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Financial Inclusion in India

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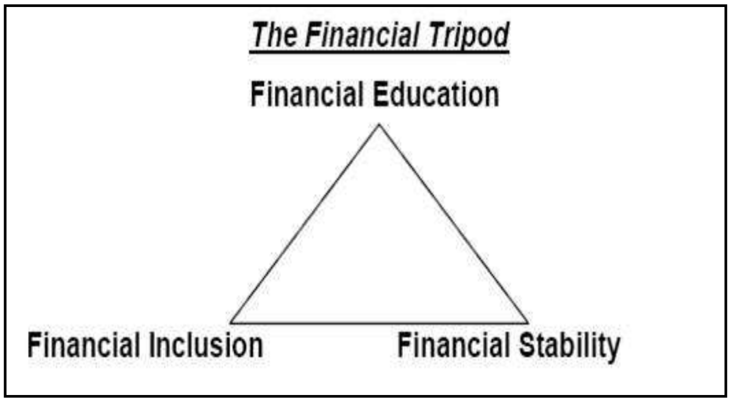
Abstract: The purpose of study is to discuss and elaborate the needs of financial inclusion. The banks as mobilisers of savings and allocators of credit for production and investment, has a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. But still there are some shortcomings due which the financial access is still not there with everyone The miniscule numbers suggest a crying need for a further push to the financial inclusion agenda to ensure that the people at the bottom of the pyramid join the formal financial system, reap benefits and improve their financial well-being.

1. INTRODUCTION

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes has been in operation for decades in India. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. In developing economies like ours, the banks, as mobilisers of savings and allocators of credit for production and investment, has a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. Thus, inherently, the banking sector possesses a tremendous potential to act as an agent of change and ensure redistribution of wealth in the society.

However, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc.. Over the past five years, Reserve Bank of India, as also other policy makers has resolutely pursed the agenda of financial inclusion and achieved discernible progress in improving access to financial services for the masses. However, the progress is far from satisfactory as evidenced by the World Bank Findex Survey (2012). According to the survey findings, only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government. The miniscule numbers suggest a crying need for a further push to the financial inclusion agenda to ensure that the people at the bottom of the pyramid join the formal financial system, reap benefits and improve their financial well-being.

The importance of financial inclusion has been emphatically underlined in the wake of the financial crisis. As RBI all know, the crisis has had a significant negative impact on lives of individuals globally. One of the prominent reasons for the crisis was that the financial system was focused on furthering its own interests and lost its linkage to the real sector and with the society at large. The crisis also resulted in a realization that free market forces do not always result in greater efficiency in the financial system, particularly while protecting the interests of the vulnerable sections of society. This is due to the information asymmetry working against these sections, thereby placing them at a severe disadvantage. In wake of the Crisis, therefore, Financial Inclusion has emerged as a policy imperative for inclusive growth in several countries across the globe. However, though much lip service has been paid to Financial Inclusion, the actual progress has remained far from satisfactory.



2. LITERATURE REVIEW

2.1 MEANING - Financial Inclusion:

Financial Inclusion as 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 in a fair and transparent manner by regulated, mainstream institutional players". RBI consider Financial Inclusion and Financial Literacy as twin pillars where Financial Inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services.
Unrestrained access to public goods and services is the sine qua non of an open and efficient society. Banking services are essentially for welfare of the public. So, providing access to basic banking services is the first phase of the financial inclusion process. RBI are also convinced that only the mainstream, regulated financial players has the ability to make the necessary investment in the build up phase and also, they can offer the entire suite of products that would facilitate meaningful financial inclusion. So, banks as the principal vehicle for financial inclusion.

2.2 Need For Financial Inclusion?

Financial Inclusion has the ability to generate positive externalities:

- It leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot.
- It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked.
- Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments.

2.3 RBI's approach towards Financial Inclusion

RBI has adopted a structured, planned and integrated approach towards FI by focusing on both the demand and supply side constraints. Some of the defining features of the approach to FI are:

RBI has adopted a bank-led model for FI, but has permitted non-bank entities to partner banks in their FI initiatives.

- As a philosophy, RBI has always encouraged banks to pursue FI as a commercial activity and to not view it as social service or charity. The self- sustainability and commercial viability of the FI initiatives are important if banks have to scale up their operations to cover more unbanked areas.

- RBI has encouraged banks to leverage technology to attain greater reach and penetration while keeping the cost of providing financial services to the minimum. While RBI remains technology neutral, RBI require banks to seamlessly integrate whatever technology they choose, with their CBS (Core Banking System) architecture.
- RBI has advised banks to adopt innovative business models and delivery channels to expand their FI efforts. There is a need for banks to develop new products and design new delivery models that are customized to the unique needs of the financially excluded population, both in the rural and urban areas.
- Considering that financial Literacy is an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability, RBI has adopted an integrated approach wherein efforts towards Financial Inclusion and Financial Literacy would go hand in hand. Besides the various initiatives taken by RBI individually to encourage financial literacy, a National Strategy for Financial Education (NSFE) has also been finalized under the aegis of the Financial Stability and Development Council (FSDC) to co-ordinate efforts of various stakeholders involved in this process.
- The Reserve Bank has been playing a supportive role in FI by creating a conducive regulatory environment and providing institutional support to banks in their FI efforts. Importantly, RBI has provided banks the freedom and the space to determine their own strategies for rolling out FI and has encouraged them to identify their own goals and targets through their respective Financial Inclusion Plans.

2.4 Robust Institutional Mechanism

RBI has created a robust institutional mechanism to support the roll out of banking services across the country.

- India is one country where the FSDC has a specific mandate for financial inclusion and financial literacy. There is a separate Technical Group on Financial Inclusion and Financial Literacy under the aegis of FSDC with representation from all the financial sector regulators.
- In order to spearhead efforts towards greater financial inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC) under the Chairmanship of a Deputy Governor from RBI.
- At the state level, RBI has State Level Bankers Committees (SLBC) in all the states. Going further down, RBI has Lead District Managers in all the 659 districts, with recent inclusion of the metropolitan areas into the Lead Banks Scheme.
- About 700 financial literacy centers have been set up by banks. There are Rural Self-Employment Training Institutes (R-SETI), working towards capacity building for taking up self employment ventures.

2.5 RBI'S Policy Initiatives to Foster Financial Inclusion:

(a) REACH

(i) Branch expansion in rural areas

Branch authorization has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres.

(ii) Agent Banking - Business Correspondent/ Business Facilitator Model

In January 2006, the Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The BC model allows banks to do ‘cash in - cash out’ transactions at a location much closer to the rural population, thus addressing the last mile problem.

(iii) Combination of Branch and BC Structure to deliver Financial Inclusion

The idea is to have a combination of physical branch network and BCs for extending financial inclusion, especially in geographically dispersed areas. To ensure increased banking penetration and control over operations of BCs, banks has been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometers.

(b) ACCESS

Relaxed KYC norms
Know Your Customer (KYC) requirements has been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.

1969	• Lead banking scheme (LBS). • RBI assigns a district to a particular bank. • That Bank will be responsible for promoting banking services and financial literacy, in that district.(=financial inclusion).
2005	• No frills account. • Poor people can open bank accounts with very low balance e.g. Rs.5 only.
2006	• Business Correspondents (BC) system.

The ICT based solutions uses the Micro-ATM (POS machines) or mobile phone to facilitate the Banking transactions. The Bank opens accounts for government scheme beneficiaries and each account holder is issued a smart card which contains the biometric template of the customer's fingerprint. This card also acts as e-passbook and contains details of the last ten transactions and current balance of the accounts. Micro-ATMs machines are used to verify the details on the card and authenticate the customer, based on his fingerprints stored on the card, the transaction is carried out. These Micro-ATMs works on mobile technology and can be operated without wired connectivity allowing them to function at customers locations.

Roadmap for Banking Services in unbanked Villages
In the first phase, banks was advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks has successfully met this target and has covered 74398 unbanked villages. In the second phase, roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4, 90,000 unbanked villages with less than 2000 population across the country has been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.

SWABHIMAN 2011- The government launched 'swabhiman'-a programme to ensure banking facilities in habitation with a population in excess of 2000 by March 2012. The programme will use various models and technologies, including branchless banking through business correspondants. The government has decided to pay Rs 140 for every no frill accounts the open as part of the FIP.IT also decided to give to give Rs 500 million to banks for helping them open no frills account in the fiscal year 2011-2012.

(c) Products Bouquet of Financial services

In order to ensure that all the financial needs of the customers are met, RBI has advised banks to offer a minimum of four basic products, viz. A savings cum overdraft account, a pure savings account, ideally a recurring or variable recurring deposit ,a remittance product to facilitate EBT and other remittances, and Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card.

(d) TRANSACTIONS

Direct Benefit Transfer
The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all

social security payments through the banking network, using the Aadhaar based platform as a unique identifier of beneficiaries.

2.6 Financial Inclusion Plan 2010-13

RBI has encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010-2013. The Reserve Bank has sought to use the FIPs as the basis for FI initiatives at the bank level. RBI has put in place a structured, comprehensive monitoring mechanism for evaluating banks' performance against their FIP plans. Annual review meetings are being held with CMDs of banks to ensure top management support and commitment to the FI process.

2.7 NABARD'S POTENTIAL LINKED CREDIT PLAN (PLCP) :

National Bank for Agriculture and Rural Development (NABARD) has envisaged a credit flow potential of Rs. 2,633 crore for agriculture and allied activities, non-farm sector, and for the other priority sector during 2014-15.While the credit requirement for short term crop loan was estimated at Rs. 785 crore, the estimate for term credit for important thrust areas such as water resources, farm mechanization, plantation and horticulture, animal husbandry, storage, solar energy and food, and agro processing stood at Rs. 503 crore. The estimates for the SME sector and the other priority sector were pegged at Rs. 916 crore and Rs. 429 crore respectively. The PLCP has suggested sector-wise critical infrastructure requirement as also the interventions required for improving production and productivity in the agriculture sector.

MOBILE BANKING

In a country of 900 million mobile phones, the potential for mobile banking is a huge opportunity. While cash withdrawal isn't currently available with 'mobile wallets', this should happen in the near future. With most people still using basic handsets and the bulk of the connections in the country comprising pre-paid plans, there is a need for innovation to bring such people into the banking system, which must include a standardised and simplified registration process for mobile banking. With a high growth potential, debit and pre-paid cards can be used to accelerate financial inclusion and reaching out to rural India.These cards will be one of the electronic models for cash displacements and reduce cash and cheque-based transactions in the coming decade in the country.

2.8 CHALLENGES AND WAY FORWARD

FI should not only be about reaching high numbers of unbanked or undesreved groups.

It should equally be about the provision of quality financial services and products. This means that access to safe, adapted, accessible, affordable and usable financial services should be offered. The Insurance Regulatory and Development Authority (IRDA) latest annual report indicates life insurance penetration at just 4.6% and general insurance penetration at 0.6%. Majority of people do not have bank accounts and even though RBI mandates have ensured the opening of 50 million no frills accounts, hardly 11% are active. Innovations in financial products and technology –based delivery methods can lead to FI. Financial products targetting the poor such as money transfer services, microloans, micriinsurance, or weather and catatrophic risk insurance, micropensions, can have an important transformative effort.

One of the key features of the National Rural Livelihood Mission(NRLM) is to work towards achieving universal Financial Inclusion. The key lies in linking access to financial services with livelihood options and leveraging the same to achieve poverty eradiaction. The end purpose of Fiancial Inclusion is and must be poverty alleviation. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Our experience suggests that the banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in our journey towards universal financial inclusion.Financial Inclusion of the unbanked masses is expected to unleash the hugely untapped potential of the sections of the society that constitute the bottom of the pyramid. However, in pursuing the FI mission, the normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that the banks give adequate attention to financial inclusion, they must view this as a viable business proposition rather than as a corporate social responsibility or a regulatory obligation. For the business to remain viable it would be important to focus on increasing usage of existing banking infrastructure which would happen only if the banks can offer an entire bouquet of products and services to the holders of the large number of basic bank accounts opened during the last three years as also to the new customers that the banks acquire.

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Our past experience and FIP review meetings with the banks has highlighted that if the dream of universal and a meaningful financial inclusion has to be turned into reality, then going forward, RBI would need to focus on the following issues:

(a) Increasing Reach
Ensuring coverage of all unbanked villages in next 3 years
Emphasis on increasing rural branches
Opening of bank accounts for all eligible individuals

(b) Increasing transaction
Delivery of credit products through BCs
Hassle free Emergency credit

(c) HR Structure
Banks to review HR policy in view of FI requirements
Examining appointing of a separate cadre of staff for cost optimization

(e) Spreading Financial Literacy
Implementing National Strategy for Financial Education
Creating dedicated website- Inclusion in School Curriculum
Organizing Financial Literacy Camps

CONCLUSION

While the task before us is daunting, I am sure that a collaborative approach can definitely help in successfully overcoming this challenge. Though RBI expect the commercial banks to play a significant role in ensuring financial inclusion and promoting financial literacy, I want to emphasize that the banks alone would not be able to achieve this ambitious goal and that other stakeholder groups also need to contribute their mite towards this cause. For banks, the focus has to be on building a sustainable, scalable and cost-efficient business delivery model by leveraging upon technology.

I would like to conclude by saying that financial inclusion and inclusive growth are no longer just policy choices, but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic and social order, going forward. RBI need to ensure that all of us are collectively willing to walk that extra mile to ensure that our fellow countrymen get easy access to the financial system and are able to leverage this access to improve their economic and social well-being. Please remember that the rich would not be able to sleep peacefully if the economic and social divide is allowed to grow any bigger. As I mentioned at the beginning, in view of their reach and coverage, electronic and print media has an important role in not only supporting our financial inclusion mission but in leading the initiative by spreading our message far and wide. Today's event is a glowing testimony to the support being extended by the media to the cause of Financial Inclusion and I firmly believe that this support would act as a catalyst and further invigorate the efforts being made by the governmental and non-governmental agencies.