Financial Inclusion - A study of various Initiatives and suggestions for the Future

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Abstract:
Large sections of the rural population have no access to financial services and their only recourse is to borrow from moneylenders at the exorbitant charges causing exploitation. To overcome this issue Reserve Bank of India (RBI)'s dictate obligated the Banks to adopt the national policy of financial inclusion and take initiatives and suitable measures. The data derived from the RBI's reports and other empirical studies unequivocally pinpoint that the main reasons of financial exclusion are lack of opportunities and access to finance, financial illiteracy, besides poor performance, apathy and negative approaches of the Banks.

Finance is an essential part of an economy for development of the society as well as economy of nation. For, this purpose a strong financial system is required for countries sustainable growth. Through Financial inclusion we can achieve equitable and inclusive growth of the nation. Financial inclusion stands for delivery of appropriate financial services at an affordable cost, on timely basis to vulnerable groups such as low income groups and weaker section who lack access to even the most basic banking services.

This paper attempts to understand financial inclusion and its importance for overall development of society and Nation's economy. It focuses on the RBI and GoI initiatives and policy measures, current status and future prospects of financial inclusion in India on the basis of facts and data provided by various secondary sources.

Objectives of the study:

- To understand financial inclusion and its importance
- To study present scenario of financial inclusion in India, major initiatives and policy measures taken by RBI and GoI for financial inclusion
- To suggest the future prospects of financial inclusion

Research Methodology:

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

Literature Review:

Over the years, several definitions of financial inclusion have evolved. The working or operational definitions of financial inclusion generally focus on ownership or access to particular financial products and services. The focus narrows down mainly to the products and services provided by the mainstream financial service providers. Such financial products may include money transmission, home insurance, short and long-term credit and savings. The review of literature suggests that the most operational definitions are context-specific, originating from country-specific problems of financial exclusion and socio-economic conditions.

Concept and Definition of Financial Inclusion:

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. However, in emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Before going in to the depth and breadth of financial inclusion, there is a need to review the definitions to measure financial inclusion in India and abroad. Few important definitions given by the RBI and certain celebrated committees are presented below.

i) **C. Rangarajan Committee:** 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.

ii) **RBI's definition:** 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 in a fair and transparent manner by mainstream institutional players.

iii) **Raghuram Rajan Committee:** Financial inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

iv) **CGAP:** Financial Inclusion may be defined as the process of ensuring access to financial services and adequate credit when needed by vulnerable group such as weaker section and low income group at an affordable cost

v) **G20:** Financial Inclusion refers to a state in which all working age adults have effective access to credit, savings, payment, and insurance from formal service providers. "Effective access" involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options.

Dimensions of Financial Inclusion:

The level of financial inclusion in India can be measured based on three tangible and critical dimensions. These dimensions can be broadly discussed under the following heads:

i. **Branch Penetration**: Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

ii. **Credit Penetration:** Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.
iii. **Deposit Penetration**: Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed.

Various Approaches to Achieve Financial Inclusion:
In India, various measures taken by banks, GOI and RBI for financial inclusion plan are as follows: -

Product Based Approach: Reserve bank of India has been proactive, liberal and supportive while making policies so as to enable financial institutions to come up with innovative products for enabling a common man to get the benefit of the financial inclusion plan. Some products developed for fulfilment of this approach have been mentioned in this paper.

i. **No-Frills Account (NFAs):-** This concept was introduced by RBI in November 2005 to provide access to basic baking services by financially excluded people. Under this approach banks open accounts with zero balance or very minimum balance requirement for the under-privileged. The banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges. However, the number of transactions could be restricted so as to prevent misuse of such accounts.
ii. **Kisan Credit cards (KCCs):-** Under this scheme banks issue smart cards to the farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2014-15, public and private sector banks issued 1.2 million smart cards as KCCs.
iii. **General Purpose Credit Cards (GCC):-** In 2005 Reserve bank of India, issued guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec.2013 under this approach bank also fulfil Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver‟s Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.
iv. **Saving account with Overdraft facility: -** Banks have been advised to provide overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

Bank Led Approach:

i. **Self Help Group:-** Bank Led Initiative (SLBP) or Self Help Group – Bank Linkage Program has been the major institutional based innovation in India for enabling access and covering the gap of reaching financially excluded population of the country in the last two decades. In this model, the banks involve themselves with a group of local people with the idea of enabling them to pool up their savings. The same is deposited with the bank against which the bank also provides a certain amount of credit facility. The group takes a decision to whether to lend to any member of the group. The bank provides the framework, accounting services and support to the group to manage their deposits and lending. Thus the model has an approach of savings first, lending later. The banks do not have a risk in such lending as the borrower's reputation and peer pressure in the group would reduce the risk of bad loans considerably.

i. **Business Facilitators (BFs)/Business Correspondents (BCs):-** The BC/BF model is a model which based on information and communication technology (ICT). In this model the intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the banks themselves and later with improvisations and RBI policy support, the model on the back of innovative technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, i.e., the banks. The banks have started coming up with the concept of ultra-small branches to provide support and supervise work of certain number of BFs/BCs. Also banks could have in-house model where BF/BC outfits could be a subsidiary with its own structure but under closer supervisory control.

Regulatory Approach:

i. **Simplified KYC Norms: -** Under current KYC norms, a customer has to provide number of documents for opening an account as per RBI guidelines. However, the people living in rural areas face problem in fulfilling these norms. To enable banks to tap in this huge opportunity of rural banking in unbanked areas and to meet the objective of financial inclusion, RBI has relaxed a number of norms for accounts opened by people who plan to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100, 000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.

ii. **Simplified bank saving account opening: -** The account opening form has been simplified to ease the opening of account by the poorer sections, street hawkers and other migratory labours of the society.

iii. **Bank branch authorization: -** RBI has permitted banks to open branches without taking authorization, thus deviating from its normal norms, in tier 3 to 6 city, towns, or villages. This would enable the government, regulator and the banks to speed up the drive for financial inclusion and this make available the financial services to the unbanked population of the country.

Technology Based Approach:

i. **Mobile Banking :-** One of the most remarkable developments in terms of innovation in order to harness the full power of technology, the banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m-Pesa by Vodafone and Airtel Money.

ii. **Kiosk / ATM based banking: -** In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches.

iii. **Branchless Banking: -** Some of the leading banks have come up with this concept where there would be an online system with chat facility assisting the person to make use of various electronic machines for depositing and withdrawing cash and cheques. However this initiative is in a very initial stage and has a limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and hence this concept is currently limited to urban and semi-urban areas.

iv. **Aadhaar Enabled payment services: -** In this system, any Indian citizen having an Aadhaar number updates his account with the same. All accounts having aadhaar number updated are to be reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiary's account. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database is expected to empower a bank customer to use Aadhaar as his/her identity to access various financial services.

Knowledge Based Approaches: Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

i. Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

ii. RBI had issued guidelines on the financial literacy Centres (FLC) for setting up FLCs. It was advised that the rural branches of scheduled commercial banks should increase efforts through conduct of outdoor Financial Literacy Camps at least once a month. A total of 2.2 million people had been educated through awareness camps / choupals, seminars and lectures till date.

Governments Initiatives: The government has taken various initiatives indirectly through the regulators, government promoted schemes through its various ministries. Some such initiatives have been listed below.

i. **Induction of SHG-2**:- The original SHG as initialized by NABARD had certain limitations. This led to NABARD preparing a strategy to revitalize the SHG movement leading with the induction of SHG-2 model.

ii. **Women SHGs Development Fund: -** The Union Budget had proposed a "Women's SHG's Development Fund" with a corpus of Rs. 500 crore. The GoI created this fund to empower women and promote their SHGs. The responsibility of managing the fund is of NABARD. It managed the same through two of its major microfinance funds, namely Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).

iii. **Swarnjayanti Gram Swarozgar Yojana (SGSY):-** It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

iv. **National Rural Livelihood Mission (NRLM):-** Established in June 2010 by the Ministry of Rural Development (MoRD), GoI. It is based on the success of Indira Kranti Patham (IKP), a poverty alleviation program being implemented in Andhra Pradesh.

v. **The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):-** This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. As the payments are made through the bank/post office accounts, nearly 10 crore bank/post office accounts have been opened till date.

Suggestions:

More incentives for the BCs, utilizing existing network for banking such as post offices, creating awareness for the use of banking technologies as well as mobile phones etc. will help in creating a big difference in the economy. The proposed solutions that suggest a way forward for sustainable inclusive growth are presented below:

Business Correspondents

- A BC need to be rebranded as a banker against the existing image of a travelling salesman which would enhance the acceptability of BCs among general public. This could be achieved by a contractual arrangement, thereby giving a semi-official status of a bank employee to a BC. This would reduce the attrition rates of BCs and increase their loyalty towards the profession.
- The rebranding exercise of BCs would also heighten participation of women as BCs. The status of a bank employee would help them to counter regressive objections of women being salespeople.

Post Office Networks and Fair Price Shops

- Banks can tie-up with India Post to utilize their extensive network by setting up small banking counters at each of their post offices, especially rural branches. The government owned post offices have sufficient space in the post offices to set up such a counter with a computer and printer, to be operated by a commercial bank employee. With existing arrangements at the post offices, these can be converted into extended banking counters.
- To explore methods to attract potential customers to visit the post office with banking facilities, critical information could be provided by local language handouts or on big screens installed on the premises. This could constitute expected weather, crop and commodity prices, news of new farming techniques, business ideas and other rural innovation initiatives.

ATMs

- Encouraging banking habits amongst the unbanked masses by installing audio-video enabled ATMs to announce simple instructions in the local language to assist the customer in the unbanked areas, could be considered.
- In case such ATMs are installed in the premises of post offices, then trained guards could facilitate withdrawals, deposits and also account opening forms.
- The issue of security can be addressed by installing inbuilt CCTV cameras in the ATM machine as well as the post office.

Banking Technology

- A self-sustaining solution wherein cashless payments are enabled through payment transfers by a mere swipe of the card using Point of Sales device at each prospective transaction points (like retail stores, equipment vendors, commuting medium like buses etc.).
- Biometric identification of users, voice commands and narration for all facilities will make the machine more users friendly. Also, these machines can be initially employed in urban areas as people might be technology friendly and trust in such machines. Then, after successful implementation, it can be tried in rural areas as well. This machine provides a unique opportunity to act as a small ecosystem of money wherein the cash deposited by some can be used for withdrawals by others and hence will require less replenishment of cash as compared to a regular ATM.
- The kiosk can offer loan application and new account opening through scanning of the documents.

Mobile Phones

- Common mobile banking applications with minimal usage of text should be developed leveraging channels such as SMS or GPRS. These applications should be self-explanatory and should incorporate image-based interactive user interface, as well as higher usage of voice based commands.
- Targeted advertisement campaigns should be devised for mass media and locally effective media. Government agencies should actively participate in these campaigns that communicate mobile banking to be user friendly and safe.
- Common consumer knowledge in rural areas about dialing to a toll-free number should be leveraged to provide introduction to financial literacy as well as instructing people on steps to use mobile banking.

Conclusion:

Expanding access to financial services seems to hold promise as a means for including the poor, reducing poverty, and spurring economic development. Private sector initiatives like the significant expansion of microfinance activities in India have also shown the limited scope within which lenders functioned. Broader financial needs of the poor have so far been met through informal means which are costly and risky and result in sub optimal outcomes for the most vulnerable sections of our society.

Thus, Innovative products, out of the box service models, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted, Financial Inclusion Program.

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