

Financial Inclusion System In India

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Abstract

Financial inclusion is an important step towards inclusive growth. As access to finance by the poor and vulnerable groups is prerequisite for poverty reduction, employment generation and economic growth. In India more than 70% of population resides in rural areas, so effective financial inclusion is needed for upliftment of the poor's and disadvantage people by providing them the modified financial products and services. It is priority of country in terms of economic growth and advancement of society as it enables the poorest and vulnerable groups to step out of poverty and reduces the inequality in society. The relevant data for the study is collected from various online sources, research paper, articles, government and RBI report. The researcher uses descriptive study to examine the present scenario and analyze the role of digital banking in financial inclusion.

Keywords: *Financial inclusion, Digital banking, GOI Schemes, Unbanked areas*

Introduction

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit were needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). It typically targets those who are unbanked and underbanked and provide financial services to them. Also it is understood to go beyond merely opening a bank account, as it is possible for banked individuals to be excluded from financial services. Extending financial services to those who typically lack access, has been a goal for the government of India.

Since financial inclusion was established as a priority for the GOI and RBI, progress has been made and Mangalam, Puducherry became the first village in India where all households were provided banking facilities. It plays very important role in economic development by broadening the resources of financial system by developing the culture of saving among large segment of rural population. Further by bringing low income groups within the parameter of formal banking sector Financial inclusion protects the wealth and other resources of the poor

people. It also mitigates the exploitation of vulnerable sections by usurious of moneylender by providing easy access to formal credit. Financial inclusion includes micro credit, branchless banks, no frill account, saving products, pension schemes, self-help group, entrepreneurial credit etc.

In short financial inclusion is: -

No frill account + Banks + Other financial institution + Micro finance institution + Information technology = Financial inclusion

Thus, financial inclusion is important for inclusive growth, economic development, social development and business opportunities.

In India the concept of financial inclusion was first introduced in the year 2005 by Reserve Bank of India. Soon the concept started to spread in different part of country. It was introduced to reach every corner of the country without ignoring any remote areas. The concept addressed absence of formal financial system for catering to the need of monetary requirement by poor and vulnerable groups.

In the year 2005, Khan committee report realized which focused on rural credit, micro finance and disclosed the number of people missing out from benefit of a professional and formal banking system. The report also laid emphasis on providing access to essential services by helping the poor to open no frill bank account. All banks were asked to minimize the regulations regarding opening of bank account for economically weaker section of society.

Literature Review

Mukherjee and Chakraborty (2012), studied the role and efficiency of commercial bank, RRBs, SHG, and NBFCs in promoting financial inclusion in Jharkhand. The result shows that banks were not able to achieve the desired result and it suggested that every bank should report to RBI on its achievement in financial inclusion.

Julie (2013), aimed at analyzing the relationship between financial inclusion and economic growth in Kenya and found that both of them have a positive relationship. Economic growth has a strong positive relationship with branch network and weak positive relationship with

number of mobile users. The study also concluded weak negative relationship with no of ATM and strong negative relationship with bank lending interest rate.

Uma and Rupa (2013), aimed at analyzing the role of SHG in financial inclusion and concluded that there is positive relationship between SHG and financial inclusion and also with increase in membership of SHG there was increase in no of bank account, credit availed and annual repayment of loan.

Kamboj (2014), in paper financial inclusion and growth of Indian economy found out positive relationship between no. of branch network and no. of ATMs with GDP growth rate of the country.

Objective

1. To study the schemes developed by government for financial inclusion.
2. To study the role of digital banking in financial inclusion.
3. To examine the present scenario of financial inclusion in India.

Methodology

The descriptive has been done in analyzing the role of regulatory body and government in achieving the objective of financial inclusion. The secondary data is used from various online sources, articles, research paper, and RBI website to study the role of digital banking and present scenario of financial inclusion in India.

Schemes And Its Achivement In Financial Inclusion In India

SWABHIMAN CAMPAIGN

This campaign was launched by the central government in a way to achieve financial inclusion programme on February 10, 2011 in which five crore household of 73000 villages would be provided access to banking services in unbanked area by opening 50,000,000 crores no frills account till march 2012.

SWAVALAMBAN

A co-contributory pension scheme launched on September 26, 2010 for workers of unorganized sector. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government will contribute a sum of Rs. 1000 per annum for them. Swavalamban scheme totaling to 40 lakhs subscribers by March 2014.

BUSINESS CORRESPONDENT MODEL

This model is also known as cost efficient model as under this model financial institutes appoint commission agent for providing financial services at door step of the public at remote areas where banks are unable to open their branches which results in large customer base at low cost.

FOR BANKING

- **No frill account-** The central bank introduced “no frill” accounts in 2005 to provide basic banking facilities to poor and promote financial inclusion. This account could be maintained without or with very low minimum balance.
- **BSBDA-** RBI advised all banks to open Basic Saving Bank Deposit accounts (BSBDA) with minimum common facilities such as no minimum balance, withdrawal of cash at bank branch and ATMs, receipt/credit of money through electronic payment channels, facility of ATM card.
- **JAN DHAN ACCOUNT-** This is similar to BSBDA but with little more features as:
 - Jan Dhan account holder is compulsorily issued RUPAY debit card and many more services. It certainly increased the financial inclusion and made bank account opening a cake walk.
 - It provides premium free life insurance till the time accounts opened on 26 Jan 2015. It has life insurance of Rs. 30,000 and accidental insurance cover of Rs. 1 lakh.
 - Also, provide overdraft facility up to Rs. 5000/-month without any rate of interest and security.

JAN DHAN DARSHAK

A geographical information system (GIS) mobile application, has been launched to provide a citizen centric platform for locating financial service touch points across all providers such as banks, ATMs, post offices, CSC, etc. The services could be availed as per the need and convenience of costumers. The web version of this application is Findmybank (findmybank.gov.in). This application can be used for various administrative purposes.

STANDUP INDIA

The scheme of standup India was launched by the government on 5 April, 2016. This schemes aims at promoting entrepreneurship amongst women, SC and ST category of population who faces hurdles due to lack of advice and inadequate and delayed credit. The scheme extended the institutional credit to unreserved sectors of the population in starting green field enterprise. It facilitates bank loans between Rs 10 lakh to 1 crore to at least one SC/ST borrower and at least one women borrower per branch of SCBs. Also to extend collateral free loan, the government has setup the Credit Guarantee Fund for Stand Up India.

FOR LOANS

In order to control public to borrow from schedule banks and to lend fix amount in priority sector at affordable rate of interest certain schemes are developed by government: -

PRADHAN MANTRI MUDRA YOJANA

In the union budget 2015-16, the Micro Unit development finance Agency(MUDRA) was set-up and the PMMY was launched on 8 April, 2015. This is an important aspects of financial inclusion as it enables the flow of credit to small business. Under PMMY, loans up to Rs. 10 lakhs without any collateral are extended to non-corporate small business sector borrowers. These loans are extended through partner member lending institutions such as SCBs, NBFCs, and MFIs. The loans under PMMY are categorized as:

- Shishu (up to Rs. 50,000)
- Kishore (Rs. 50,000 to Rs. 5 lakh)
- Tarun (Rs. 5 lakhs to Rs. 10 lakh)

PRADHAN MANTRI AWAS YOJANA

This scheme aims at providing affordable housing to the urban poor with the target of building 20 million affordable houses by 31 March 2022. It has two components:

- Pradhan Mantri Awas Yojana-U for urban poor and
- Pradhan Mantri Awas Yojana-R for rural poor.

Total 1 crore homes are approved against total demand of 1.12crore as of December 2019.

SOCIAL SECURITY SCHEMES

This scheme aims at creating universal social security system for all Indians, especially the poor and under-privileged. The scheme was launched on 9th may,2015 for providing life and accident risk insurance and social security at a very affordable cost. The three ambitious Jan Suraksha Schemes are:

- **Pradhan Mantri Suraksha Bima Yojna:** It was started on Jan 2015 for accidental insurance and covers up to Rs. 2lakh in case of death and Rs. 1 lakh in case of physical disability at premium of (Rs. 12+GST) for the age group of 18-70 years and is under HDFC India.
- **Pradhan Mantri Jeevan Jyoti Yojana:** This is life insurance scheme from age of 18-50 years (benefit until 55 years) at a premium of 330+(18%GST). It covers till Rs. 2 lakhs and is under LIC India on behalf of the government of India.
- **Atal Pension Yojana:** This scheme aims to provide monthly pension to eligible subscribe not covered under any organized pension scheme. It is open to all bank and post office account holders in the age group of 18 to 40 years. Under this scheme subscriber can opt for guaranteed pension of Rs. 1000 to Rs. 5000 receivables at the age of 60 years.
- **Pradhan Mantri Fasal Bima Yojana:** This is a general insurance for crops and this scheme started from feb 2016 by NDA government and replaced the earlier scheme of UPA government “National agriculture Insurance” with few more advantage such as low premium on crop insurance, use of technology for weather forecasting, future generation of claim and post-harvest benefits etc.

ROLE OF DIGITAL BANKING IN FINANCIAL INCLUSION

Financial Inclusion as described by Reserve Bank of India is providing access to a wide range of financial services at a reasonable cost, this is where the major role of digital banking comes into play. The digital banking provides platforms which are likely to deliver financial services to both the unbanked and under banked population, especially in rural/remote regions at low cost. Digital banking will also increase the digital financial access to provide high quality and affordable financial services, also the break-even cost can be reduced substantially as by using digital channels the transaction cost could be much lower than the cost incurred.

As the digital banking requires a digital device to bank upon, in rural areas smartphones are the major digital device that people rely upon primarily. According to TOI report of May 6, 2020 there are 227 million active internet users in rural areas which is 10% more than the urban India's about 205 million as of November 2019. This clearly emphasizes the fact that financial inclusion can be achieved more significantly if the focus is given on digital banking.

The point wise analysis of the role of digital banking in achieving financial inclusion is as follows-

- Brick and mortar businesses are proving to be an uneconomical proposition for banks in rural or remote areas.
- There are distribution challenges due to localized constraints.
- Conventional banking models are not feasible for low ticket size of transactions, deposits, loans, etc. in such regions
- Several accounts are no-frills in nature.
- There is a lack of awareness of financial products.
- There is a high requirement of skilled and trained manpower.

Digital banking also helps in creating a commercially viable rural banking and financial inclusion models as it offers a cost effective model by using bank technology interfaces for smooth delivery of services.

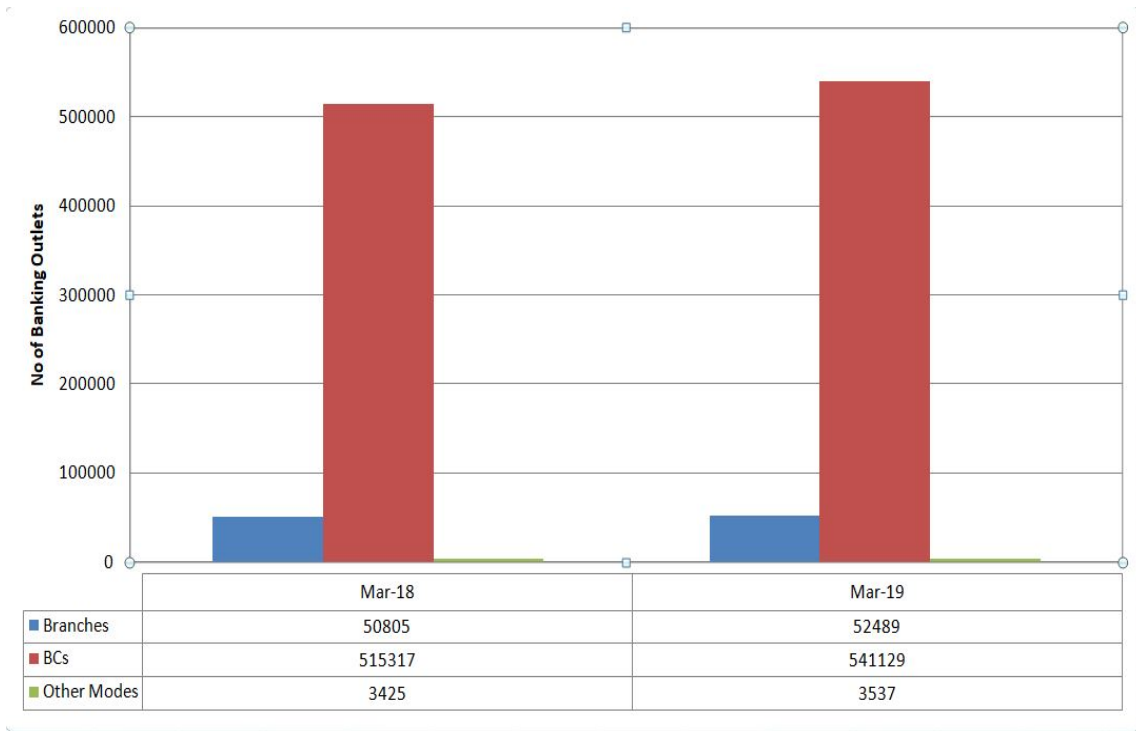
Following are some points, because of increased use of smartphones and internet, that shows shift towards financial inclusion:

- Banks have agreed upon many models and partnerships among them, telecom operators and technology players, for example, USSD which stands as an acronym for Unstructured Supplementary Service Data launched by National Payments Corporation of India, which is independent of device, operator and bank, thus, it serves as a solution for masses who have basic feature phones.
- The e-wallets which are mobile based pre- paid instruments is making cashless transaction easier for the unbanked and under banked.
- So we can say that digital banking has a major role to play in making this financial system more inclusive.

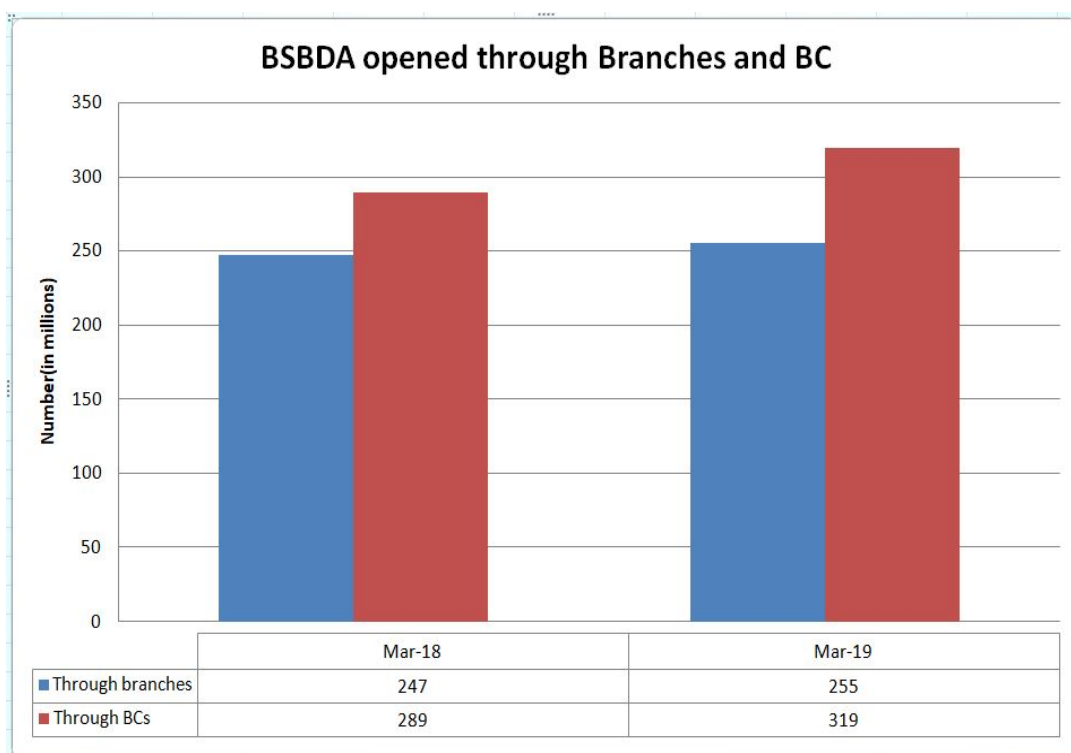
Performance and Achievements towards reaching out to the unbanked area under Financial Inclusion Plans (All SCBs including RRBs):

Table IV.6: Financial Inclusion Plan: A Progress Report			
Particulars	End-March 2010	End- March 2018	End-March 2019*
1	2	3	4
Banking Outlets in Villages - Branches	33,378	50,805	52,489
Banking Outlets in Villages > 2000-BCs	8,390	100,802	130,687
Banking Outlets in Villages < 2000- BCs	25,784	414,515	410,442
Total Banking Outlets in Villages – BCs	34,174	515,317	541,129
Banking Outlets in Villages- Other Modes	142	3,425	3,537
Banking Outlets in Villages - Total	67,694	569,547	597,155
Urban locations covered through BCs [§]	447	142,959	447,170
BSBDA - Through branches (No. in Million)	60	247	255
BSBDA - Through branches (Amt. in ₹ Billion)	44	731	878
BSBDA - Through BCs (No. in Million)	13	289	319
BSBDA - Through BCs (Amt. in ₹ Billion)	11	391	532
BSBDA - Total (No. in Million)	73	536	574
BSBDA - Total (Amt. in ₹ Billion)	55	1,121	1,410
OD facility availed in BSBDA's (No. in million)	0.2	6	6
OD facility availed in BSBDA's (Amt. in ₹ Billion)	0.1	4	4
KCC - Total (No. in Million)	24	46	49
KCC - Total (Amt. in ₹ Billion)	1,240	6,096	6,680
GCC - Total (No. in Million)	1	12	12
GCC - Total (Amt. in ₹ Billion)	35	1,498	1,745
ICT-A/Cs-BC-Total transactions (Number in million) [#]	27	1,489	2,084
ICT-A/Cs-BC-Total Transaction (Amount in ₹ billion) [#]	7	4,292	5,884

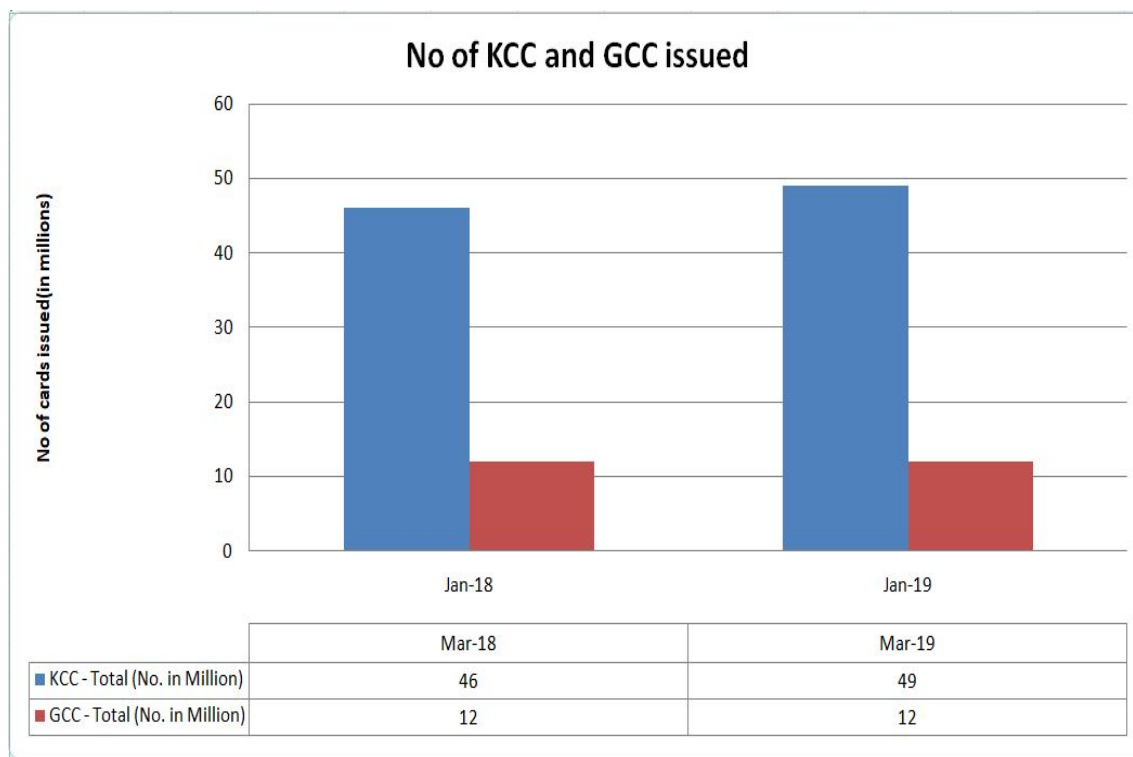
*: Provisional.
[§]: Out of 447,170 outlets, It is reported that 388,868 outlets provide limited services like only remittances or sourcing of loans, etc.
[#]: Transactions during the financial year.
Source: As reported by banks.



Due to RBI's intense efforts to make the financial system more inclusive, there was a steep rise in the number of banking outlets which were branches from 50,805 in March-2018 to 52,489 in March-2019. Also both the BC and the other modes saw the same gradual rise in this span of a year, where the BC rose from 515317 to 541129 while the other modes rose from 3425 to 3537.



The number of BSBDs opened through branches increased from 247 million in March 2018 to 255 million in March 2019 while the same opened through BC rose from 289 million in March 2018 to 319 million in March 2019. This change was more or less attributed to the RBI's advice to banks to provide small overdraft facilities in BSBD accounts.



The RBI advised banks to provide KCC and GCC to farmers for timely availing timely and sufficient credit facilities and this number rose from 46 in March 2018 to 49 million in March 2019 as far as Kissan Credit Card(KCC) is concerned and for General Credit Card(GCC) this number remained the same which is 12 million.

CONCLUSION

India has long history of putting efforts to have financial inclusion and to some extent it has been successful as compared to the starting phase, but there are still many milestones yet to be achieved in this process. Efforts of current government have enhanced financial inclusion to many folds but we are still in process to figure out to use this in favoring our economy and make everyone in reach of its benefits and for this various schemes are made by government.

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