-governance or business services to rural citizens.
- **Use of technology:** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), 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.
- **Adoption of Electronic Benefit Transfer:** Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.
- **GCC:** With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers 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.
- **Simplified branch authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without the need to take permission from RBI in each case, subject to reporting.
- **Opening of branches in unbanked rural centers**: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centers.

INITIATIVES TAKEN BY GOVERENEMENT TOWARDS FINANCIAL INCLUSION

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

Prime Minister Narendra Modi announced Pradhan Mantri Jan Dhan Yojana as the National Mission on Financial Inclusion in his Independence Day address on 15th August 2014, to ensure comprehensive financial inclusion of all the households in the country by providing universal access to banking facilities with at least one basic bank account to every household, financial literacy, access to credit, insurance and pension facility. Under this, a person not having a savings account can open an account without the requirement of any minimum balance and, in case they self-certify that they do not have any of the officially valid documents required for opening a savings account, they may open a small account. Further, to expand the reach of banking services, all of over 6 lakh villages in the country were mapped into 1.59 lakh Sub Service Areas (SSAs), with each SSA typically comprising of 1,000 to 1,500 households, and in the 1.26 lakh SSAs that did not have a bank branch, Bank Mitras were deployed for branchless banking. Thus, PMJDY offers unbanked persons easy access to banking services and awareness about financial products through financial literacy programs. In addition, they receive a RuPay debit card, with inbuilt accident insurance cover of Rs. 1 lakh, and access to overdraft facility upon satisfactory operation of account or credit history of six months. PMJDY was conceived as a bold, innovative and ambitious mission. Census 2011 estimated that out of 24.67 crore households in the country, 14.48 crore (58.7%) had access to banking services. In the first phase of the scheme, these households were targeted for inclusion through opening of a bank account within a year of launch of the scheme. The actual achievement, by 26th January 2015, was 12.55 crore. As on 29.3.2017, the number of accounts has grown to 28.17 crore. Further, in 2011, only 0.33 lakh SSAs had banking facility and through provision of Bank Mitras in 1.26 lakh branchless SSAs, banking services were extended throughout rural India. The inclusive aspect of this is evident from the fact that 16.87 crore (60%) of PMJDY accounts are in rural areas and 14.49 crore (over 51%) PMJDY account holders are women. The deposit base of PMJDY accounts has expanded over time. As on 29.3.2017, the deposit balance in PMJDY accounts was Rs. 62,972 crore. The average deposit per account has more than doubled from Rs. 1,064 in March 2015 to Rs. 2,235 in March 2017. The Bank Mitra network has also gained in strength and usage. The average number of transactions per Bank Mitra, on the Aadhaar Enabled Payment System operated by Bank Mitras, has risen by over eightyfold, from 52 transactions in 2014-15 to 4,291 transactions in 2016-17.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

The PMJJBY is available to people in the age group of 18 to 50 years having a bank account who give their consent to join / enable auto-debit. Aadhar is the primary KYC for the bank account. The life cover of Rs. 2 lakh is for the one year period stretching from 1st June to 31st May and is renewable. Risk coverage under this scheme is for Rs. 2 lakh in case of death of the insured, due to any reason. The premium is Rs. 330 per annum which is to be auto-debited in one installment from the subscriber's bank account as per the option given by him on or before 31st May of each annual coverage period under the scheme. The scheme is being offered by the Life Insurance Corporation and all other life insurers who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose. As on 31st March, 2017, cumulative gross enrollment reported by banks subject to verification of eligibility, etc. is over 3.10 crore under PMJJBY. A total of 62166 claims were registered under PMJJBY of which 59118 have been disbursed.

- **Atal Pension Yojana (APY)**

APY was launched on 9th May, 2015 by the Prime Minister. APY is open to all saving bank/post office saving bank account holders in the age group of 18 to 40 years and the contributions differ, based on pension amount chosen. Subscribers would receive the guaranteed minimum monthly pension of Rs. 1,000 or Rs. 2,000 or Rs. 3,000 or Rs. 4,000 or Rs. 5,000 at the age of 60 years. Under APY, the monthly pension would be available to the subscriber, and after him to his spouse and after their death, the pension corpus, as accumulated at age 60 of the subscriber, would be returned to the nominee of the subscriber. The minimum pension would be guaranteed by the Government, i.e., if the accumulated corpus based on contributions earns a lower than estimated return on investment and is inadequate to provide the minimum guaranteed pension, the Central Government would fund such inadequacy. Alternatively, if the returns on investment are higher, the subscribers would get enhanced pensionary benefits. In the event of pre-mature death of the subscriber, Government has decided to give an option to the spouse of the subscriber to continue contributing to APY account of the subscriber, for the remaining vesting period, till the original subscriber would have attained the age of 60 years. The spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse. After the death of both the subscriber and the spouse, the nominee of the subscriber shall be entitled to receive the pension wealth, as accumulated till age 60 of the subscriber. As on 31st March, 2017, a total of 48.54 lakh subscribers have been enrolled under APY with a total pension wealth of Rs. 1,756.48 crore.

- **Pradhan Mantri Mudra Yojana**

The scheme was launched on 8th April 2015. Under the scheme a loan of up to Rs. 50,000 is given under sub-scheme ‘Shishu’ between Rs. 50,000 to 5.0 Lakhs under sub-scheme ‘Kishore’; and between 5.0 Lakhs to 10.0 Lakhs under sub-scheme ‘Tarun’. Loans taken do not require collaterals. These measures are aimed at increasing the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs existing small businesses, too, will be able to expand their activates. As on 31.03.2017, Rs. 1,80,528.54 crores sanctioned (Rs. 85,100.74 cr. - Shishu, Rs. 53,545.14 cr. Kishore and Rs. 41,882.66 cr. - Tarun category), in 3,97,01,047 accounts.

- **Stand Up India Scheme**

Government of India launched the Stand Up India scheme on 5th April, 2016. The Scheme facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up Greenfield enterprises. This enterprise may be in manufacturing, services or the trading sector. The scheme which is being implemented through all Scheduled Commercial Banks is to benefit at least 2.5 lakh borrowers. The scheme is operational and the loan is being extended through Scheduled Commercial Banks across the country. Stand Up India scheme caters to promoting entrepreneurship amongst women, SC & ST category i.e those sections of the population facing significant hurdles due to lack of advice/mentorship as well as inadequate and delayed credit. The scheme intends to leverage the institutional credit structure to reach out to these underserved sectors of the population in starting Greenfield enterprises. It caters to both ready and trainee borrowers. To extend collateral free coverage, Government of India has set up the Credit Guarantee Fund for Stand Up India (CGFSI). Apart from providing credit facility, Stand Up India Scheme also envisages extending hand-holding support to the potential borrowers. It provides for convergence with Central/State Government schemes. As on 29.03.2017, Rs. 5,237.29 crore has been sanctioned in 25,435 accounts (20,305 – women, 1,086-ST and 4,044 – SC).

- **Pradhan Mantri Vaya Vandana Yojana**

Based on the success and popularity of Varishtha Pension Bima Yojana 2003 (VPBY-2003), Varishtha Pension Bima Yojana 2014 (VPBY-2014) schemes, and to protect elderly persons aged 60 years and above against a future fall in their interest income due to the uncertain market conditions, as also to provide social security during old age, it has been decided to launch a simplified scheme of assured pension of 8% called the ‘Pradhan Mantri Vaya Vandana Yojana’. This is implemented through Life Insurance Corporation (LIC) of India. As per the scheme, on payment of an initial lump sum amount ranging from a minimum purchase price of Rs. 1,50,000/- for a minimum pension of Rs 1,000/- per month to a maximum purchase price of Rs. 7, 50,000/- for maximum pension of Rs. 5,000/- per month, subscribers will get an assured pension based on a guaranteed rate of return of 8% per annum, payable monthly.

CONCLUSION

There is a dire need to provide quality financial services in rural areas for economic growth as it will help rural households to fund the growth of their livelihoods. Government of India has taken heartfelt efforts in bringing the citizens of India under the ambit of banking services. But still some segment of the nation is lagging behind even though financial inclusion initiatives are in progressive stage. Rapidly developing technology has also played a vital role in bridging the financial divide of the nation. More number of people have started using ATMs, Immediate Payment Service (IMPS) and mobile banking. In a nutshell it can be said 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.

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