

## Recent trend in Finance - FINANCIAL INCLUSION

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Received Feb. 16, 2015

Accepted March. 01, 2015

### ABSTRACT

A We are in the matured age of economic development , as it was intimated in 1947, but in 1991 the concept of LPG had opened up all doors of economic development and since then we are going ahead in economic development and financial inclusion. Our honorable prime minister Shree Narendra Modi has launched a Pradhan Mantri Jan Dhan Yojana on 15 August 2014 to access the Banking facilities to all individual, the PMJDY is being working as financial inclusion to cover all families living under BPL. As on 31/1/15, there were 12,54,73,000 saving bank account opened under PMJDY, And on this line we recognize the financial inclusion as everyone is included in the devolvement process. Why, where and how to include will be discussed in the paper. Financial Inclusion is a flagship program of the Reserve Bank of India. Its objective is to include the unbanked and excluded, yet silent mass of our population in the regular banking stream. Poverty reduction has been an important goal of development policy in India. Various anti-poverty, employment generation and basic services program have been in operation for decades in India.

**Key words :** financial inclusion.

\*A research paper presented at National Seminar held at Department of Commerce, M. K. Bhavnagar University on 14<sup>th</sup> February.

### INTRODUCTION

Financial Inclusion is a flagship program of the Reserve Bank of India. It is a new initiatives started by Government of India in 2007-08. This is a recent development occurred in financial sector. Its objective is to include the unbanked and excluded, yet silent mass of our population in the regular banking stream. Poverty reduction has been an important goal of development policy in India. Various anti-poverty, employment generation and basic services programs have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing

economies of the world, India is still home to one-third of the world's poor.

In developing economies like ours, the banks, as mobilizer of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them.

However, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even after years of introduction of inclusive banking initiatives in the country through measures such as the Cooperative movement, Nationalization of banks, creation of Regional Rural Banks, etc. Over the past few years, Reserve Bank of India, as also other policy

makers have resolutely pursued the agenda of financial inclusion and achieved noticeable progress in improving access to financial services for the masses.

The progress made so far leaves much to achieve, as evidenced by the World Bank Financial index Survey (2012). According to the survey findings, only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government.

Let us now see some of the measures taken, progress achieved and the way forward in conquering the challenges in the path of financial inclusion in the country.

### **Objectives of Financial Inclusion**

1) Financial Inclusion is defined as 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 regulated, mainstream institutional players”.

2) The objective of the policy is to ensure the availability of banking and payment services to the entire populace without discrimination.

3) How Financial Inclusion can help the society and the economy? Financial Inclusion leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category.

### **Approach to Financial Inclusion**

RBI has adopted a structured, planned and integrated approach towards Financial Inclusion (FI) by focusing on both the demand and supply side constraints. Some of the defining features are:

- Bank-led model for FI, however, have permitted non-bank entities to partner banks in their FI initiatives
- Leverage technology to attain greater reach and penetration with a view to

keeping the cost of providing financial services to the minimum.

- Kept Banks free to adopt innovative business models and delivery channels to expand their FI efforts. Banks to develop new products and design new delivery models that are customized to the unique needs of the financially excluded population, both in the rural and urban areas.
- Considering that financial Literacy is an important adjunct for promoting financial inclusion, consumer protection and ultimately financial stability.

### **RBI's Policy Initiatives to Foster Financial Inclusion**

#### ***How to achieve FI***

(i) Branch expansion in rural areas

Branch authorization has been relaxed to the extent that banks do not require prior permission to open branches in centers with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centers.

(ii) Agent Banking - Business Correspondent started in January 2006, the Reserve Bank permitted banks to utilize the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The BC model allows banks to do ‘cash in - cash out’ transactions at a location much closer to the rural population, thus addressing the last mile problem.

#### ***Access***

(i) Relaxed KYC norms

Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.

(ii) Roadmap for Banking Services in unbanked Villages

- In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 2010. Banks have successfully met this target and have covered 74,398 unbanked villages.

- In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2,000 in a time bound manner. About 490,000 unbanked villages with less than 2,000 populations across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.

### **Products**

In order to ensure that all the financial needs of the customers are met, following basic products have to be offered, viz.

- A savings cum overdraft account
- No Frill Saving Bank Account
- A pure savings account, ideally a recurring or variable recurring deposit
- A remittance product to facilitate EBT and other remittances
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC)
- SBI Tiny O/D account with facility of O/D with maximum limit of Rs 25,000/-.

### **Transactions**

Direct Benefit Transfer: The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network. In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to open accounts of all eligible individuals in camp mode with the support of local Government authorities. Recently Introduce a new initiatives by honorable prime minister shree Narendra Modi "PMJDY" is a part of financial inclusion.

### **Technology Employed**

Presently, the following 3 technology platforms are being used:

- Smart Cards, contact/contact less through Pos.
- Kiosk banking based on internet, technology developed in house through Technology vendors.

- Cell phone based messaging system based on technology.

### **Financial Inclusion Plan 2010-2013**

Banks have been encouraged to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010-2013. During the first phase of FIP 2010-2013, the Nationalized Banks had played a very important role and the State bank Group has done a very tremendous task to cover more and more un bank areas. The SBI had launched a lakhshya campaign to more unbank villages and opening of saving bank account.

### **Objectives of the FIP**

- To make basic banking products / services available to the unbanked and underprivileged population in RUSU and Urban / Metro areas.
- To continue to provide all existing FI products and services and any other products / services as and when developed depending on the demand and usage.
- To make available other products like micro insurance and micro investments.
- To make available the products / services as near the customers' residence as possible.
- To extensively use the alternate channel, CSPs of BC/BF and Marketing and Recovery Teams to bring banking to the doorsteps of the FI customers.
- To leverage technology for operational conveniences, accounting and risk mitigation.
- All branches (Existing /New) to be on CBS connectivity. The Existing Branches are already on CBS. All new Branches will also be opened on CBS platform.

### **Progress made by banks under the FIP (April 2010 – March 2013)**

- 268000 Banking outlet set up in villages. (Grahak seva Banking)
- 7,400 new rural branches opened
- 10.90 crore new Savings Bank Deposit Accounts opened

- 4,904 lac transactions have been carried out
- 94.8 Lac farm sector and 21.5 lac non farm sector households have been provided with small entrepreneurial credit

### Financial Inclusion Plan 2013-2016

In order to continue with the process of ensuring access to banking services to the excluded, banks have been advised to draw up a fresh 3 year Financial Inclusion Plan for the period 2013-16. Banks have also been advised that the FIPs prepared by them are disaggregated and percolated down up to the branch level. The disaggregation of the plans is being done with a view to ensure involvement of bank staff across the hierarchy, in the FI efforts and also to ensure uniformity in the reporting structure under the Financial Inclusion Plan. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

### Challenges and Way Forward

The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in this journey towards universal financial inclusion.

#### *The following needs to be in focus*

##### (a) Increasing Reach

- Ensuring coverage of all unbanked villages in next 3 years
- Emphasis on increasing rural branches
- Opening of bank accounts for all eligible individuals or household for example PMJDY

##### (b) Increasing transactions

- Leveraging on DBT
- Delivery of credit products through BCs
- Hassle free Emergency credit (In built OD)
- Stabilizing the BC delivery model

##### (c) Spreading Financial Literacy

- Implementing National Strategy for Financial Education
- Creating Dedicated Website- Inclusion in School Curriculum
- Organizing Financial Literacy Camps

### Conclusion

Though it is expected that the commercial banks to play a significant role in ensuring financial inclusion and promoting financial literacy, they alone would not be able to achieve this ambitious goal. Other stakeholder groups also need to contribute their might towards this cause. All Banks have given excellent contribution in opening of Saving Bank Account under PMJDY. There are 12, 54, 73,000 account opened as on 31/01/2015 under PMJDY.

### Glossary

FIP:	Financial inclusion planning
DBT:	Direct Benefit Transaction
BC:	Business Correspondence
OD:	Over Draft
CBS:	Core Banking Solution
CSP:	Customer Service Point
KCC:	Kisaan Credit Card
GCC:	General purpose Credit card
BF:	Business Facilitator
FI:	Financial Inclusion
LPG:	Liberalization, Privatization, Globalization
FSDC:	Financial Stability and Development council
BSBAS:	Basic Saving Bank Deposit Account
RUSU:	Rural and Semi Urban.
PMJDY:	Pradhan Mantri Jaan Dhan Yojana

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