Financial Inclusion in Indian Scenario

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Abstract

“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. The various essential services include credit, savings, insurance and payments and remittance facilities.” In India out of 19.9 Crore households, only 6.82 crore households, have access to banking services. As far as rural areas are concerned, out of 13.8 crore households in India, only 4.86 crore households have access to banking services. In urban areas only 49.52% of households have access to banking services. Over 41% of adult people in India do not have bank account. There are so many factors that are affecting access to financial services by weaker sections of the society in India. Several steps have been taken by RBI and GOI to providing basic banking services to the financially excluded people. Keeping in view the National Rural Financial Inclusion Plan (NRFIP) has set a target to providing access to comprehensive financial services to at least 50% of the excluded rural households by the end of 2012 and remaining by 2015.

Keywords Banks, Financial Inclusion, ‘No-Frills’ Accounts, SHG’s, SLBC.
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Introduction

There are several factors that affect access to formal banking system in any country. They include culture, financial literacy, gender income and assets, proof of identity and so on. The RBI has taken several measures since Independence to improve access to affordable financial services through financial education, leveraging technology and generating awareness.

The aim of financial inclusion is to promote sustainable development and generating employment for a majority of population especially in rural areas. In the first ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. At present only 34% of India’s population has access to basic banking services. The latest National Sample Survey Organization survey reports that there are over 80 million poor people living in the cities and towns of India and they lack most basic banking services- such as saving accounts, credit, remittances and payment services, financial advisory services and so on. Low-income groups have not access to formal banking systems as they usually do not have the documents needed to open a bank account. As a result they depend on the informal sector for their savings and loan requirements. Recognizing the importance of inclusive growth in India, efforts are being taken to make the financial system more inclusive. The Report of the committee on financial inclusion headed by Dr. C. Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a national mission on financial inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting the stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

Need for Financial Inclusion

Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As for as rural areas are concerned out of 13.8 crore households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52% of urban households have access to banking services. Over 41% of adult population in India does not have bank account. There are a number of factors affecting access to financial services by weaker sections of the society in India. The lack of awareness, low income and assets, social exclusion, illiteracy is the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure, and requirements of documents for opening a bank account, unsuitable banking products/schemes, language, high transaction costs and attitude of bank officials are the barriers from supply side. Hence, there is a need for financial inclusion to build uniform economic development.
A sample study carried out by the Banking Codes and Standard Board of India in Revealed the poor awareness about the no-frills accounts for poor people, the accounts opening forms were not simplified and did not contain any information about the required documents under simplified KYC norms and none of the branches the staff were in a position to offer any guidance in case of the prospective customer was not in a position to produce required documents in proof of identity and address. As a result the weaker sections of India hesitate to take part in financial inclusion and help to increase the economic growth of the country.

The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. The inclusive growth implies an equitable allocation of resources with benefits accruing to every section of the society. It is aimed as a poverty reduction, human development, health and provides opportunity to work and be creative. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion.

**Review of Literature**

Banks have adopted several strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost effective manner is through forging linkage with micro finance institutions and local communities. Banks should give wide publicity of no frills account. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility (V. Leeladhar, 2005).

Access to financial services allows lower income groups to save money outside the house safely, prevents concentration of economic power with a few individuals and mitigates the risk that poor people face as a result of economic shocks (Beck, Demirguc-Kunt and Peria 2006). The breadth of financial inclusion in a region of a country is usually measured by the percentage of the people in the region who have access the bank accounts (Beck & De La Torre, 2006). This is primarily because a bank account enables poor households to perform important financial functioning such as saving money safely outside the house, accessing credit, making loan or premium payment and transferring money within the country. Thus, although a bank account cover only one aspect of financial inclusion, it may determine access for many other financial services (Littlefield et al, 2006).

Indian banking sector is grappling with the issue of financial inclusion. But, it is not altogether a new exercise. Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature(Rao,2007).

Microfinance offers significant potential for achieving financial inclusion. The experience of the bank in this segment has been quite encouraging. In the words of Prof. C.K.Prahlad “If we stop thinking of the poor as victims or as a burden and start recognizing them as a resilient and
creative entrepreneurs and value conscious consumers, a whole world of opportunity will open up.” (K.C. Chakrabarty, 2008).

**Financial Inclusion - World Experience**

An interesting thing which occurs from the international practice is that the more developed society is, the greater the thrust on the empowerment of the common man and low income groups. It may be worthwhile to look at the international experience in tackling the problem of financial exclusion so that we can learn from the international experience.

In U K, 1 out of 12 households do not have basic current account with any bank. The financial inclusion task force in UK has identified three priority areas for the purpose of financial inclusion, access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a financial inclusion fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. Basic banks no frills accounts have been introduced. An enhanced legislative environment for credit unions has been established, accompanied by tighter regulations to ensure greater protection for investors. A Post Office Card Account (POCA) has been created for those who are unable or unwilling to access a basic bank account. The concept of a Saving Gateway was introduced to encourage availing of financial services by the disadvantaged groups. The Community Finance Learning Initiatives (CFLIs) were also introduced with a view to promoting basic financial literacy among housing association tenants.

In USA, varying from state to state 10 to 20 per cent of US households lack a bank account. Among the low income families, 22 per cent do not have either a current or saving account. The Government has taken various measures to deal with the problem of financial exclusion. A civil rights law namely the Community Reinvestment Act (CRA) prohibits discrimination by banks against law and moderate income neighborhoods. The CRA imposes a affirmative and continuing obligation on banks to serve the need for credit and banking services of all the communities in which they are chartered. In fact, numerous studies conducted by Federal Reserve and Harvard University demonstrated that CRA lending a win-win proposition and profitable to banks. In this context, it is also interesting to know the other initiatives taken by a state in the United States. Apart from the CRA experiment, armed with the sanction of banking law, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer basic banking account and in case of credit unions the basic share draft account, which is in the nature of low cost account with minimum facilities.

In France, as per 1984 banking act, any person refused a bank account ca approach the Bank of France, which will identify and nominate an institution to provide the bank account. In 1992, French banks signed a charter undertaking to open bank accounts at an affordable cost with related payment facilities to all.
Hence, it is seen that even in developed countries, The State has accepted financial inclusion as an important measure for socio-economic development of the poor and disadvantaged groups. Various proactive and positive actions have been initiated by the Governments to deal with the problem of financial exclusion.

**Financial Inclusion in Indian Scenario**

Financial Inclusion in India has been assessed by various communities in terms of its people access to avail banking services. Only 34% of India’s population has access to banking services. The Eleventh five year plan (2007-12) envisions inclusive growth as a key objective. Achieving inclusive growth in India is a challenge as it very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion.

The process of financial inclusion in India can be broadly classified into three phases. During the first phase (1960-1990), the focus was on channeling of credit to the neglected sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on the strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self-Help Group (SHG)-bank linkage program in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SHG-bank linkage program was launched by National Bank for Agriculture and Rural Development(NABARD) in 1992, with policy support from the Reserve Bank, to facilitate collective decision making by poor and provide ‘door step’ banking. During the Third Phase (2005 onwards), the financial inclusion was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through ‘no-frills’ accounts.

The Report of the Committee on Financial Inclusion headed by Dr. C. Rangrajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in domain of public, private and NGO sectors in undertaking promotional initiatives.

Several steps have been taken by Reserve Bank of India and Government to bring the financially excluded people to the fold of formal banking services. They include the following:

- Introduction of No-Frills account
- Relaxing ‘Know Your Customer’ (KYC) norms
- General Purpose Credit Card (GCC) schemes
- Role NGOs, SHGs, MFIs
- Nationwide Electronic Financial Inclusion System (NEFIS)
- Project Financial Literacy
- Financial Literacy and Credit Counseling (FLCC) centers
Financial Inclusion Technology Fund (FITF)

With a view to enhancing the financial inclusion, in the Mid Term Review of the Policy (2005-06), the RBI advised all banks in November 2005 to make available a basic banking ‘no-frills’ account either with ‘nil’ or very low minimum balances as well as charges that would make such accounts accessible to vast sections of the population.

The 100 per cent financial inclusion drive is progressing all over the country. The State Level Bankers Committee (SLBC) has advised to identify one or more districts for 100 per cent financial inclusion. So far, the SLBC has identified 431 districts for 100 per cent financial inclusion. The success of the financial inclusion can be measured by the actual quantity and quality of uses of newly opened ‘no-frills’ accounts. The number of ‘no-frills’ account increased from 4, 89,497 on 31st March 2006 to 3,30,24,761 on 31st March 2009.

Keeping in view the enormity of task involved, the committee on financial inclusion recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and remaining by 2015.

Conclusion

In achieving inclusive growth in India, the financial inclusion will play a vital role and help the nation to drive away the not only the rural poverty but also the urban poverty in India. It is the duty of every Indian citizen to ensure that all the Indian will have bank account and everybody should take part actively in achieving 100% financial inclusion in India.

References


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