International Journal of Science and Research (IJSR)
ISSN: 2319-7064
ResearchGate Impact Factor (2018): 0.28 | SJIF (2018): 7.426

Financial Inclusion - A Way of Equitable Growth

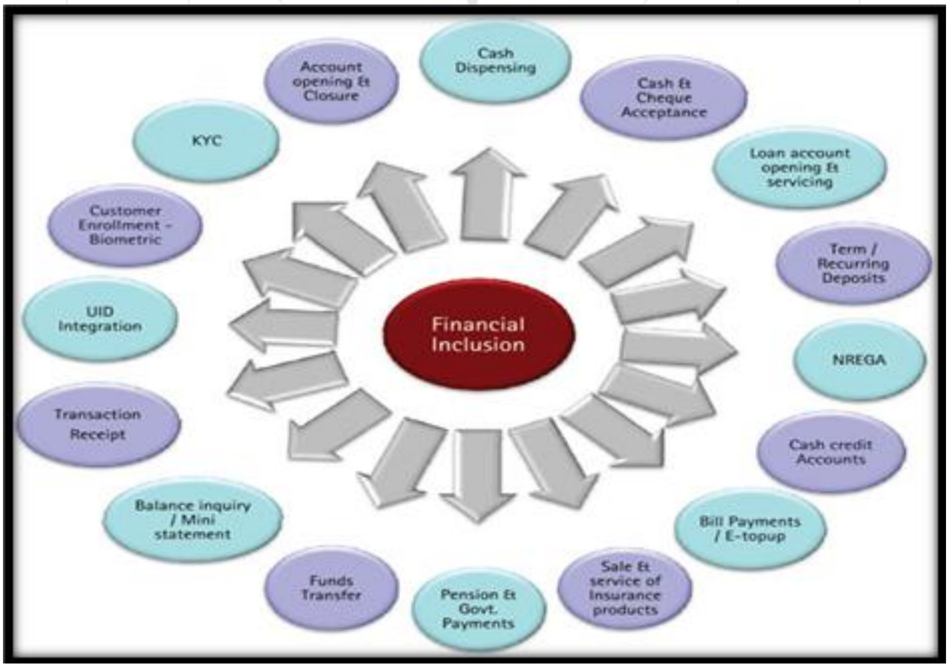
Dr. M. Thirumagal Vijaya

M.Com, MBA, M.Phil, PGDCA, Ph.D.
Associate Professor, Department ofCommerce, PSG College of Arts and Science, Coimbatore-14, India

Abstract: ***The following paper on "Financial Inclusion-A way of equitable growth" comes under the head of Finance. The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. Inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. The goals of financial inclusion can be defined as follows:) access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance; 2) sound and safe institutions governed by clear regulation and industry performance standards; 3) financial and institutional sustainability, to ensure continuity and certainty of investment; and competition to ensure choice and affordability for clients. Even after60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. RBI set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06) and urged banks to review their existing practices to align them with the objective of financial inclusion. RBI also exhorted the banks and stressed the need to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. Thus Financial Inclusion paves a way of equitable growth for the poor sections of the society and the Economy as a whole.***

1. Introduction

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to **financial exclusion** where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions.



Alliance for Financial Inclusion (AFI) Executive Director Alfred Hanning highlighted on 24 April 2013 progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: **"Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."**

The United Nations and financial inclusion

In partnership with the National Bank for Agriculture and Rural Development, the UN aims to increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy, particularly amongst women. The UN's financial inclusion product is financed by the United Nations Development Programme.

Financial inclusion in India

In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam 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 union territories like Puducherry, 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.

RBI’s norms

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.
- **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 EBT:** 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 centres 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 centres without the need to take permission from RBI in each case, subject to reporting.
- **Opening of branches in unbanked rural centres**: 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 centres.

Financial Inclusion Index

On June 25, 2013, CRISIL, India's leading credit rating and research company launched an index to measure the status of financial inclusion in India. The index- Inclusix- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts.

CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services — branch penetration, deposit penetration, and credit penetration —into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe.

Some key conclusions from the study are

- The **all-India CRISIL Inclusix score** of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.
- **Deposit penetration** is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- **618 out of 632 districts** reported an improvement in their scores during 2009-2011.
- The **top three states** and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

The policy makers have been focusing on financial inclusion of Indian ural and Semi-rural areas primarily for three most important pressing needs:

- Creating a platform for inculcating the habit to save money.
- Providing formal credit avenues
- Plug gaps and leaks in public subsidies and welfare programmes.

Areas covered by banks in the aspect of financial inclusion

- **Expansion of Banking Infrastructure:** As per Census 2011, 58.7% households are availing banking services in the country. There are 102, 343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37, 953 (37%) bank branches are in the rural areas and 27, 219 (26%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system. To extend the reach of banking to those outside the formal banking system, Government and Reserve Bank of India (RBI) are taking various initiatives from time to time some of which are enumerated below:-
- **Opening of Bank Branches**: Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5, 000 or more population in under-banked districts and 10, 000 or more population in other districts. Out of 3, 925 such identified villages / habitations, branches have been opened in 3, 402 villages/ habitations (including 2, 121 Ultra Small Branches) by end of April, 2013.
- **Each household to have atleast one bank account:** Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.
- **Business Correspondent Model:** With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs).

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable. BCs as agents of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion.

Banks had been permitted to engage individuals/ entities as BC like retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of kirana / medical / fair price shops, individual Public Call Office (PCO) operators, agents of Small Savings Schemes of Government of India/ Insurance Companies etc. Further, since September 2010, RBI had permitted banks to engage „for profit" companies registered under the Indian Companies Act, 1956, excluding Non-Banking Financial Companies (NBFCs), as BCs in addition to the individuals/entities permitted earlier. According to the data maintained by RBI, as in December, 2012, there were over 1, 52, 000 BCs deployed by Banks. During 2012-13, over 18.38 crore transactions valued at Rs.16533 crore had been undertaken by BCs till December 2012.

Under "Swabhimaan" - the Financial Inclusion Campaign launched in February 2011, Banks had provided banking facilities by March, 2012 to over 74, 000 habitations having population in excess of 2000 using various models and technologies including branchless banking through Business Correspondents Agents (BCAs).
Further, in terms of Finance Minister's Budget Speech 2012-13, the "Swabhimaan" campaign has been extended to habitations with population of more than 1000 in North Eastern and hilly States and to habitations which have crossed population of 1600 as per census 2001. About 40, 000 such habitations have been identified to be covered under the extended "Swabhimaan" campaign.

- **Setting up of Ultra Small Branches (USBs):** Considering the need for close supervision and mentoring of the Business Correspondent Agents (BCAs) by the respective banks and to ensure that a range of banking services are available to the residents of such villages, Ultra Small Branches (USBs) are being set up in all villages covered through BCAs under Financial Inclusion.

A USB would comprise of a small area of 100-200 sq. feet where the officer designated by the bank would be available with a lap-top on pre-determined days. While the cash services would be offered by the BCAs, the bank officer would offer other services, undertake field verification and follow up the banking transactions. The periodicity and duration of visits can be progressively enhanced depending upon business potential in the area. A total of over 50, 000 USBs have been set up in the country by March, 2013.

- **Banking Facilities in Unbanked Blocks** : All the 129 unbanked blocks (91 in North East States and 38 in other States) identified in the country in July 2009, had been provided with banking facilities by March 2012, either through Brick and Mortar Branch or Business Correspondents or Mobile van. As a next step it has been advised to cover all those blocks with BCA and Ultra Small Branch which have so far been covered by mobile van only.
- **USSD Based Mobile Banking** : The Department through National Payments Corporation of India (NPCI) worked upon a "Common USSD Platform" for all Banks and Telcos who wish to offer the facility of Mobile Banking using Unstructured Supplementary Service Data (USSD) based Mobile Banking. The Department helped NPCI to get a common USSD Code *99# for all Telcos. More than 20 Banks have joined the National Uniform USSD Platform (NUUP) of NPCI and the product has been launched by NPCI with BSNL and MTNL. Other Telcos are likely to join in the near future.

USSD based Mobile Banking offers basic Banking facilities like Money Transfer, Bill Payments, Balance Enquiries, Merchant payments etc. on a simple GSM based Mobile phone, without the need to download application on a Phone as required at present in the IMPS based Mobile Banking.

Steps taken by Reserve Bank of India (RBI): To strengthen the Banking Infrastructure –

(a) RBI has permitted domestic Scheduled Commercial Banks (excluding RRBs) to open branches in Tier 2 to Tier 6 Centres (with population up to 99, 999 as per census 2001) without the need to take permission from RBI in each case, subject to reporting.

(b) RBI has also permitted SCBs (excluding RRBs) to open branches in rural, semi urban and urban centres in North Eastern States and Sikkim without having the need to take permission from RBI in each case, subject to reporting.

(c) Regional Rural Banks (RRBs) are also allowed to open branches in Tier 2 to Tier 6 centres (with population upto 99, 999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfil the following conditions, as per the latest inspection report:

1) CRAR of at least 9%;
2) Net NPA less than 5%;
3) No default in CRR / SLR for the last year;
4) Net profit in the last financial year;
5) CBS compliant.

(d) Domestic SCBs have been advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate atleast 25% of the total number of branches proposed to be opened during the year in unbanked Tier 5 and Tier 6 centres i.e. (population upto 9999) centres which do not have a brick and mortar structure of any SCB for customer based banking transactions. RRBs have also been advised to allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centres).

(e) New private sector banks are required to ensure that at least 25% of their total branches are in semi-urban and rural centres on an ongoing basis.

- **Direct Benefit Transfer (DBT) -** The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts. The scheme is now being extended to additional 78 districts and additional 3 schemes from 1st July, 2013 and would be extended to the entire country in a phased manner.

The Government has also started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar linked bank accounts of the customers with effect from 1st June 2013, in 20 pilot districts. About 75 lakh beneficiaries would be benefitted in these districts.

Banks play a key role in implementation of DBT and this involves four important steps, viz.

a) Opening of accounts of all beneficiaries;
b) Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper;
c) Undertaking funds transfer using the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS).Strengthening of banking infrastructure to enable beneficiary to withdraw money.

Banks are ensuring that all beneficiaries have a bank account. All Public Sector Banks (PSBs) and RRBs have made provision for Aadhaar seeding in the CBS. All PSBs have also joined the Aadhaar Payment Bridge of National Payments Corporation of India (NPCI). Banks are also issuing debit cards to beneficiaries. Banks have also started action for strengthening banking infrastructure and providing business correspondents in areas, which were so far unserved.

Banks have also been advised to provide an onsite ATM in all the branches in identified districts and a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience. Issuance of a Debit Card to all beneficiaries to enable him / her to withdraw the money as per his ease and convenience will also strengthen the withdrawal infrastructure.

- **Expansion of ATM network:** Pursuant to Budget announcement 2013-14, Banks are required to ensure an onsite ATM in all the branches. Out of 34, 668 onsite ATMs thus identified to be installed by Public Sector Banks, 1, 097 ATMs have been installed by end of April, 2013.

2. Conclusion

Definitely Financial Inclusion is a solution for the development of the economy as a whole. Financial inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI. It is expected to unleash the hugely untapped potential of the bottom of pyramid section of Indian economy. Perhaps, financial inclusion can begin the next revolution of growth and prosperity.

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide, lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry. This crisis has often been compared to the mortgage lending crisis in the US.

The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

In spite of the above given hindrances Financial Inclusion policy definitely stands a chance to push forward the economy and enhance equitable growth.

References

[1] www.google.com
[2] www.wikipedia.com
[3] www.Images on Financial Inclusion