ABSTRACT

India is a fastest growing country in the world today. In order to pursue the high and ambitious tasks that have already been set, the economy has adopted multifaceted programme for economic transformation of India. Startup India, skill India, Micro Finance, Jan-Dhan Yojana, Financial Inclusion etc. are some of the steps taken by the government which will facilitate the procedure of this transformation. The main objective of all these programmes is not only to achieve sustainable growth but also inclusive one. Franklin D. Roosevelt has rightly said, “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

Keywords: Financial inclusion

INTRODUCTION

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc.

OBJECTIVES

1. To discuss the concept and importance of Financial Inclusion.
2. To take an account of financial inclusion in India.
3. To critically assess the programme of financial inclusion in India.

METHODOLOGY

The data is collected from internet, newspapers, research papers etc.

WHAT IS 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 society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. It is argued that as banking services are in the nature of a public good, the availability of banking and payment services to the entire population without discrimination is a key objective of financial inclusion.
GOALS OF FINANCIAL INCLUSION

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

1. 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;
2. Sound and safe institutions governed by clear regulation and industry performance standards;
3. 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 the Indian context, the term ‘financial inclusion’ was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then Governor, Reserve Bank of India. Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion.

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

1. **Opening of no-frills accounts**: Basic banking no-frills account is with nil or very low minimum balance and 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. 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. **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.
4. **Use of technology**: 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.
5. **Adoption of EBT**: Banks have been advised to implement 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.
6. **GCC**: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to ₹25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks’ customers based on the assessment of cash flow without insistence on security.
7. **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 centres with a population of less than 50,000 under general permission, subject to reporting.
8. **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.

9. **Mangalam, Pundicherry** became the first village in India where all households were 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 Puducherry, 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.

**FINANCIAL INCLUSION INDEX**

On June 25, 2013, CRISIL, India's leading credit rating and research company launched an index to measure the status of financial inclusion in India. The index- Inclusix- along with a report, was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services— branch penetration, deposit penetration, and credit penetration—into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are-

1. The all-India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress— this score has improved from 35.4 in 2009.
2. Deposit penetration is the key driver of financial inclusion— the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
3. 618 out of 632 districts reported an improvement in their scores during 2009-2011.
4. The top three states and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

**STEPS TAKEN BY THE GOVERNMENT TOWARDS FINANCIAL INCLUSION**

1. **Pradhan Mantri Jan Dhan Yojana** Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts and also categorically declared that a bank account for each household was a "national priority". On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.
2. The RBI has, in the recent past, taken several steps to further inclusion. Very recently, it provided draft guidelines for issuing licences to payment banks and small banks.

3. The government’s latest plan of action, as envisaged in the CFIP or Sampoorn Vittiya Samaveshan, hopes to extend coverage of basic financial services all excluded households. It will also facilitate account opening procedure and smooth banking operation.

4. The latest inclusion plan will have as its focus on households rather than geographical areas. After satisfactory conduct of accounts it is proposed to offer reasonable need-based credit facilities for which overdraft facilities will be sanctioned. A smart card (RuPay card) will be issued to enable customers to operate their accounts even without BCs. Simultaneously suitable awareness will be created among the financially excluded.

5. In the second phase, there is a proposal to make available a pension scheme for identified individuals in the unorganised sector and offer microfinance products through government-owned insurance companies.

6. RBI Branch Authorization Policy: In order to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks (other than Regional Rural Banks) to open branches/ mobile branches/ Administrative Offices/CPCs (Service Branches), (i) in Tier 2 to Tier 6 centres (with population upto 99,999) and (ii) in rural, semi-urban and urban centres of the North-Eastern States and Sikkim.

7. Swabhimaan Scheme: Earlier, under the Swabhimaan campaign, the Banks were advised to provide appropriate banking facilities to habitation having a population of over 2000 (as per 2001 census) by March 2012. The banks identified approximately 74000 habitation across the country having a population of over 2000 for providing banking facilities. As per reports received from banks, 74351 villages with population of above 2000 have been covered with banking facilities either by branches; Business Correspondents, mobile banking etc. by March 31, 2012.

8. Direct Benefit Transfer (DBT) and Direct Benefit Transfer for LPG (DBTL): the objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. Banks play a key role in implementation of DBT/DBTL and this involves four important steps, viz. Opening of accounts of all beneficiaries; Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper; Undertaking funds transfer using the National Automated Clearing Payment Bridge System (NACH-APBS). Strengthening of banking infrastructure to enable beneficiary to withdraw money, Direct Benefit Transfer (DBT): The scheme was launched in the country from January, 2013 and was rolled out in a phased manner, starting with 25 welfare schemes, in 43 districts and extended to additional 78 districts and additional 3 schemes from 1st July, 2013. Presently DBT in 35 schemes have been expanded across the entire country, Direct Benefit Transfer for LPG (DBTL): The Direct Benefit Transfer for LPG (DBTL) scheme was rolled out in 291 districts in the country from 1st June 2013 in six phases.

OVERVIEW AND PROGRESS ON FINANCIAL INCLUSION

Financial Inclusion is an important priority of the Government. The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.
Position of households availing banking services

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<th>As per Census2011</th>
<th>As per Census 2011</th>
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<tbody>
<tr>
<td></td>
<td>Total number of households</td>
<td>Number of households availing banking services</td>
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<tr>
<td>Rural</td>
<td>138,271,559</td>
<td>41,639,949</td>
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<tr>
<td>Urban</td>
<td>53,692,376</td>
<td>26,590,693</td>
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<tr>
<td>Total</td>
<td>191,963,935</td>
<td>68,230,642</td>
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(Expansion of Bank Branch network: The number of branches opened by Public Sector Banks (PSBs) and Scheduled Commercial Banks (SCBs) during last five years)

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<th>As on</th>
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<th>Semi Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
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<td>13450</td>
<td>12612</td>
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<tr>
<td>31.03.2012</td>
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<td>14322</td>
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<tr>
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<td>21952</td>
<td>16319</td>
<td>14644</td>
<td>80462</td>
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<td>31.03.2015</td>
<td>29634</td>
<td>23549</td>
<td>17387</td>
<td>15325</td>
<td>85895</td>
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</tbody>
</table>

Critical Evaluation

1. Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide.

2. Lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry. This crisis has often been compared to the mortgage lending crisis in the US.

3. Illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

4. While over the years the government has taken several steps to spread the banking habit, formidable tasks lie ahead. Of the 24.67 crore households in the country, 10.19 crore do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account.

5. The penetration of financial services in rural areas of India is very low.

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