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FINANCIAL INCLUSION

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ABSTRACT

Financial inclusion is a method of offering banking and financial services to individuals. It aims to include everybody in society by giving them basic financial services regardless of their income or savings. It focuses on providing financial solutions to the economically underprivileged. The term is broadly used to describe the provision of savings and loan services to the poor in an inexpensive and easy-to-use form. It aims to ensure that the poor and marginalised make the best use of their money and attain financial education. With advances in financial technology and digital transactions, more and more startups are now making financial inclusion simpler to achieve. Financial inclusion is the process of ensuring access to financial products and services needed by vulnerable groups at an affordable cost in a transparent manner by institutional players. The concept of financial inclusion was first familiarised in the year 2005 by the Reserve Bank of India.

Key words: Financial Inclusion, Banking Sector, Credit Facility, ATM card.

INTRODUCTION

Traditionally, we have observed that the poor are not welcomed to the banking fold with a misconception that they are not bankable and that there is no business opportunity in offering services to the under-privileged and poor people in the semi-urban rural areas and to slum-dwellers in the metropolitan cities. Banks and financial institutions had been, till recent times, financially excluding these people. Today's initiative by the bank in launching this ambitious program of financial inclusion is very commendable. Huge participation by women entrepreneurs in today's program bodes well for the financial inclusion initiatives being undertaken by the bank. Like charity, virtues like thrift and discipline begin at home and what could be a better way than involving women in this ambitious program aimed at inculcating thrift and including, into the financial fold, the hitherto excluded. It is important to note that the bank is not only helping the women by opening accounts and granting loans but has also undertaken the task of imparting training, educating them in preparing their own accounts, helping them sell their produce, etc..

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 and in a fair and transparent manner by regulated mainstream institutional players.

Objectives of Financial Inclusion

The objectives of financial inclusion are to provide the following:

- A basic no-frills banking account for making and receiving payments
- Saving products (including investment and pension)
- Simple credit products and overdrafts linked with no-frills accounts
- Remittance, or money transfer facilities
- Micro insurance (life) and non-micro insurance (life and non-life)
- Micro pension.

Measures Undertaken to Promote Financial Inclusion

It has been RBI's endeavor to remove all hurdles in the way of its regulated entities in achieving financial inclusion objectives. Some of the salient measures undertaken in this regard are:

(A)Introduction of New Products

(i)Opening of 'No-Frill' Accounts

A 'No Frills' account is one for which no minimum balance is insisted upon and for which there are no service charges for not maintaining the minimum balance, introduced as per RBI directive in 2005. Banks have been advised to provide small overdrafts in these 'no frill' accounts. As of march 2019, there are 574 million, 'No Frill accounts' have been opened in rural locations. Urban locations covered through BCs went up from 447 in March 2010 to 4, 47,170 in march 2019.The total number of Basic Savings Bank Deposit Accounts (BSBDAs) increased from 73.5 million in March 2010 to 574 million in march 2019. The surge in opening of BSBDAs can be attributed to the push given by the Government of India under the Pradhan Mantri Jan Dhan Yojana. With a view to encourage transactions in No Frill accounts banks have been advised to provide small overdrafts (ODs) in such accounts.

(ii)General Credit Cards (GCC)/Kisan Credit Cards (KCC)

GCCs/KCCs help purvey credit where the credit facility is in the nature of a revolving credit entitling the holder to withdraw up to the limit sanctioned. Limits are sanctioned without insistence on security or purpose, based on the assessment of household cash flows. Interest rate on the facility is completely deregulated. Banks had been asked to consider introduction of a GCC facility up to Rs. 25,000 at their rural and semi-urban braches. The objective of the scheme is to provide "hassle free credit to bank 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. As of march 2019, banks are issued 49million kisan credit cards with 6,680 billion amounts sanctioned all over India.

(B)Relaxed Regulatory Requirements

(i) Relaxed Regulatory Dispensation on Know Your Customer (KYC) Norms

KYC requirements for small accounts were relaxed in August 2005, by stipulating that introduction by an account holder, who has been subjected to full KYC drill, would suffice for opening such accounts, or, that the bank can take any evidence to its satisfaction as to the identity and address of the customer. During the year, it has been further relaxed to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name; address and AADHAAR number as a valid identity proof.

(ii) Simplified Branch Authorisation

To increase the reach of banking network, domestic scheduled commercial banks have earlier been permitted to freely open branches in Tier 2 to Tier 6 centres (with population of less than 1,00,000) under general permission, subject to reporting. Recently, incentives have been provided for opening branches in Tier 2 centres also. Further, domestic scheduled commercial banks have been permitted to open branches in rural, semi urban and urban centres in the North-Eastern States and Sikkim, without the need of taking permission from Reserve Bank in each case, subject to reporting. In June 2021 there are 1, 57,868 branches in scheduled commercial banks including regional rural banks and small finance banks.

TABLE -1

NUMBER OF BRANCHES IN SCHEDULED COMMERCIAL BANKS

S.No	Bank Group	Number of Branches
1	Public sector banks	91590
2	Private sector banks	37042
3	Foreign banks	921
4	Regional rural banks	22293
5	Small finance banks	5191
6	Local area banks	81
7	Payment banks	750
	Total branches	**1,57,868**

Source: RBI data base 20-21

(iii)Business Correspondent/ Business Facilitator

In January 2006, the Reserve Bank permitted banks to engage Business Facilitator and Business Correspondent (BC) as intermediaries for providing financial and banking services. The BC model allows banks to provide door step delivery of services especially 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The list of eligible individuals/entities who can be engaged as BCs is being enlarged from time to time. For-profit companies have also been allowed to be engaged as BCs. As on March 2019, banks have reported deploying 4, 47,170 BCs which covered 5, 97,155 villages. During 2016-19, in order to harness the large and widespread retail network of corporate for providing financial and banking services, 'for profit' companies were also allowed to be engaged as intermediaries to work as BCs for banks in addition to entities permitted earlier.

(iv) Opening of Branches in Unbanked Rural Centres

In order to provide door step banking facilities in all the unbanked villages in the country, a phase wise approach has been adopted. During Phase-I (2010-13), all unbanked villages with population more than 2,000 were identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through State Level Bankers' Committees (SLBCs) for coverage through various modes – Branch or BC or other modes such as ATMs, mobile vans, etc. As on march 2019 SLBCshave reported 1,30,687 banking outlets have been opened in unbanked villages with population more than 2,000.

After the completion of the first phase of the roadmap, the second phase (2013-16) to provide banking services in unbanked villages with populations less than 2000 was rolled out. About 4,10,442 unbanked villages with population less than 2000 have been identified and allotted to various banks (public sector banks, private sector banks and regional rural banks) through SLBCs across the country for coverage in a time bound manner. As on march 2019, as reported by SLBCs, 5,97,155 villages have been provided banking services; 52,489 through branches, 5,41,129 through BCs and 3537 by other modes viz. ATMs, mobile vans, etc.

(v)Special Dispensation Scheme for Opening of Branches in NER

To improve banking penetration in hitherto unbanked North-East Region (NER), the Reserve Bank asked the State Governments and banks to identify centres where there is a need for setting up either full-fledged branches or those offering forex facilities, handling government business or for meeting currency requirements. It has also offered to fund the capital and running costs for five years provided the State Government concerned is willing to make available the premises and put in place appropriate security arrangements**.**

S.No	Particulars	March 2010	March 2019
1	Banking Outlets in Villages - Branches	33,378	52,489
2	Banking Outlets in Villages > 2000-BCs	8,390	130,687
3	Banking Outlets in Villages < 2000- BCs	25,784	410,442
4	Total Banking Outlets in Villages – BCs	34,174	541,129
5	Banking Outlets in Villages- Other Modes	142	3,537
6	Banking outlets in villages - total	67,694	5,97,155
7	Urban locations covered through BCs	447	4,47,170
8	BSBDA - through branches (No. in Millions)	60	255
9	BSBDA - through branches (Amt. in Billion)	44	878
10	BSBDA - Through BCs (No. in Millions)	13	319
11	BSBDA - Through BCs (Amt. in Billion)	11	532
12	BSBDA - Total (No. in Millions)	73	574
13	BSBDA - Total (Amt. in Billion)	55	1,410
14	OD facility availed in BSBDAs (No. in millions)	0.2	6
15	OD facility availed in BSBDAs (Amt. in Billion)	0.1	4
16	KCC - Total (No. in Millions)	24	49
17	KCC - Total (Amt. in Billion)	1,240	6,680

TABLE-2

FINANCIAL INCLUSION PLAN: A PROGRESS REPORT

Source: Statistical Report of RBI 2019

Micro-Insurance

The micro-insurance portfolio has made steady progress. More life insurers have commenced their micro-insurance operations and many new products are being introduced every year. The distribution infrastructure has also been considerably strengthened and the new business has shown a decent growth, though the volumes are still small.

Micro-insurance business was procured largely under the group portfolio. Life Insurance Corporation of India (LIC) contributed the both in terms of policies sold and number of micro-insurance agents. With the notification of the IRDA (Micro-insurance) Regulations 2005, by the Authority, there has been a steady growth in the design of products catering to the needs of the poor.

The flexibilities provided in the Regulations allow the insurers to offer composite covers or package products. Insurance companies are now offering already approved general insurance products as micro-insurance products with the approval of the Authority, if the sum assured for the product is within the range prescribed for micro-insurance.

Features:

Under this category, there is life protection, both on survival and death. Pension can also be built into the product. Some Insurers offer accident benefit and permanent disability benefit during the premium paying term only, or for the full term. The sum is capped between Rs 30,000 and Rs 50,000. A majority of the insurers offer policies under the non-medical scheme and automatic acceptance if size of the group is more than 200 members.

It is possible to offer an automatic cover facility after two years of premium payment. A policy bond is given and administration is done through a micro-insurance agent.

Micro-pension

The Government of **India** started a specific **micro pension** plan (called NPS-Lite) for the unorganised sector (and low income) workforce, in addition to its flagship NPS (New **Pension Scheme**). NPS-Lite aimed to reach the un- pensioned through a variety of organisational intermediaries, including NGOs and MFIs.

Micro-pension schemes target low-income unorganised sector labour force (having no direct employer-employee contract), most of these schemes are third pillar in nature. In the words of Stuart Rutherford, micro-pensions are a series of small payments (‘mickles’) over one’s life to provide for either a large payment (‘muckles’) or series of small payments (‘mickles’) or combination of both (‘muckles’ and ‘mickles’), in old ageNPS is a government-sponsored pension scheme. It was launched in January 2004 for government employees. However, in 2009, it was opened to all sections. The scheme allows subscribers to contribute regularly in a pension account during their working life. On retirement, subscribers can withdraw a part of the corpus in a lumpsum and use the remaining corpus to buy an annuity to secure a regular income after retirement. Any Indian citizen between 18 and 60 years can join NPS. The only condition is that the person must comply with know your customer (KYC) norms.

CONCLUSION

Financial inclusion strengthens the availability of economic resources and builds the concept of savings among the poor. Financial inclusion is a major step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India, effective financial inclusion is needed for the uplift of the poor and disadvantaged people by providing them with the modified financial products and services.

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