FINANCIAL INCLUSION IN INDIA: AN OVERVIEW

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ABSTRACT

The banking industry in India has undergone dramatic changes. Previously the banks would target the rich customers. As a result, the have-nots or the bottom-line customers of the pyramid were ignored. They belonged to low-income group and had to take resort of moneylenders or informal lenders for taking advance/loan at exorbitant rate of interest. This situation cannot uplift the poor people and makes them destitute in the long run. Access to finance, especially by the poor and vulnerable groups, is an essential requisite for employment, economic growth, poverty alleviation and social upliftment. Here lies the importance of financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of the society. The Government of India has taken a number of initiatives so that the banks can serve the poor in a hassle-free manner. In this article, an attempt has been made to highlight the pros and cons of financial inclusion in India.

KEYWORDS: Economic growth, Informal lenders, Poverty alleviation, Vulnerable groups.

INTRODUCTION

A financial inclusion is a buzzword now and has attracted the global attention in the recent past. In India, it is a new concept. More than 70% of our population lives in the rural areas. Financial inclusion is a necessity for a country where a large chunk of the world’s poor resides. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. Providing access to finance is a form of empowerment of the vulnerable groups. The central theme of the Millennium Development Goals (MDGs) is reduction of poverty in all its forms. Beginning with the nationalization of banks in 1969, efforts were made to take the banking system closer to the people. Despite the spread of banking facilities, there were concerns that banks had not been able to include vast segments of the population, especially the disadvantaged sections of the society, into the fold of basic banking services. Keeping in view of the interests of the poor people, the Government of India has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the banking services.
OBJECTIVES OF THE STUDY

The study has been made:

1. To discuss about the conceptual aspect of ‘Financial Inclusion’;
2. To highlight the reasons for providing access of formal financial services to the underprivileged sections of the society;
3. To point out the reasons for financial exclusion;
4. To evaluate the role of banks towards “Financial Inclusion”;
5. To assess the Banking Service facilities for financially excluded people; and
6. To make concluding remarks.

METHODOLOGY

The entire gamut of discussion has been made on the basis of secondary sources. The different books, journals, newspapers and related websites have been consulted in this regard.

DEFINING “FINANCIAL INCLUSION”

In common parlance, financial inclusion is the delivery of financial/banking facilities to all people in a fair, transparent and equitable manner at an affordable cost. According to Leeladhar (2006), financial inclusion means “The delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups”. Usha Thorat (2006) has defined the term as “Provision of affordable financial services viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded”. A committee on Financial Inclusion was formed under the chairmanship of C. Rangarajan and that committee defined the term as “The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. In brief, financial inclusion means taking banking services to the rank and file. It is a mantra that envisages bringing everyone irrespective of financial status into the banking fold.

WHY FINANCIAL INCLUSION

India is a country where a sizeable amount of population lives in rural areas. They are engaged in agriculture and allied activities. Most of the people living in rural areas are poor. They do not have any access to the banks. The access of the poor to the banking services is important for the alleviation of the poverty. Their access to the banking services will contribute a lot to the growth and development of our country’s economy. 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. 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. Financial inclusion helps to bring excluded groups to finance. It yields uniform economic development, both spatially and temporally, and ushers in greater economic and social equity. It aims at reducing poverty and brings greater equity in the country. No-frills account encourages the savings habit of the masses. It helps bring a large section of the underprivileged people into the banking net. It encourages bringing un-banked customers into financial mainstream. All this results in escalating/accelerating the economic development of the country.

SERVICES EXTENDED THROUGH ‘FINANCIAL INCLUSION’

Financial products and services provided to the people through financial inclusion are:

1. Service facility
2. Overdraft facility
3. Payment and remittance services
4. Low cost financial services
5. Cheque facility
6. All kinds of commercial loan
7. Electronic fund transfer
8. Credit and Debit Cards access
9. Access to financial markets
10. Financial advice
11. Insurance (Medical insurance)
12. Micro credit during emergency
13. Entrepreneurial credit

REASONS FOR “FINANCIAL EXCLUSION”

Financial exclusion is a serious concern among the low-income households as well as small businesses, mainly located in semi-urban and rural areas. It is the unavailability of banking services to people living in poverty. According to K. C. Chakraborty “Financial Exclusion” is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers”. There are 3 types of exclusions: (a) people who do not have any access to a regulated financial system; (b) people who have limited access to banks and other financial services; and (c) individuals who have inappropriate products.
Financial exclusion can make poor people vulnerable to loan sharks. It breeds poverty and hinders overall development of a country. It not only widens the “Rich-Poor divide”, it also leads to “Social exclusion”. There are a variety of reasons for financial exclusion. The reasons are:

1. Lack of banking facility in the locality (i.e. geographical exclusion including a rural-urban divide);
2. Financial illiteracy;
3. Nonchalant attitude of the staff;
4. Cumbersome documentation and procedures;
5. Unsuitable products;
6. Language;
7. Feeling uncomfortable by a section of population in visiting a bank branch;
8. Lack of awareness and initial inhibitions in approaching a formal institution;
9. Low incomes/assets;
10. Distance from branch and branch timing;
11. Fear of refusal.

WHO ARE FINANCIALLY EXCLUDED

The financially excluded sections generally are:

1. Marginal farmers;
2. Landless labourers;
3. Oral lessees;
4. Urban slum dwellers;
5. Migrants;
6. Self-employed and unorganized sector enterprises;
7. Ethnic minorities and socially excluded groups;
8. Senior citizens and women.
ROLE OF BANKS TOWARDS “FINANCIAL INCLUSION”

Banks in India are an integral part of financial system in India. The well-developed Indian banking system plays an important role in economic development of our country. The nationalization of banks, establishing of new banks with better reforms and policies and introduction of the numerous facilities and amenities of the Indian banks are significant features of the banking services of India. Technology and financial inclusion are the popular coinage in banking parleys in the country. Financial inclusion is a major agenda for the RBI. Without financial inclusion, banks cannot reach the unbanked. It is also a major step towards increasing savings and achieving balanced growth.

In rural areas, where accessibility is a problem, banks are using the micro finance network and business correspondents and facilitators to bring more people under the ambit of banking services. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India’s financial system.

The nationalization of 14 banks in India took place in 1969 by Mrs. Indira Gandhi, the then Prime Minister. The banks are: Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Bank, Indian Overseas Bank, Bank of Baroda, Union bank, Allahabad Bank, United Bank of India, UCO bank, and Bank of India. The State Bank of India was nationalized in 1955. Nationalization of seven State Banks of India (formed subsidiary) took place in 1959. Seven more banks were nationalized in 1980 with deposits over 200 crores. Financial inclusion is now a common objective for many central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India’s banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country.

The period 1969 to 1991 saw a huge increase in the branch outreach in India as the average population covered by a bank branch fell from 64,000 to 13,711. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 68282 branches as at the end of March 2005. At the end of March, 2009, it has increased to 79442.

BANKING SERVICE FACILITIES FOR “FINANCIAL INCLUSION”

The RBI set up a commission (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). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic “no-frills” banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K. C. Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. The RBI, in its annual policy statement of 2005-06, recognized the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, and urged banks to review their existing practices to align them with the objective of financial inclusion. As a result, efforts are being made by the Reserve Bank of India and the Government of India to increase the banking penetration in the country. Some of them are:
1. A large number of people, especially in rural areas, do not have bank accounts. Banks have been encouraged to make available “no-frills” bank accounts with “nil” or very low minimum balances making such accounts accessible to public at large. The Regional Rural Banks (RRBs) have also been advised to allow limited overdraft facilities in “no-frill” accounts without any collateral.

2. In order to ensure that people belonging to the low-income groups, both in urban and rural areas, do not encounter difficulties in opening bank accounts, the KYC procedure for opening accounts was simplified.

3. Banks are required to make available all the printed material used by retail customers in English, Hindi and the concerned regional language.

4. All the State Level Bankers’ Committee (SLBC) convener banks have been advised to initiate action for identifying at least one district in their State /Union Territories for 100% financial inclusion. To extend hassle-free credit to bank customers in rural areas, the guidelines on General Credit Card (GCC) schemes were simplified to enable customers’ access credit on simplified terms and conditions, without insistence on security, purpose or end-use of credit.

5. Guidelines have been issued to banks to enhance their outreach by utilizing the services of civil society organizations, farmers’ club, NGOs/SHGs, Micro Finance Institutions etc as Business Facilitators and Business Correspondents (BC). The BC model ensures a closer relationship between poor people and the organized financial system.

6. Banks have been urged 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.

7. Banks have been advised to implement Electronic Benefit Transfer (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.

8. The new branch authorization policy issued by the RBI has been announced to encourage banks to open branches in those under banked States and the under banked areas in other States. The new policy places a lot of emphasis on the efforts made by the bank to achieve, inter alia, financial inclusion and other policy objectives.

9. The Finance Minister had announced in Budget 2010-11 that, “To reach the benefits of banking services to the ‘Aam Aadmi (common man), the RBI had set up a high-level committee on the lead bank scheme.”
CONCLUDING REMARKS

As already mentioned that nearly 70% of people in India live in villages. The majority of people living in rural areas remain excluded from the purview of the financial institutions even after 64 years of independence. Reaching out to the hither-to unreached segment of population and providing basic financial services is the need of the hour. To bring a large segment of the society under the umbrella of financial inclusion, banks have set up their branches in remote corners of the country. The rules and regulations have been simplified. It goes without saying that the banking industry has shown tremendous growth in volume during the last few decades. India’s fastest growing economies have become possible through financial inclusion. In spite of that, still there are large segments of the society outside the financial system.

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