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Financial Inclusion In India: A note

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Abstract *: Finance is one of the most important inputs for economic activity and also nation's development. This paper tries to show the present scenario of Financial Inclusion (FI) in India. Majority of the people in India lives in rural parts of the country. Hence, development of rural India is a key to the economic growth of the country. Financial inclusion or inclusive financing is the delivery of financial services at reasonable costs to sections of underprivileged and low-income segments of society. Financial inclusion is a key technique to achieve the success of inclusive growth, Inclusive growth is very essential for the development of the country. RBI supporting to achieve achieving the FI by reducing know-your-customer (KYC) and also suggesting to all banks in India providing of no-frills accounts (nil account or in low balance) this paper is completely based on secondary data.*

Key words: *know-your-customer, segments of society, financial inclusion*

1. Introduction

Finance is one of the most important inputs for economic activity and also nation's development. In development economics, the earlier theories considered labour, capital, institutions, etc. as important factors contributing to the growth and development of an economy. These theories hardly considered the role of finance in economic growth and development. This is because they were based on the assumption that markets are perfect and there are no frictions. However, in the course of time, the research done by Nobel Laureates like Joseph Stiglitz and George Akerlof and many others emphasized the role of financial markets in the real economy. Hence, now finance is attributed as the brain of an economic system and most economies strive to make their financial systems more efficient. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. In India financial inclusion first rnade its mark in 2005, in a small village of Mangalam in Pondicherry, where all households were provided banking facilities (Dr .Baran Ganguli 2015)

Objectives of the Study

- To study the process of Financial inclusion in India
- To depict the present scenario of Indian financial inclusion
- To know the promotion of PMJDY for Achieving financial inclusion

The present study is based on only secondary data. This secondary data has been collected from RBI bulletin, commercial banks and government of India's Report and also data has been collected from reputed journals, newspapers and websites of NABARD.

Pattern of Financial inclusion Movement in India

All-India Rural Credit Survey Committee report -suggested Multi-agency approach for financing the rural and agricultural sector was established in 1954. Further,

- 1963 : Formation of Agricultural Refinance Corporation
- 1969: Nationalization of 14 major Private Banks – The flow of agricultural and rural credit witnessed a rapid increase
- 1972–Mandatory system of Priority Sector Lending (PSL)
- 1975 : Establishment of RRBs
- 1980 : Nationalization of 6 more private banks
- 1982 : Establishment of NABARD through the transfer of RBI's agricultural credit department Provision of bank credit under Govt. Sponsored Subsidy Schemes Linking Agricultural Credit Targets at 18% with individual bank's net bank credit
- 1990–Implementation of the concept of Village level credit planning for 15 to 20 villages allotted to each of rural, semi-urban and urban branches of PSBs and RRBs under Service Area Approach
- Formulation of potential linked credit plan for each district annually by NABARD
- Agricultural Debt Relief Scheme and Financial Sector Reforms
- SHG-Bank Linkage as the most suitable model in Indian context a/c to NABARD
- 2000-Reforms sharply focused on Agricultural credit

But the real movement had taken place India, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion. The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system. In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Financial inclusion again featured later in 2005 when it was used 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.

The government of India recently announced "Pradhan Mantri Jan Dhan Yojna," a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015.

Financial Inclusion Scenario in India

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. Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period. However, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states, where the average population per branch office continues to be quite high compared to the national average. As you would be aware, the new branch authorization policy of Reserve Bank encourages banks to open branches in these under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the Bank to achieve, inter alia, financial inclusion and other policy objectives.

One of the benchmarks employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio to the adult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of deposit accounts (data available as on March 31, 2004) to the total adult population was only 59% (details furnished in the table). Within the country, there is a wide variation across states. For instance, the ratio for the state of Kerala is as high as 89% while Bihar is marked by a low coverage of 33%. In the North Eastern States like Nagaland and Manipur, the coverage was a meager 21% and 27%, respectively. The Northern Region, comprising the states of Haryana, Chandigarh and Delhi, has a high coverage ratio of 84%. Compared to the developed world, the coverage of our financial services is quite low. For instance, as per a recent survey commissioned by British Bankers' Association, 92 to 94% of the population of UK has either current or savings bank account

In the context of initiatives taken for extending banking services to the small man, the mode of financial sector development until 1980's was characterized by a hugely expanded bank branch and cooperative network and new organizational forms like RRBs; a greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities; lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population, etc; interest rate ceilings; significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes; a dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.

It is absolutely beyond any doubt that the financial access to masses has significantly improved in the last three and a half decades. But the basic question is, has that been good enough. As I mentioned earlier, the quantum of deposit accounts (current and savings) held as a ratio to the adult population has not been uniformly encouraging. There is a tremendous scope for financial coverage if we have to improve the standards of life of those deprived people.

With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, 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. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such no frills account so as to ensure greater financial inclusion.

Above table shows as per 2011 census only 58.7 households have connected with banking service but in rural performance is not good enough

Banking network in India

Years	Total offices	Population per office (in thousands)	Credit deposit ratio
1969	8262	64	77.5
1998	64218	15	54.2
2000	65412	15	53.3
2005	70373	16	64.9
2010	82485	14	75.6
2013	88562	14	78.1

Source: RBI

2. Pradhan Mantri Jan Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana (PMJDY) the biggest financial inclusion initiative in the world was announced by the Hon'ble Prime Minister on 15th August 2014 and Mega launch was done by him on 28th August 2014 across the country Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology.

PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about ample financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of ₹ 1 lakh. The plan also envisages channelling all Government benefits (from Centre / State / Local Body) to the beneficiaries' accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Programme.

7.1 Incredible achievement of PMJDY

11.50 Crore Bank Accounts Opened Under Pradhan Mantri Jan Dhan Yojana (PMJDY) as on 17th January 2015 against the original Target of 7.5 Crore by 26th January, 2015; Guinness book of World Records Recognizes the Achievements Made Under PMJDY; FM:

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PMJDY is a Game Changer for the Economy as it Provides the Platform for Direct Benefits Transfer (DBT) which in Turn will help in Plugging Leakages in Subsidies and thereby Provide Savings to the Exchequer

7.2 Special Benefits under PMJDY Scheme

Interest on deposit, accidental insurance cover of Rs.1.00 lack, No minimum balance required, Life insurance cover of Rs.30,000/-, Easy Transfer of money across India, Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts, After satisfactory operation of the account for 6 months, an overdraft facility will be endorsed, Access to Pension and insurance products, Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days and Overdraft facility up to Rs.5000/- is available in only one account per household, preferably female of the household. In rural area 8.27.crores 2.94.crores and 0.44 crores in 2015 accounts have been opened by Public Sector Banks, Regional Rural Banks and Private Banks respectively, totally 11.65 crores bank accounts were opened in rural area under PMJDY. Whereas in urban area this speedy movement has not been taken place, only 7.48 crores accounts were opened from all three banks because in urban area people already would have accounts. 16.43 crores RuPay cards were issued. The proportion of opening bank account in zero balance superior to opening with balance accounts. As of 4th November 2015, 19.13 crore accounts were opened under the PMJDY since its inception. Overlay we can declare that financial excluded people are incoming into financial inclusion process but financial inclusion cannot be achieved by opening only bank accounts. Financial inclusion should mean that you provide adequate financial services to everyone. That includes not only providing a bank account, but also the fact of being paid one's pension or wage on time, of being able to withdraw your money conveniently, of being informed when your money is deposited in your bank account. It also means providing services like ATMs and Internet banking and so on (Jean Drèze). If 100% of financial inclusion wants to be achieved first government should create awareness of banking transaction among illiterate people especially in rural area.

3. Conclusion

Economic development is outcome of financial inclusion. Financial inclusion is expected to make significant changes in the economy, especially the rural economy, which is expected to witness a revolution in availability of financial instruments mainly because of– Swabhimaan, PMJDY, gold monetization scheme and MUDRA. The DBT which will operate through the banking system will also ensure regularity of flow of liquidity in households and therefore opportunities for investment.

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