# FINANCIAL INCLUSION IN INDIA: ITS NEED AND FUTURE

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**ABSTRACT** *The term 'Financial Inclusion' has remained a buzzword in the past few years among the banking industry. The term is related with increasing the spread of financial services to those who are not aware of or who are not in a position to avail financial services due to remote areas or lack of technology etc. In India, the reforms done in past few years are consistent with the growth and development of poor and disadvantageous groups. The slogan "SABKA SAATH SABKA VIKAS" by P.M. Modi is true in this sense which aims at Balanced Development of all people. It will be possible only when the issues related with corruption and huge gap between poor and rich will be reduced. The term financial inclusion focuses on providing the financial services such as banking and insurance to all people at affordable rates. There are few problems coming in the path of financial inclusion but it is sure that if some corrective measures are adopted by the authorities, then financial inclusion can be achieved in India to the fullest. This will ultimately fulfill the objective of the campaign Inclusive Growth and Balanced Development.*

***Keywords:***

## INTRODUCTION

Financial inclusion means extending basic banking services at affordable prices to the low income and disadvantaged groups. The Purpose of Financial Inclusion is to connect the excluded with the formal banking system in order to help them obtain an understanding of the financial services available and equipping them with the confidence to make informed financial decisions. Rangarajan committee on financial inclusion defines it as "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."

Financial inclusion evolved from a need to provide low-income people with financial services that can positively influence their personal financial health and growth.

## OBJECTIVES OF THE STUDY

- To understand the need and present status of financial inclusion in India.
- To check the role of banks in achieving financial inclusion in India.
- To check the weaknesses/shortcomings of the progress of financial inclusion in India.

## RESEARCH METHODOLOGY

For the purpose of this study, both the primary and secondary data have been used from various sources. Secondary data have been used from various online and offline sources such as online journals, websites and newspapers etc. Primary data has been collected from people working in different fields related with finance.

## REVIEW OF LITERATURE

A lot of research has been done on Financial Inclusion in India by various scholars. Various journals and sites have been referred for the purpose of this study. The term Financial inclusion was first introduced in 2005 by K.C. Chakraborthy, then Chairman of Indian Bank.

Various studies done so far as as follows:

**Roy (2012)** studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

**Divya Joseph (2014)** had studied the level of financial inclusion and financial literacy in India. She tried to check the relationship between type of bank accounts and the amount of deposits coming into the banks.

**Dr. V.K. Aggarwal(2014)** in his study concluded that Financial inclusion is facing a lot of hurdles like illiteracy, lack of advanced technology in remote areas etc. are the reasons for slow growth of financial

inclusion in India. He suggested that Government should formulate revived strategies to boost inclusive growth through financial inclusion.

**Purvi Shah and Medha Dubhashi (2015)** has tried to study the role of financial inclusion as a means of inclusive growth. They found that only 41 per cent adults have a formal account, with only 37 percent of women having formal account against 46 per cent of men; the gender gap widens further because of varying degrees of income inequalities observed among the developing countries

**FINANCIAL EXCLUSION (WHO ARE THESE PEOPLE):** it include the underprivileged section in rural and urban areas like small and marginal farmers, small vendors, etc., Agricultural and Industrial Labourers, People engaged in unorganised sectors, Unemployed Women, Children, Old people and physically challenged people.

**PROBLEM OF FINANCIAL EXCLUSION**

The term Financial Exclusion means non-availability of basic financial services to the people with low income. Financial exclusion simply means a situation when some of the sections of society are excluded from the receipt of financial services and benefits. Financial exclusion is a big problem for developing countries like India where a significant portion of its population is left without education and they cant avail government services due to non availability of financial services in their region. There are various **types of financial exclusion** which are as follows:

- **Savings exclusion**: lack of money for savings due to less income.
- **Credit exclusion:** inability of people to avail credit facilities for meeting their personal or family needs.
- **Insurance exclusion**: lack of insurance facilities in the area or inability to avail or access the insurance services.
- **Banking exclusion:** it means inability to access banking services.

**NEED FOR FINANCIAL INCLUSION IN INDIA**

The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for following most important reasons:

**1. Creating a platform for inculcating the habit to save money** – The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings.

**2.Providing formal credit avenues** – So far the unbanked population has been vulnerably dependent of informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside.

**3.Plug gaps and leaks in public subsidies and welfare programmes** – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their Bank Accounts rather than subsidizing products and making cash payments.

4. **Reducing the income inequalities.**: the income inequalities can be decreased by financial inclusion. As it will circulate more money in the banking system, the banks will be able to provide more loans to the people in need of loan for investment purpose.

**5. Boosting the economic growth and development.:** the overall growth of economy depends upon the level of money supply in the banks, and hence the Financial Inclusion can play a vital role in the economic growth and development in the long run.

**6. To promote social security schemes for all:** social security schemes such as pension scheme or subsidies on different products can be implemented with the help of financial inclusion. Moreover, the role of financial inclusion is vital in reducing the black marketing which was done earlier in the fields where subsidy was not given through bank accounts.

**STEPS TAKEN BY RBI TO SUPPORT FINANCIAL INCLUSION**

**A.Initiation of no-frills account** – These accounts provide basic facilities of deposit and withdrawal to account holders 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. RBI also eased KYC (Know Your customer) norms for opening of such accounts.

**B. 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.

**C. 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.

**ROLE OF GOVERNMENT TILL DATE IN INCREASING FINANCIAL INCLUSION**

Government of India constituted a Committee to enhance financial inclusion in India on 22 June 2006. The Committee presented its report in January 2008.

CFI has initiated a mission called National Rural Financial Inclusion plan. It has set targets to increase FI in the country across regions and across institutions (banks, rural regional banks etc). It has suggested measures to address both, supply and demand constraints in increasing financial inclusion. The measures to address supply constraints aim to provide finance (via
banks, microfinance etc). Demand constraints imply that despite the supply people do not come forward because of number of factors .

The report suggests measures to address demand constraints in all the other forms of capital as well. To address human capital it stresses on health and education; for natural capital - enhance access to land which could provide collateral; for physical capital- improve infrastructure; social capital- develop institutions like gram panchayats etc.

**PRADHAN MANTRI JAN DHAN YOJNA**

The honorable Prime Minister of India Sh. Narendra Modi, on 15th August 2014 announced a National Mission called Pradhan Mantri Jan Dhan Yojna aiming at financial inclusion in the country. The mission behind this scheme was to promote financial literacy among the poor and weaker sections of the society who were left unprivileged from the basic banking facilities and other financial services. The scheme was launched on 28th August 2014 in Delhi alongwith other states. This scheme was a core of the theme SABKA SAATH SABKA VIKAS which means balanced and inclusive development.

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan aims at universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of Rs.1 lakh. The plan also envisages channeling all Government benefits (from Centre / State / Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme.

Various benefits of the scheme are summarised as follows:

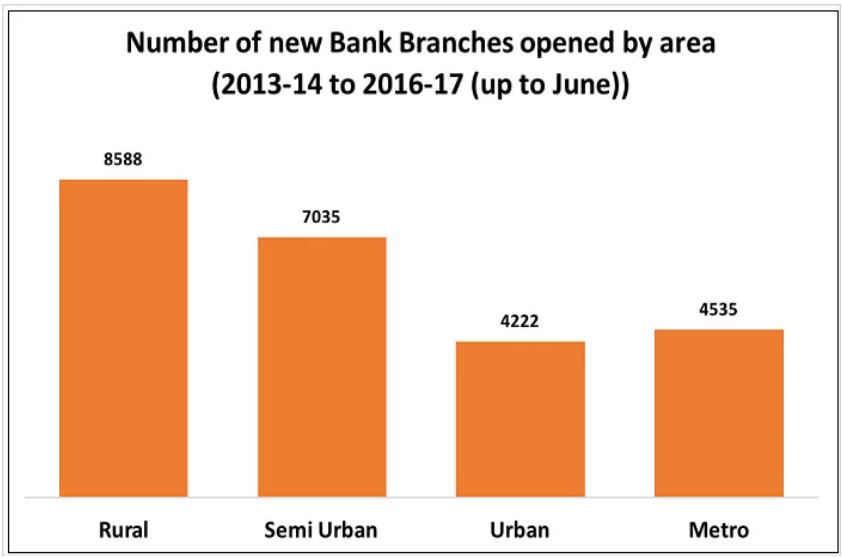
- Interest on deposit.
- Accidental insurance cover of Rs. 1.00 lakh
- No minimum balance required.
- The scheme provide life cover of Rs. 30,000/- payable on death of the beneficiary, subject to fulfillment of the eligibility condition.
- Easy Transfer of money across India
- Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
- After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
- Access to Pension, insurance products.
- The Claim under Personal Accidental Insurance under PMJDY shall be payable if the Rupay Card holder have performed minimum one successful financial or non-financial customer induced transaction at any Bank Branch, Bank Mitra, ATM, POS, E-COM etc. Channel both Intra and Inter-bank i.e. on-us (Bank Customer/rupay card holder transacting at same Bank channels) and off-us (Bank Customer/Rupay card holder transacting at other Bank Channels) within 90 days prior to

date of accident including accident date will be included as eligible transactions under the Rupay Insurance Program 2016-2017.

- Overdraft facility upto Rs.5000/- is available in only one account per household, preferably lady of the household.

**PRESENT STATUS**

- About 310 million people were brought under the formal banking system.
- About 25000 new bank branches have been opened in areas ignored from banking system earlier.
- North eastern states received only 3% share of the new bank branches opened under Financial Inclusion scheme.
- South Indian states tops in the list of new bank branches opened during the past four years.
- About 45000 new ATMs are installed in various areas to cater the needs of people for banking services.




**SUGGESTIONS**

1. Steps should be taken to enhance the knowledge of people in India about the financial services and the way to avail these services at low costs.
2. The government should focus on the key reasons for the failures of education for all.
3. The banks should take steps to increase innovation in banking products for different types of occupational structure to meet the demands of people from various backgrounds.
4. The government needs to increase the public confidence in the banks and related financial institutions. The past scams held in banking industry has discouraged the people to keep their money in the banks rather they keep the money with themselves and such people again remains ignored from the financial services offered by banks and insurance sector.
5. Bank employees should visit the areas which are not aware of banking services and they should encourage the people to open bank accounts to get access to the basic financial services.

**FUTURE OF FINANCIAL INCLUSION IN INDIA**

The future of financial inclusion in India seems to be bright for the coming years if the sincere efforts will be done by the government as well as the banks to promote high rate of economic growth and development in the economy. The ignored states like north-eastern states, some parts of Uttar pradesh, madhya pradesh etc. can be revamped by more rural bank branches there and more ATM facilities there. Apart from this, there is a huge need of innovation in the finance sector and more concern for financial literacy to make the people aware about the role of financial services in their lives. The future will be dominated by information technology and innovation in the field finance and related areas. Hence it is crucial to save the people from the problem of illiteracy and more people should be brought under the education system.

Mobile banking can prove to be helpful in bringing the people under financial inclusion scheme. Further, government must win the confidence of people in the banking system and should ensure technological safety and no threat from hacking or bank frauds.

## CONCLUSION

In the past few years, the government has been very attentive for financial inclusion. About 310 million people have been brought under formal banking system in four years (2014-2018) by implementing Jan Dhan Yojna launched by PM Modi. Several other measures are adopted and they are working well. But the fact is government is still having a number of challenges ahead to be handled with care to achieve inclusive growth and to attain balanced development. For achieving comprehensive financial inclusion, the first step is to achieve credit inclusion for the disadvantaged and vulnerable sections of our society. The state has to play an important role in financial markets. In developing countries, both market and government as institutions have their limitations, but it is necessary to design government policies that are attentive to those limitations

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