A Conceptual Study on Strategies Adopted by RBI for Financial Inclusion in India

***Dr.K.Vidyakala & Dr.K.Nithya Kala**

* Assistant Professors, Department of Business Administration PSGR Krishnammal College for Women, Coimbatore

Abstract: India is the sixth largest economy in the world (source: World Bank, 2018). For developing country like India credit is considered to be the prime factor for the economic development. Financial inclusion is the conscious effort taken in by Indian government and RBI to bring "Unbanked Population" to formal banking system. Financial inclusion is the process of making financial services available and accessible at affordable costs to all individuals and businesses. Financial inclusion aims to address and provide solutions to the problems that exclude people from participating in the financial sector. This paper focuses on strategies adopted by RBI for Financial Inclusion in India using secondary data in-order to evaluate access and usage of financial services to measure the financial inclusion progress in India.

Key Words: Financial Inclusion, India, Reserve Bank of India, Financial Services

---

Introduction:

India is the sixth largest economy in the world according to the 'World Bank' report, 2018. It is becoming a role model for several developing countries around the world. In India RBI has adopted bank led financial inclusion for inclusive economic growth. Financial inclusion may 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then governor, Reserve Bank of India (source: Reserve Bank of India - Annual Policy Statement for the Year 2005-06). Later on, this concept gained ground and came to be widely used in India and abroad. Financial inclusion is the conscious effort taken in by Indian government and RBI to bring unbanked population to formal banking system. Financial inclusion is the process of making financial services available and accessible at affordable costs to all individuals and businesses. Financial inclusion aims to address and provide solutions to the problems that exclude people from participating in the financial sector. Thus RBI has adopted many strategies for financial inclusion in India.

Review of Literature:

Sakariya and Ruparel (2018) studied the relevant literature to identify the theoretical and fundamentals behind financial inclusion, financial exclusion, and various aspects related to it. The paper highlighted the role of banks in financial inclusion in India and further identified the key factors for smooth implementation of financial inclusion strategies. The paper ascertained the key factors and related variables, essential for evaluation of financial inclusion strategies of the banks in India.

Rajasekaran (2018) examined the various barriers that impede financial inclusion in India. This objective of the study was to reveal the outcome of initiatives taken by RBI and GOI. The paper was on the secondary data collected from the different sources. The findings of the study indicated that the initiatives taken by Reserve bank of India and Government of India has reached the majority of the financially excluded people in India. The paper also indicated that lack of financial literacy and low and irregular income affects the growth rate of financial inclusion in India.

Dixit and Ghosh (2013), in their paper studied about inclusive growth phenomenon, its need and financial inclusion as an instrument to attain it with reference to its extent in Indian States. The paper used secondary data source and it has been analysed using natural hierarchical grouping cluster and considered parameters like GDP per capita, literacy rate, unemployment rate and index of financial inclusion on few of Indian states.

Objectives of the Study:

- To study the strategies adopted by RBI for Financial Inclusion in India.
- To evaluate the access and usage to measure financial Inclusion progress in India.

Research Methodology:

The study used secondary data collected from various reports published by Government of India, World Bank, RBI and other financial institutions, websites and journals. The collected secondary data has been analysed using percentage analysis and using percentage increase or decrease.

[1] Strategies adopted by RBI for Financial Inclusion in India

No-frills Accounts

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

Know-your-customer (KYC) norms Relaxation

- The banks were permitted to take any evidence as to the identity and address of the customer to their satisfaction.

Business correspondents (BCs) Model

- RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services i.e. to provide doorstep delivery of services, especially cash in-cash out transactions.

Enhanced Technology Usage

- RBI has advised banks 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.

Implementation Electronic Benefits Transfer (EBT)

- RBI has advised banks 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.

General purpose Credit Card facilities

- The purpose of the GCC scheme is to provide hassle-free credit to banks' customers up to Rs.`25,000 at their rural and semi-urban branches based on the assessment of cash flow without insistence on security, purpose or end use of the credit.

Simplified branch authorization and Opening of branches in unbanked rural centres

- Domestic scheduled commercial banks were permitted by RBI to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting.

[2] Source: http://vikaspedia.in/social-welfare/financial-inclusion/financial-inclusion-in-india,

[3] Access and Use of financial Services

Table 1: Access and use of Financial Service

Indicators	2013	2014	% of Increase	2015	% of Increase	2016	% of Increase	% of Increase in 2017 from 2013
Automated Teller Machines (ATMs) per 100,000 adults	12.87	17.8	38.31	19.7	10.67	21.24	7.82	65.03
Branches of commercial banks per 100,000 adults	11.85	12.87	8.61	13.54	5.21	14.06	3.84	18.65
Deposit accounts with commercial banks per 1,000 adults	1160.7	1337.41	15.22	1541.79	15.28	1731.27	12.29	49.15
Loan accounts with commercial banks per 1,000 adults	142.48	151.27	6.17	154.45	2.10	170.77	10.57	19.86
Mobile money transactions: number per 1,000 adults	36.32	117.21	222.71	273.05	132.96	635.22	132.64	1648.95

Source: IMF 'Financial Access Survey' 2017 - India statistics, Percentage computed

The above table 1 shows that in the year 2017 ATM usage has increased to 65.03% in 2017 compared to 2013 per 1,00,000 adults. There is 18.65 % increase in branches of commercial banks in 2017 compared to 2013 per 1,00,000 adults. Deposit accounts with commercial banks have increased to 49.15% in 2017 compared to 2013 per 1,000 adults. Loan account with commercial banks has increased to 19.86% in 2017 compared to 2013 per 1,000 adults. Mobile money transaction has seen a tremendous increase i.e. 1648% increase in 2017 compared to 2013 i.e. number per 1,000 adults.

[4] Financial Inclusion Progress in India

Table 2: Financial Inclusion Progress in India

Particulars	2010	2016	2017	Percentage of increase in 2017 compared to 2013
Banking Outlets in Villages –Total	67694	586307	598093	783.52
No-frills account (No. in Millions)	73	469	533	630.14
Business correspondent model				
Urban	34174	531229	543472	1490.31
Rural	447	102552	102865	22912.30
General Credit Card (GCC)-(No. in Millions)	1	11	13	1200.00
Kisan Credit Card (KCC)- (No. in Millions)	24	47	46	91.67

Source: RBI Report on Financial inclusion 2017, Percentage computed

The above table 2 shows that Banking Outlets in Villages – (Total) has increased to 783.52 percentage in the year 2017 compared to 2010. No-frills account has increased (in millions) to 630.14% in the year 2017 compared to 2010. Business correspondent model has increased to 1490.31 % in the year 2017 compared to 2010 in Urban areas and has shown 22912.30 percentage increase in Rural areas compared to 2010. Issue of General Credit Card (GCC) by banks has increased to 1200 % in the year 2017 compared to 2013 whereas Kisan Credit Card issue (KCC) has increased to 91.67% in the year 2017 compared to 2013.

Conclusion & Suggestions:

Reserve Bank of India and Government of India has taken tremendous efforts for Financial Inclusion progress in India. The present paper revealed that banks have taken major initiatives like introduction of no frills account, GCC etc. and opened considerable number of branches in rural areas in India. Financial services access and usage have also increased drastically in rural areas. Digital financial services have also seen surge in usage in the 2017 compared to the previous years. Still India have to go a long way to achieve 100% financial inclusion. Through joint efforts by government of India, Reserve Bank of India and other financial institutions and by launching innovative financial services at low cost to benefit all sections of the economy India will soon achieve 100% financial inclusion .

References:

[1] Dixit Radhika and Munmun Ghosh (2013), " Financial Inclusion For Inclusive Growth of India - A Study of Indian States, International Journal of Business Management & Research (IJBMR), Vol.3, Iss.1, pp.147-156.
[2] Rajasekaran N (2018), "Including the Excluded: The Scenario of Financial Inclusion in India", IOSR Journal of Business and Management, Vol. 20, Iss. 2, pp.64-69.
[3] Sakariya M Sanjay and Ruparel Neelima (2018), " Evaluation Of Financial Inclusion Strategies of Banks In India: Reflections From Literature ", Towards Excellence: An Indexed Refereed Journal of Higher Education, Vol.10., PP. 52-64.
[4] https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=836#CH1
[5] http://www.worldbank.org/en/topic/financialinclusion/brief/how-to-measure-financial-inclusion
[6] http://finclusion.org/uploads/file/india-wave-5-quicksites_final.pdf
[7] http://vikaspedia.in/social-welfare/financial-inclusion/financial-inclusion-in-india