Financial Inclusion – An Indian Outlook

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Abstract

The Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas. Thus development of rural India is a key step towards economic development for a country like ours. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Despite the tsunami of global financial crisis, India is inching towards near double digit growth with the strategy of financial inclusion. IBCHAM (Indian Business Chamber) has decided to constitute a separate and dedicated “National Council for Financial Inclusion” to enforce the Financial Inclusion in India through technological innovation and cost effective models to roll out the financial products at the door steps of the last beneficiary. On August 15, India’s Independence Day, Prime Minister Narendra Modi announced a national mission of financial inclusion called the Pradhan Mantri’s Jan-Dhan Yojana — the Prime Minister’s People’s Wealth Program — it visualizes bank accounts for all Indians. Indian government has taken many initiatives to bring in the financial inclusion here, few of the prominent initiatives are Initiation of no-frills account, Relaxation on know-your-customer (KYC) norms and Engaging business correspondents (BCs).

Key words: - Indian economy, Financial inclusion, affordable costs, govt. initiatives

Introduction

Money has been the buzz word in every person’s life. We live to earn money and all our activities require money in it. Money basically means much more than coins, paper and plastic to acquire goods and services. Money is strongly linked with complex emotions, feelings and behaviors. Personal finance on the other hand is the management of money and financial decisions for a person or family including budgeting, investments, retirement planning and investments. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. Technology has made rapid strides in the last few years and therefore the Government is planning to use technology especially – Mobile based services in a big way to fast track financial inclusion in the country. Till now the primary method for branchless banking has been through business correspondents and the government has begun work to make Business Correspondents a viable model in India.

History and Meaning

The Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas. Thus development of rural India is a key step towards economic development for a country like ours. The term financial inclusion was first coined in 1993 by geographers who were concerned about bank branch closures and the results limited to physical access to banking services. This idea grew but it was not until around 1998 that the team was first used in a broader sense to describe people who have limited access to mainstream financial services. Even after 60 years of independence, a large section of Indian population still remains unbanked. This dejection has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. According to RBI, 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. Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. “Simplicity and reliability in financial inclusion in India, though not a cure all,
can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians,” he said. Further, “in order to draw in the poor, the products should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age. The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

Financial Inclusion in India

In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborty, the chairman of Indian Bank. Mangalam, a village from union territory of Pondicherry became the first village in India where all households are 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 Pondicherry, 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. RBI set up the 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) and urged banks to review their existing practices to align them with the objective of financial inclusion. RBI also exhorted the banks and stressed the need 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. Realizing the need of financial inclusion, the RBI went ahead with the nationalization of State Bank of India in 1955. Opening up of cooperative banks, regional rural banks and setting up of business correspondent models have been some of the vital tools used by RBI to bring about financial inclusion in India.

Benefits of Financial Inclusion in the Indian Economy

The Indian economy has globalized rapidly during the past few years and the pace of financial integration is even more rapid. Despite the tsunami of global financial crisis, India is inching towards near double digit growth with the strategy of financial inclusion. The next level of economic growth and financial deepening will immensely help penetrate the fruits of inclusive growth to the last mile man. One of the major milestone in the field of Financial inclusion so long is that IBCHAM (Indian Business Chamber) has decided to constitute a separate and dedicated “National Council for Financial Inclusion” to enforce the Financial Inclusion in India through technological innovation and cost effective models to roll out the financial products at the door steps of the last beneficiary.

Benefit to banker:

The benefits mounting up to the bankers can be summarized as under:

- Due to the low cost deposits, banks will have the opportunity to reduce their reliance on volume deposits from commercial bases. There would be better assistance in the management of liquidity risks and asset liability mismatches.
- The low cost deposits will effect in amplified profits with the perspective of medium to long term and they will be able to gain from the fortune at the bottom line.
Benefits to users:
Financial inclusion provides opportunities to erect savings along with making investments and availing credit for the customers/users. Other prominent benefits are-

- Access to insurance options that would result as a cushion against unplanned expenses in the form of emergencies and also no need to visit faraway places and tolerating tantrums of intermediaries involved in distribution of social security subsidies.
- Receiving social security transfers in the form of old age pensions, widow pensions, monthly aid to handicapped persons and other benefits accruing from state governments directly into their bank accounts without wasting time in collecting the benefits in cash;
- Facilitating economic independence and sustaining improved economic well-being and help in coming out from the clutches of moneylenders;
- With the access to customized bank accounts, the dilemma of transferring the money occasionally to resident places will be resolved. Migrants residing in urban areas would be able to send money smoothly and without having the burden of commission to the intermediaries

Benefits to regulators:
The chief function of regulatory authorities is to intensely scrutinize the performance of the regulated. Some of the principle functions of the regulator are:

- To assist and protect consumer from any kind of contingent situations.
- To protect the interest of all other stakeholders while ensuring that the systems requirements and discipline is matched with.
- To glimpse the activities in broader perception and give purposeful direction to attain superior societal and communal goals.

Benefits to technology providers:
Along with the normal stakeholders the base of effortless banking is generated by the technology providers. The major benefits to this group is

- There would be wider markets for smart cards and also the accessibility to the same would be enlarged.
- In the present era of intense competition and need of growth through financial inclusions the opportunity of any new business can be mapped out.
- Apart from the commercial benefits and gains it also provides a sense of satisfaction by way of contributing to national social agenda;

Benefits to society at large:
The ultimate beneficiaries of any kind of initiative of the national concern would go to the society. Few benefits are-

- Will encourage the central and state government to shift subsidies distribution form indirect system to direct in the hands of target groups by way of directly crediting their account;
- Distribution cost of subsidies as well as social security payments will get substantially reduced;
- This will help in plugging the leakage. These leakages are likely to cost more than 1000 billion rupees every year.

Benefits to government:
Financial inclusion will be helping the state and central government in many ways. Few major benefits would be-

- Removing inefficiency from the system and Possibility of making social security transfers such as old age pensions, widow pensions, etc directly into the bank account of beneficiaries through electronic transfer. This will help in minimizing transaction costs;
- Accounts will also help in plugging leakage in the distribution network and this will benefit society at large.
Possibility of stopping the leakage, over the next five years, the central government alone will be spending 11.5 trillion rupees on subsidies, including old age pensions, health care and national jobs for work program. In the current scenario, 40% of this will be siphoned off by the system. If the same subsidies can be transferred directly into the bank account of beneficiaries, then this leakage can be stopped.

Benefits to the economy as a whole
Financial inclusion is likely to result into number of benefits for Indian economy as a whole. Some of the probable benefits are:

- An opportunity for bringing the additional savings into the formal financial channel boosting the collective economic resources;
- Probability of higher incomes coupled with reduction in cash economy can lead to overall economic growth and Better possibility of unlocking the economic potential of the people residing in urban centers;
- Possibility of tracking individuals financial history; better utilization of consumers protection mechanism high level of financial literacy;
- Chance to achieve faster growth in the country by way of including the as mainstream of the country.

Initiatives towards Financial Inclusion in India
On August 15, India’s Independence Day, Prime Minister Narendra Modi announced a national mission of financial inclusion called the Pradhan Mantri’s Jan-Dhan Yojana — the Prime Minister’s People’s Wealth Program — it visualizes bank accounts for all Indians. In its first phase, ending August 14, 2015, the target is 75 million accounts. RBI has initiated several measures to achieve greater financial inclusion. Few of the important and worth mentioning measures are:

1. **Initiation of no-frills account** – These accounts provide basic facilities of deposit and withdrawal to accountholders makes banking affordable by cutting down on extra frills that are no use for the lower section of the society. These accounts are expected to provide a low-cost mode to access bank accounts. This account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

2. **Relaxation on know-your-customer (KYC) norms** - KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3. **Banking service reaches homes through business correspondents** – The banking systems have started to adopt the business correspondent mechanism to facilitate banking services in those areas where banks are unable to open brick and mortar branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this unbanked population. Armed with suitable technology, the business correspondents help in taking the banks to the doorsteps of rural households.

4. **Engaging business correspondents (BCs)** - In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this.

5. **Use of technology** - Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised 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.

6. **Opening of branches in unbanked rural centres** - To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

7. **EBT – Electronic Benefits Transfer** – To plug the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This “human-less” transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government’s cost of transfer and monitoring. Once the benefits starts to accrue to the masses, those who remain unbanked shall start looking to enter the formal financial sector.

8. **Simplified branch authorization** - To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without the need to take permission from RBI in each case, subject to reporting.

**Conclusion**

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. The authorities should ensure that all of the forces are collectively willing to walk that extra mile to ensure that all the countrymen of India get easy access to the financial system and are able to leverage this access to improve their economic and social well-being. The masses at large need to accept the reality that the rich would not be able to sleep peacefully if the economic and social divide is allowed to grow any bigger. In the mission of attaining totality in the financial system and the reach and coverage for all, electronic and print media has an important role in not only supporting financial inclusion mission but in leading the initiative by spreading the intended message far and wide. The commercial banks need to play a significant role in ensuring financial inclusion and promoting financial literacy; the emphasis remains 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. Financial inclusion is in all a win-win situation for the financially excluded, the corporate, the government and also the banks. Bankers can support by financing the Agri products including their preservation and sales. Corporate can sell/ market their products to the large untapped rural markets.

**References**