शोधायतन

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Review Paper on Financial Inclusion – The Path of Inclusive Growth

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ABSTRACT

Financial inclusion plays a very important role in inclusive growth of the country. It is estimated that around 2.5 billion people are globally excluded from accessing financial services and that too one third is in India. It is very important to provide quality financial services in rural areas for the growth of the economy and the growth of the economy is totally dependent on the growth of the rural markets of the country. Therefore a greater financial inclusion in these segments is essential. The main objective of this study is to review various papers on how financial inclusion serves as a way of inclusive growth and also study the initiatives taken by the Government and Reserve Bank of India for the growth of financial inclusion in the country. This study is based on secondary data. The government should conduct awareness programmes through banks to adopt financial inclusion by means of financial assistance, advertisement, awareness program, financial literacy, etc.

Keywords: Financial Inclusion, Financial stability, Economic Growth

I INTRODUCTION

(a) Financial Inclusion:

The Reserve Bank of India set up a commission called khan commission in 2004 to look into the Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). Financial inclusion is the process of ensuring to provide the financial services, timely and adequately when needed for the vulnerable groups such as low income groups and weaker sections at an affordable cost. The main objective of financial inclusion is to connect all individuals, including the people of remotest areas for the well functioning of financial system.

The Committee on Financial Inclusion (Chairman: C. Rangarajan) defines financial inclusion 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." Mrs. Usha Thorat, Deputy Governor, RBI in her speech on financial inclusion said "financial exclusion, broadly, is construed as the inability to access necessary financial services in the appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion."

Initiatives taken by RBI and Government of India towards Financial Inclusion

The Reserve Bank of India (RBI) and the Government of India (GOI) have taken many initiatives to increase banking access and facilities in the country. Some of the initiatives are:

(a) Maximum number of people, especially in rural areas, do not have bank accounts. By the initiatives of RBI and GOI banks encouraged to make available "no-frills" bank accounts with "nil" or very low minimum balances making such accounts to easily available to public at large.

(b) The Regional Rural Banks (RRBs) advised to allow limited overdraft facilities in "no-frill" accounts without any collateral.

(c) In order to ensure that people belonging to the low-income groups, both in urban and rural areas, do not encounter difficulties in opening bank accounts, the Know your customer (KYC) procedure for opening accounts was simplified.

(d) Banks needs to ensure the availability of all the printed material used by retail customers in English, Hindi and the concerned regional language.

(e) All the State Level Bankers Committee (SLBC) convener banks advised to initiate action for identifying at least one district in their State /Union Territories for 100% financial inclusion. To extend hassle-free credit to bank customers in rural areas, the guidelines on General Credit Card (GCC) schemes makes simplified to enable customers access credit by providing them simple terms and conditions, without insistence on security, purpose.

(f) Guidelines issued to banks to increase their outreach by utilizing the services of civil society organizations, farmers Micro Finance Institutions, NGOs/SHGs, etc. as Business Facilitators and Business Correspondents (BC). The BC model ensures a closer relationship between poor people and the organized financial system.

(g) To ensure the security of transactions, banks urged to make effective use of information and communications (ICT) to provide the banking services at the doorstep through the BC model in which accounts can be operated by illiterate customers also by using biometrics.

Table 1
Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 30, 2016 submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934

Financial Inclusion Plan – A Progress Report			
Particulars	End- March 2010	End- March 2015	End-March 2016
Banking Outlets in Villages – Branches	33,378	49,571	51,830
Banking Outlets in Villages – Branchless Mode	34,316	504,142	534,477
Banking Outlets in Villages –	67,694	553,713	586,307
Urban Locations covered through BCs	447	96,847	102,552
BSBDA-Through branches (No. in millions)	60	210	238
BSBDA-Through branches (` billion)	44	365	474
BSBDA-Through BCs (No. in millions)	13	188	231
BSBDA-Through BCs (` billion)	11	75	164
BSBDA-Total (No. in millions)	73	398	469
BSBDA Total (` billion)	55	440	638
OD facility availed in BSBDAs (No. in millions)	0.2	8	9
OD facility availed in BSBDAs (` billion)	0.1	20	29
KCCs -Total (No. in millions)	24	43	47
KCCs -Total (` billion)	1,240	4,382	5,131
GCC-Total (No. in millions)	1	9	11
GCC-Total (` billion)	35	1,302	1,493
ICT-A/Cs-BC-Total Transactions (No. in millions)	26.5	477	826.8
ICT-A/Cs-BC-Total Transactions (` billion)	6.9	859.8	1,686.90

II LITERATURE REVIEW

(a) Abheek Barua, Rajat Kathuria, and Neha Malik (2016) “The Status of Financial Inclusion, Regulation, and Education in India” ADBI (Asian Development Bank Institute) Working Paper Series. The researcher discussed about the structure of banking and microfinance institutions in India and discussed its relevance to the developing model of financial inclusion. The current state of financial inclusion and the required regulatory changes needed for viability of inclusion is discussed by the researcher. The paper reviewed modes of delivery and the regulatory structure being recently introduced. It assesses the suitability objective envisaged as critical for inclusion, associated challenge of revamping consumer protection laws, and imperative of improving financial literacy. The paper also discusses the case of micro, small, and medium-sized enterprises in the given context.

(b) Sanjay Sinha, (2013) Managing Director of Micro-Credit Ratings International Limited (M-CRIL), “Financial Services for Low Income Families: An Appraisal” IIM -B Management Review June 2013 Vol. 15, No.2. The researcher highlighted in this paper the Government's initiative for the poverty elevation through Integrated Rural Development Programme (IRDP).Researcher explained that commercial banks giving loans of less than Rs 15,000 to poor people and in nearly 20 years, it result is increasing financial assistance of around Rs 250 billion to roughly 55 million families. The main problem with IRDP was that its design incorporated a substantial element of subsidy (25-50% of each family’s project cost) and this result in extensive malpractice and mis utilisation of funds, the net result estimated of the repayment rates in the IRDP ranged from 25-33%. The two decades of IRDP experience – in the 1980s and 1990s – affected the credibility of micro-borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services. This major drawback given the different ways of delivering microfinance gradually through NGO's and Self Help Groups (SHGs)

(c) M. Shahul Hameedu (2014), the main objectives of the study are to identify the issues in measurement and analysis of financial inclusion. On the measurement challenges, first, it needs to be reckoned that financial inclusion concepts, policies, delivery models and implementation processes are still evolving. It is, therefore, essential that the policy for achieving total financial inclusion also keeps changing to adapt to the needs of the environment.

(d) CH.S.D. Nageswara Rao (2013) discussed that how to comprehend and distinguish the significance of Financial Inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are very much essential for overall economic growth of a country. The findings of this research paper were that financial literacy and level of awareness continue to remain an issue with regard to usage of financial services/products.

(e) C. Paramasivan and V. Ganeshkumar (2013) Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest rural people consist in the world. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at an affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of financial inclusion in India.

(f) Pallavi Gupta and Bharti Singh (2013) focus on Role of Literacy Level in Financial Inclusion in India Empirical Evidence. The present study tries to assess the correlation between the Usage Dimension of Financial Inclusion Index and literacy level in India. Correlation has been statistically tested by using Karl Pearson coefficient of correlation. The results depict a large variation in extent of correlation among the different states of the country with a very low correlation at the national level. Thus, the Government should promote the use of Information Communication Technology models like biometric ATM, telecentres to achieve Financial Inclusion in India as these models does not compulsorily requires high literacy levels.

(g) Nitin kumar (2013) the objective of paper is to examine status of financial inclusion in India and to study its determinants. Panel fixed effects and dynamic panel generalized methods of moments (GMM) methodologies have been applied to study determinants of financial inclusion. Findings – Branch network has an unambiguous beneficial impact on financial inclusion. Both proportion of factories and employee base turn out to be significant determinants of penetration indicators. The findings reveal the importance of a region's socio- economic and environmental setup in shaping banking habit of the masses. Using test for convergence it is found that regions tend to maintain their respective level of banking activity, with no support for closing gap.

(h) Srikanth.R (2013) studied in Financial Inclusion and its role in Indian Banks in reaching out to the unbanked and backward areas. The paper has also suggested some policy choices for successful implementation of the policy of financial inclusion for sustainable growth of Indian economy. This paper focuses on to understand the scope and coverage of financial inclusion in India. To list the various measures & initiatives of state / central government with Respect to financial inclusion. To find out the implications of Indian Banks in Reaching out to the unbanked and backward Areas. To evaluate & analyze the contributions of these initiatives to the Economic development of the nation.

(i) Shilpa Aggarwal and leora klapper (2013) This paper discusses some common reasons behind not having a formal account and review regulatory policies introduced to remove the physical, bureaucratic, financial, and trust barriers to the use of formal accounts. We summarize some public and private sector product innovations designed to expand financial inclusion—defined here narrowly as the ownership and use of formal financial accounts—particularly for the poor.

(j) Atul Raman (2012). This paper focuses is to access the Indian experience through descriptive and empirical studies of available statistical data and the role of RBI in promoting financial inclusion. Financial inclusion has enough scope for economic growth, raising the living standard of people, equality etc. On the basis of the above initiatives and projects writer has concluded that a day will come when all Indians have their bank accounts and everybody will take part in financial inclusion.

(k) Mihasonirina Andrianaivo and Kangni Kpodar (2011) This paper studies the impact of information and communication technologies (ICT), especially mobile phone rollout, on economic growth in a sample of African countries from 1988 to 2007. Further, we investigate whether financial inclusion is one of the channels through which mobile phone development influences economic growth. In estimating the impact of ICT on economic growth, we use a wide range of ICT indicators, including mobile and fixed telephone penetration rates and the cost of local calls. Researcher addresses any endogeneity issues by using the System Generalized Method of Moment (GMM) estimator. Financial inclusion is captured by variables measuring access to financial services, such as the number of deposits or loans per head.

(l) Mandira Sarma (2010) discussed on Index of Financial Inclusion. This paper attempts to fill this gap by proposing a multidimensional index of financial inclusion (IFI). The proposed IFI captures information on various dimensions of financial inclusion in one single number lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. The proposed index is easy to compute and is comparable across economies. This paper is only a first step in the direction of appropriately measuring financial inclusion over time and across regions. While improvements and technical innovations in the index are always possible, as researcher have noted, the availability of data seems to be the biggest constraint.

(m) Michael Chibbaa (2009) focused on Financial Inclusion poverty reduction (PR) and Millennium Development goals (MDG) nexus, and supported by field research and related literature, the key pillars of FI are outlined; a) Private sector development b) several international cases are discussed to extract lessons learned; and (iii) explanatory FI models are presented. Given the current global financial crisis, the need to scale-up FI efforts is now more imperative than at any other time in recent history. This paper also offers potentially useful approaches for planning, policy-making and programming in order to strengthen the FI-PR-MDG nexus.

(n) Amol Agrawal, March (2008) focused on need for financial Inclusion with an Indian perspective. The importance of finance to economic growth has also frequently been ignored by economists. He has taken the data from various sources like RBI, IDBI, NABARD and finally concluded that 51.4% of farmer households is finally excluded from both formal/informal sources of the total farmer households, only 27% access formal sources of credit, one third of this group also borrow from non-formal sources. Overall, 73% of farmer households have no access to formal sources of credit.

(o) Helen S. Toxopeus and Robert Lensink, August (2007) focused on the relationship between remittance inflows and financial inclusion in developing countries. In this paper they have indicated the importance of studying the effects of remittances in developing countries. Remittances, in terms of size, are not only one of the main capital inflows in developing countries, often even more substantial than ODA, but they also appear to have a robust positive effect on economic growth. They explored the exact channels in which changes that may cause remittances to increase financial inclusion are taking place. It is therefore surprising that empirical studies on remittances inflows lag behind

III CONCLUSION

It is becoming gradually more obvious that addressing financial exclusion will be needed more holistic approach on the bank's part to create awareness about financial products, advice on money management, debt counseling, affordable credits and savings. The banks have to develop specific strategies to promote financial inclusion and to expand the outreach of their services. It can be achieved in a cost-effective manner through linkage with microfinance institutions, local communities and NGO's. The facility of no frills account should give wide publicity from the side of banks. For the remote areas, technology can be a valuable tool in providing access to banking products to make them user friendly for people who are illiterate, do not know English or less educated by modifying the ATMs cash dispensing machines. With the many reviews of different different authors the conclusion from the researchers point of view is that still lots of efforts are required for the hundred percent financial inclusions in the country.

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ABBBREVIATIONS

[1] BC - Business Correspondent

[2] BSBDA - Basic Savings Bank Deposit Account

[3] GoI - Government of India

[4] GCC - General Credit Card

[5] ICT - Information & Communication Technology

[6] KCC - Kisan Credit Card

[7] KYC - Know Your Customer

[8] OD - Overdraft Facility

[9] RBI - Reserve Bank of India

[10] RRBs - Regional Rural Banks

[11] SLBCs - State Level Bankers' Committees