PROSPECTS AND CHALLENGES OF FINANCIAL INCLUSIONIN INDIA

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Abstract

Financial inclusion is the process of making financial services accessible to all individuals and businesses at affordable rates, irrespective of net worth and size, respectively. Financial inclusion strives to identify and remove those barriers that exclude people from participating in the financial sector. It intends to provide financial solutions without any kind of discrimination. Financial inclusion wants the participation of everyone in the society to be involved in financial management. In India major part of the population still don't have access to financial products and service. They are not aware of banking services and functions. Even if they are aware of these functions, many of them do not have access to these banks. Thus we can say that there is a huge gap between the people who access to financial products and services and who do not have access to financial products and services. It may be due to various reasons such as lack of education, lack of awareness, digital illiteracy or lack of financial resources to avail such products and services. Financial inclusion aims to eliminate these barriers and there by provide financial services to those sections of the society who are less fortunate, so that they can be financially independent. Financial inclusion also tries to spread awareness about financial services and financial management among people of the society. Moreover, it wants to develop formal credit avenues in order to protect poor people from the exploitation of the informal credit avenues. The proposed research paper will expose the importance and challenges faced in promoting financial inclusion in India and also the measures adopted by the Government of India and Reserve Bank of India in promoting financial inclusion in India.
Keywords: Financial inclusion, financial products, financial services, digital illiteracy.

Introduction

Financial Inclusion is the process of ensuring that appropriate financial products and services are made available to vulnerable groups such as weaker sections and low income groups at reasonable cost in a fair and transparent manner. It is the process of making financial services available at reasonable costs to all individuals and businesses effectively and efficiently. Financial inclusion aims to address and provide solutions to the constraints and barriers that exclude people from participating in the financial sector.

In India there is a gap between urban and rural area. Urban areas are developed and they have strong banking network, but in rural area it's just the opposite. The banking system in the rural area is poor. This has led to a lot of financial instability among the people of rural area who do not have proper access towards financial products and services. With little access to banks and other financial institutions, especially in rural areas, most of the people in rural areas are not able to enjoy the perquisites and concessions offered by the financial institutions. They are forced to rely on indigenous money lenders when there is a need for finance, who charges higher interest rate. Even if they access bank locations for conducting transactions, they may bear certain expenditure such as transportation costs, banking fees and so on. This shows the need for financial inclusion. Through financial inclusion we can make financial products and services available to all citizens equally at an affordable cost. Today financial sector is continually coming up with new ways to provide services to the global population. The increase in the use of technology in the financial industry (fintech) seems to have filled the void of inaccessibility to financial services. The arrival of fintech has provided a way in which all entities would have equal and fair access to all financial tools and services.

In India, by the recommendations of the Rangarajan Committee in 2008, the financial inclusion entered into the banking texts as a policy. Financial inclusion strives for the participation of each individual in the society in the financial management. It aims is to provide financial services that help to meet the needs users without any discrimination.

Importance of Financial Inclusion in India

In India only a small fraction of population has access to financial products and financial services. It may be due to lack of knowledge, illiteracy, lack of financial resources, digital illiteracy. The government of India is making various efforts to bridge the gap between the privileged and the underprivileged. Through financial inclusion we could able to solve these issues, as its primary objective is to make financial products and services available to all individuals in a fair and transparent manner.

Following are the some of the major reasons why financial inclusion is very important for the country,

1. Encourage Savings:
   As the rural earnings increase, so does the need for saving. Because most of the people in rural areas have little or no access to financial services, they don't get into the habit of earning. As an economy, savings are prerequisite to boost capital formation.
2. Facilitate Formal Credit Avenues
   In India large of the population depends on informal credit channels. Most of these informal credit units exploit poor people by charging high cost of borrowing. To reduce this dependence on informal avenues, proper avenues need to be made available to all sections of the society. Available of adequate credit from formal credit channels will helps to reduce the cost of borrowings, which promotes entrepreneurial responsibility and add to economic growth.
3. Allow Direct Cash Transfers
   Physical cash payments are cumbersome and risky. Moreover, there are no guarantees that the funds will actually reach the right person. Having a proper account with banking or financial institution enables direct cash transfers, which helps to avoid the risks associated with physical cash payments.
4. Promotes Cashless economy
   With help of financial inclusion each and every individual in the economy would a have bank account and they conduct majority of the transaction through bank such as electronic fund transfer, Credit and debit cards, which helps to reduce the circulation of physical cash in the economy, as more money is brought into the banking ecosystem
5. Promotes Entrepreneurship
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Financial Inclusion Schemes in India

The Government of India has been introducing several schemes for the purpose of promoting financial inclusion in the country. These schemes intend to provide assistance to the people who belong to less fortunate sections of the society. Various schemes launched by the Government of India are,

1. Pradhan Mantri Jan Dhan Yojana (PMJDY)
   Pradhan Mantri Jan-Dhan Yojana (PMJDY) is national mission for promoting financial inclusion for the purpose of ensuring equal access to various financial services, such as,Banking, Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an reasonable manner. The accounts can be opened by the customer in any bank account. Zero balance accounts can also be opened under this scheme. Following are the special benefits under this scheme,
   a. Interest on deposit.
   b. Minimum balance is not required.
   c. Easy Transfer of money across India
   d. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
   e. Over draft facility is available upto Rs.5000 per household only in one account preferably lady of the household
2. Atal Pension Yojana (APY)
   Atal Pension Yojana is a pension scheme mainly aimed at the unorganized sector. The goal of the scheme is to give a sense of security to the Indian citizen, where the citizens no longer need to worry about any illness, accidents or diseases in old age. Private sector employees or employees working with such an organization where they do not receive any pension benefit can also apply for the scheme. A fixed pension can be recieved under this scheme, which consists of Rs 1000, Rs 2000, Rs 3000, Rs 4000, or Rs 5000 on attaining an age of 60. The pension will be determined based on the individual's age and the contribution amount. A contribution of 50% of the total contribution or Rs

1000 per annum, whichever is lower will be made by the Government, to all eligible subscribers who had joined between June 2015 and December 2015 for a period of 5 years i.e., for financial years 2015-16 to 2019-20. The subscribers should not be part of any other statutory social security schemes (For eg: Employee's provident fund), or should not be paying income taxes, in order to avail Government's co-contribution.

3. Pradhan Mantri Vaya Vandana Yojana
   This is a pension plan for senior citizens who are 60 years and above. This scheme provide senior citizens with a guaranteed return of8% for the period of 10years. This scheme is exempted in Goods and services tax (GST). The investment limit under the Pradhan Mantri Vaya Vandana Yojana (PMVVY) is 15 lakhs. The plan is available from 4th May, 2017 to 31st March, 2020.
4. Stand Up India Scheme
   The Stand up India scheme aims at fostering entrepreneurship activities among women and scheduled castes and tribes. The scheme is anchored by Department of Financial Services (DFS), Ministry of Finance, Government of India. This Scheme facilitates bank loans between Rs 10 lakh and Rs 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in trading sector, service sector or manufacturing sector. In case of non-individual enterprises not lea than 51% of the shareholding should be held by either an SC/ST or woman entrepreneur.
5. Pradhan Mantri Mudra Yojana (PMMY)
   Pradhan Mantri Mudra Yojana (PMMY) is a scheme which was launched with the aim of providing loans upto 10 lakh to the non-corporate, non-farm small andmicro enterprises. Under PMMY these loans are classified as MUDRA loans. The borrower can avail this loan from Commercial Banks, RRBs, Small Finance Banks, Cooperative Banks, MFIs and NBFCs. MUDRA has created three products under PMMY namely 'Shishu', 'Kishore' and 'Tarun'. Their purpose is to identify the stage of growth, development and funding needs of the beneficiary and also provide a reference point for the next phase of growth.
6. Pradhan Mantri Suraksha Bima Yojana (PMSBY)
   Pradhan Mantri Suraksha Bima Yojana is a government sponsored accident insurance scheme.This scheme is available to people of age group between 18 and 70 years with bank accounts. This scheme is exempted in Goods and Service Tax. The accident insurance scheme will have coverage of one year from 1 June to31May. The insurance would be offered through banks and administered through general insurance companies in public sector. The nominee will get a payment of Rs 2 lakh in case of accident death or full disability, and Rs 1 lakh in the case of permanent disability.
7. Sukanya Samriddhi Yojana
   Sukanya Samriddhi Yojana was launched by Government of India targeting parents of girl children. The scheme encourages parents to make savings for their female child to meet their future education and marriage expenses. Under this scheme an account called Sukanya samriddhi account can be opened at any post office or branches of aouthorized commercial bank. The account can be opened by the parent or guardian at anytime between the birth of a girl child and the time she attains the age of 10 years. One account is only allowed per child, maximum of two accounts for each of their children (incase of twins and triplets exceptions are allowed). Initially a minimum deposit of Rs 250 has to be made, after that any amount multiples of Rs 100 can be deposited. Maximum amount that can be deposited in this account is Rs 1,50,000.

8. Varishtha Pension Bima Yojana (VPBY)
   Varishtha Pension Bima Yojana 2017 is a guaranteed pension scheme launched by the Government of India for the people who are aged 60 years and above. Purpose of VBPY 2017, is to provide immediate pension to senior citizens. It is a part of Government's commitment for financial inclusion and social security. The key features of this scheme are,
   a. This scheme will be managed by Life Insurance Corporation of India (LIC).
   b. Under the scheme senior citizens above the age of 60 will be offered pension in monthly, quarterly, half-yearly and annual modes.
   c. Fixed interest rate commitment is for 10 years only, after which rates will be revised.

Measures to Promote Financial Inclusion by Reserve Bank of India

Along with the Government of India, Reserve Bank of India has also taken necessary steps to achieve the objectives of financial inclusion in the country. Some of the steps taken by RBI for achieving financial inclusion are,

A. Basic Saving Bank Deposits (BDSD)

The RBI instructed every bank to have Basic Saving Bank Deposits (BDSD) accounts for the economically weaker sections of the society. In this type of deposits, there is no need for the account holder to maintain minimum balance. These account holders can withdraw cash at any ATM or at the bank branch.

B. Simplified KYC norms

The RBI has instructed banks to have simple Know Your Client (KYC) regulations for the less fortunate people of the society. Due to strict KYC norms many people are not able to open bank accounts, especially in rural areas. Hence, the RBI wants banks to have simplified KYC requirements particularly for opening a bank account with an amount not more than Rs.50,000.

C. Compulsory Opening of Branches in Unbanked Villages

The RBI has asked all banking institutions to open branches in villages across the nation in order to provide good banking services to the villagers. In India, still there are many remote places where the banking facilities are no available. It is very difficult for residents to travel far-off bank branch for availing banking services. As a result of this compulsory rule implemented by the RBI, banks are taking steps to maintain balance between their branches in urban and rural areas.

Challenges to Financial Inclusion in India

Financial inclusion is not task that can be easily achieved. To achieve the objectives of financial inclusion one has to overcome many barriers. India is a developing country, having a wide gap in the distribution of income. As per 2011 census total literacy rate of the country is around 74%. So at the time of formulating plans and policies to promote financial inclusion in the nation, one should be aware of the various challenges that act as a barrier in achieving the objective of financial inclusion. Important challenges that hinders one from fullfilling the objectives of financial inclusion are,

- Financial Literacy

  To achieve the goal of financial inclusion, the public should have financial literacy. They should be aware of various financial products and services available in the economy. Individuals with financial literacy would able to make better financial decisions. They could able to select right financial product, which suits their needs. It will also help them to understand how to utilize the various channels that are available for their banking needs efficiently.

- Identification documents

  One of the key factors which prevent one from getting access to basic banking services is the lack of proper documents for identification and verification. Identification documents such as adhar card, passport, voter's identity card etc is essential for availing banking services. The people should be made aware of importance of such identification documents and make them avail such documents to enjoy banking services.

- Information protection

  Although there has been a rapid increase in the financial services such as mobile money, digital wallet and virtual currencies for the purpose of promoting financial inclusion, but still there is a lack of trust among consumers regarding the security and reliability of these newly established platforms. In order to promote confidence in these new methods of payment services, authorities must provide clear guidelines and regulations that will help the consumers to understand that they are protected, so they could able to enjoy this innovative services without any ambiguity.

- Disparity between rural and urban area

  In India there is a gap between urban and rural area. Urban areas are developed and they have strong banking network, but in rural area it's just the opposite. The banking system in the rural area is poor. So overcome this problem the Government should establish a strong banking network in urban. They should encourage banks to establish new branches in the rural areas. The Government should make more investment in the rural areas of our country.

Impact of Demonetisation on Financial Inclusion

With the implementation of the demonetization process in India in the year 2016, their was an increase in the digital financial services. The ban on currency notes of Rs.500 and Rs.1,000 forced people to go for alternative ways to make payment for goods and services. Hence, there was an increase in the digital transactions all whole over the country. To a great extent the Government could able to make our economy into cashless economy. Many people belonging to low-income groups as well as people who are not aware of digital payments started learning about digital transactions and started to utilize it. At the initial stage of demonetization process many people struggled, but the introduction of digital banking and digital financial services served as a great boon to all economic classes of the society. Several low-income people, unemployed people (including people who were digital illiterates) started to learn about the banking functions and services and also how to carry out digital transactions. There was an increase in the digital transaction in the economy because of demonetization. By creating a digital economy we can easily achieve the basic objectives of financial inclusion.

Conclusion

Financial inclusion is very important for the development of our country. Financial inclusion helps to improve the financial system of the country comprehensively. Availability of economic resources can be strengthened with help of financial inclusion. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it provides assistance to achieve economic progress in a systematic manner. A strict and consistent policy is needed for our country to implement effective financial inclusion methods. Policy makers must ensure availability of financial services to the rural and weaker sections of the society at reasonable costs. A proper system should be established to ensure that these sections could able to enjoy the benefits of financial inclusion. Necessary steps should be taken to have a strong banking system in the rural area. Through financial inclusion the country could able to make better financial products and services that can made affordable to all people in the country. This results in improving the financial system of our country. Development of financial system helps the country to achieve higher growth rate which in turns helps to transform our economy to developed economy from developing economy.

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