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Financial inclusion and government policies in India

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Abstract

Financial Inclusion means everyone should access all the financial products and services, to the maximum level which support them for effective management of their hard earn money, whatever the different level of income or social status at an affordable cost. Indian economy in general and banking services in particular, have made rapid changes and growth in the recent years in economic activities. For the purpose of high economic growth route, there should be compulsory indispensable need the participation of all sections of society However, a sizable section of the population, particularly the socially and economically backward groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services, be it opening a savings bank account or availing a loan, provided by the financial sector. The growing literature on financial inclusion has provided plenty of evidences of the merits of an inclusive financial system. However, the literature lacks a comprehensive measure that can be used to measure the extent of financial inclusion in an economy. The present study is based on secondary data and efforts are made to explore various dimensions of financial inclusion through the government policies, JAM, DBT etc. Financial inclusion has increased in overall in India but its effectiveness is still questioned.

Keyword: financial inclusion; government policies, inclusive growth; financial services

Introduction

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 Financial inclusion is nothing but access of financial services and financial products to the low income and rural back word group people. It is very important to include all kind of people toward economic development. Else maximum financial resource will stay out from economic growth and those excluded population may involve themselves towards some criminal activities. Finance is a powerful intervention for economic development. Access to finance, especially for the poor, is empowering because financial exclusion often leads to broader social exclusion. Yet, formal finance does not appear to have adequately permeated vast segments of our society, although progress is being made. To advance the process, the Reserve Bank has granted 'in principle' approval to a multitude of players in the financial eco-system to establish Payments Banks and Small Finance Banks. The recently announced Jan Dhan Yojana by the government marks a landmark in the quest for universal financial access. The government is also focusing on paying benefits directly into these accounts. This will ensure that a big chunk of the accounts opened under various schemes, which are presently dormant, witness 'movement', thereby integrating access with use. These are very heartening developments.

Several Committees in the recent past have opined on our quest for a more inclusive financial regime. The thrust of their recommendations was towards having an enabling regulatory framework, improving delivery systems and exploiting its possible synergies. At the Reserve Bank Conference on Financial Inclusion in April 2015, the Hon'ble Prime Minister urged the Reserve Bank to take the lead in encouraging financial institutions to set concrete targets for financial inclusion to help transform the quality of life of the poor. Against this backdrop, this Committee on Medium-term Path on Financial Inclusion (CMPFI) was set up to devise a measurable and monitor able action plan for financial inclusion that encompasses both households and small businesses. The Committee sets a much wider vision of financial inclusion as 'convenient' access to a set a basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low-income households at reasonable cost with adequate protection progressively supplemented by social cash transfer besides increasing the access for micro and small enterprises to formal finance with greater reliance on technology to cut costs and improve service delivery, such that by 2021 over 90 per cent of the hitherto underserved sections of society become active stakeholders in economic progress empowered by formal finance. Thus, the financial inclusion initiative as envisaged by the Committee is much broader in scope, going beyond the traditional domain of the

Reserve Bank. Meaningful financial inclusion is not feasible without government-to-person (G2P) social cash transfer. There is also an opportunity to usher in next-generation reforms by replacing agricultural input subsidy with income support, which increases the personal disposable surplus of the poor on a regular basis and could place the inclusion effort on a solid foundation.

Fig 1

With the Jan Dhan, Aadhaarand Mobile (JAM)) trinity taking hold, there is an ideal opportunity to seamlessly integrate access and use and, in the process, ensure that leakages in financial transfers are substantially lowered. Innovative delivery channels, such as mobile wallet and e-money coupled with regulatory changes to allow interoperability across banks and non-banks, seem to hold the key to a more efficient payment system and reduce the fascination for cash. Banks need to integrate the Business Correspondent (BC) model into their business strategy and with help from technology can develop a low-cost, reliable, 'last mile' delivery channel that could win the trust of the common person. Biometric identification coupled with the provision of credit information to credit bureaus can help build a more robust credit system that can then be used as the basis for obtaining loans at reasonable costs while avoiding the pitfalls of over-indebtedness. For micro and small enterprises, professionals who can evaluate the creditworthiness of these firms by acting as intermediaries with the bank can help alleviate the significant credit gap in this sector. In agriculture, millions of small farmers live on the precipice, starved of credit. In the absence of bold structural reforms of land digitization and tenancy certification to enable credit to the tiller, the problem is likely to persist. Agricultural distress can only be addressed satisfactorily by instituting universal crop insurance for small and marginal farmers at heavily subsidized rate by the government, the money for which can be funded by doing away with the current interest subsidy scheme that has distorted the agricultural credit system and seems to have impeded long-term investment. The issue of gender exclusion can be addressed by a welfare scheme for the girl child linked to education. Similarly, exclusion based on beliefs can be explored by delivering simple interest free financial products through a separate window in conventional banks. While financial products have their benefits, there is a clear danger of miss-selling, which could damage marginalized segments who have an uncertain cash flow. Efforts on financial education need to be strengthened, including product-driven financial literacy so that the poor are not short-changed. Grievance redressal for customer complaints in banks needs some imaginative thinking. The overall governance structure would have to be more business-like, focused on deliver. (RBI Report 2015)

Financial inclusion is the topical concept which helps achieve the sustainable development of the country, through available financial services to the unreached people. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country.

Statement of the Problem

Financial inclusion protects low income group's financial wealth and other resources in crucial circumstances by bringing them within the perimeter of formal banking sector. It also softens the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit. Further, financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Also, a strong financial system encourages expansion in the market and competition for existing firms. It ensures that poor households and small entrepreneurs need not depend on middlemen. On the other hand, an underdeveloped financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs

Review of Literature

In the study of Campos and Dercon (2014) sum up the recent findings on the relationship between finance and growth, so far considered as causal and unidirectional from finance to growth: (i) The long-run effect of finance on growth is positive and dominates the short-term effect that tends to be negative (Kaminsky and Schmukler, 2003; and Loayza and Ranciere, 2006); (ii) The relationship may be non-linear: beyond a certain threshold (calculated to be above 100% of GDP) finance is associated with negative growth (Berkes *et al.* 2012); (iii) Distribution is important:

household credit seems to have little growth payoffs, while private sector credit has large growth payoffs (Beck, 2013); (iv) Financial development reduces income inequality and exerts a disproportionally positive impact on the bottom quintile; (v) Different financial liberalisation policies have contrasting effects on income inequality. Delis *et al.* (2013) report that capital stringency and supervisory power regulation lower inequality, while market discipline and activity restrictions may exacerbate it.

Objectives of the Study

- To study the connectivity between financial inclusion and governance of RBI.
- To know the strategies adapted by RBI to strengthen the financial inclusion.
- To analyze the performance of different banks towards financial inclusion.
- To study the measures initiated by a bank to strengthen the financial inclusion.
- To bring out the challenges to be faced by the country for the financial inclusion.

Research Methodology

The data collected for the study is a secondary data. The present study is descriptive in nature. The study exclusively depends on mainly secondary data. The data used for the study has been collected from RBI bulletin, Ministry of Finance, RBI annual reports, banking progress in India and from various reputed journals, magazines, newspapers, e-journals, etc.

Financial Inclusion. A Key Factor for Individual Family Growth and Country Development

A growing literature towards financial inclusion to support growth and development

Asper Demirg-Kunt *et al.* Database 2014, 62% of adults in the entire world have an account at a bank or some other type of financial institution or with a mobile money provider, up from 51% in 2011. Between 2011 and 2014, 700 million adults became account holders while the number of those without an account dropped by 20% to 2 billion. Account penetration differs enormously between high-income and developing countries in the aggregate: 89% of adults in high-income countries, but only 24% in low-income countries, report that they have an account at a formal financial institution.

A growing literature shows that financial inclusion will have a significant positive effect for individuals. Several studies have highlighted that the lack of financial access can lead to poverty t and inequality among the people. Similarly, expanding literature focus the positive consequences of access to saving instruments. this savings increases the productive investment in economic development and individual growth. Researchers are also looking at the beneficial effects of access to credit and insurance products.

Initiatives and Progress of Financial Inclusion by the Government

Government should assure basic necessities in rural areas and focus on developing infrastructure. Special drives through schools, collage, Panchayats etc. can help create awareness about bank transactions. Financial Literacy is a must for bringing more and more people to digital platform. Digital payment or payment through payment through banks, instead of paying cash should be encouraged. Leakage of all welfare activities with bank accounts is a very strategic step

Various steps were initiated by the Govt. of India, Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), various commercial and regional rural banks, Non-Governmental Organizations (NGOs) and state government. RBI vide Mid-term Review of Annual Policy Statement for the year 2005-2006, advised Banks to align their policies with the objective of financial inclusion. Besides, it has been emphasized upon by the RBI for deepening and widening the reach of Financial Services so as to cover a large segment of the rural & poor sections of population.

Some of the steps and the achievements registered are discussed as follows:-

Pradhan Mantri Jan-Dhan Yojana (PMJDY)

The main objective of this is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension for the excluded population i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology.

Table 1: Pradhan Mantri Jan - Dhan Yojana (Accounts opened as on 01.07.2015, Figures in millions)

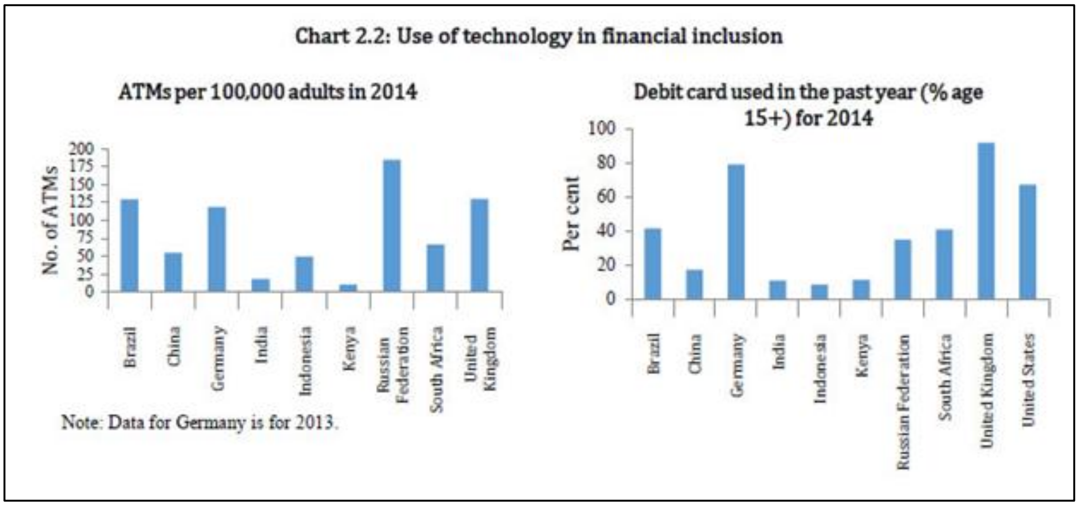
	No of Accounts				
	Rural	**Urban**	**Total**	**No of Rupay Debit card**	**% of Zero balance account**
Public Sector Bank	70.7	58.7	129.4	120.4	51.7
Rural Regional Bank	25.1	4.4	29.5	21.2	51.53
Private Banks	4	2.8	6.8	6.1	48.53
Total	99.8	65.8	165.7	147.7	51.48

Source: GoI PMJDY Progress Report

Other dimensions of financial inclusion remain to be improved. Informal borrowing is still an important issue: 13% adults (% age 15+) borrowed from money lenders; and 32% from friends.

Bank Branches and ATM Expansion

RBI in its new Branch Authorization Policy has totally freed the location of branches and ATMs by the banks in towns and villages with a population less than 50,000. Thus under this policy, branch expansion has been taken up in a big way and network expanded exponentially. 1 Bank Branches & ATMs: In the year 2013-14, the Public Sector Banks (PSBs) set up 7840 branches across the country of which about 25% were in rural areas. More than 40,000 ATMs were also set up pursuant to the Budget announcement of 2013-14 of providing an ATM at every branch. The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1, 15, 082 and an ATM network of 1, 60,055. Of these, 43,962 branches (38.2%) and 23,334 ATMs (14.58%) are in rural areas and the remaining in semi-urban and metropolitan areas. In the year 2014-15, the Public Sector Banks propose to set up 7332 branches and 20,130 new ATMs. However, given the staff constraints of banks and the viability of opening full fledged branches in rural areas, the demands for branch expansion far exceed the supply. The efficient and cost effective method to cover rural areas is by way of mapping the entire country through Sub Service Area (SSA) approach and deploying fully enabled online fixed point Bank Mitr (Business Correspondent) outlets. Public Private Partnerships in this area shall facilitate the process and promote efficiency and pace of coverage.



***Sources*:** RBI Report (2015)

Fig 2

Mobile Banking

The Inter-Ministerial group on delivery of basic financial services through a comprehensive frame work envisaged the creation of "Mobile and Aadhaar linked Accounts" by Banks. The basic financial transactions on these accounts can be executed through a mobile based PIN system using "Mobile Banking PoS". Mobile banking through mobile wallet was launched in 2012. Under this service, RBI has authorized 3 telcos and 5 non-telcos to launch this service. Three Telcos, Airtel under brand name Airtel Money, Vodafone under Brand name Vodafone m-pesa and Idea vide Idea Money are active in the space. They control over 80,000, 70,000 & 8,000 agents respectively. Around 60% of these Bank Mitr (Business Correspondent) are in rural areas. Mobile wallet service provided by commercial banks e.g, ICICI in case of m-pesa service used for money transfer, bill payment and cash withdrawals. The customer base of customers availing such services is around 70 lakhs. Mobile telephony and prepaid wallets would also have a production/operationalization constraint and the manufacturing capacity is estimated to be about 18 lakh per day. The personalization capacity available is also 7.75 lakh per day.

Direct Benefit Transfers (DBT)

The bank account would be linked with the Aadhaar number of the account holder and would become the single point for receipt of all Direct Benefit Transfers (DBT) from the Central Government / State Government / Local Bodies. Presently the Direct Benefits Transfer scheme under LPG/Gas delivery has been stopped and the Dhande committee appointed to study the scheme has submitted its report. The other Government schemes under DBT are continuing but the Government Departments are yet to pay the commission due to Banks. No commission has been agreed to in the DBT for LPG by the Department of Expenditure (DoE) on the argument that these are normal operations for the Banks while the 2% commission in other schemes is to compensate banks for the Bank Mitr (Business Correspondent). Department of Financial Services (DFS) has taken up the matter with DoE arguing that Banks have to do substantial other works in operationalizing the scheme including dealing with customer grievances but there has been no result of these efforts. This anomaly would need to be corrected in order to ensure complete buy-in of the banks for the DBT schemes. The DBT in LPG which was the largest of all DBT schemes would need to be re-started.

Suggestions on Financial Inclusion

1. A web portal shall be created by DFS at 'financialservices.gov.in' for online monitoring of the creation of Bank Mitr. In the field, it shall be the tool to ensure proper coverage of villages.
2. The reports to be generated would be district wise/state wise and would include
   a) Covered villages with uncovered households needing opening of fresh account
   b) Covered villages with uncovered households needing at least one fully enabled account p per family or reactivation of earlier account
   c) Uncovered villages with households needing fresh accounts to be opened
   d) Uncovered households in Urban area is required fresh account/ account reactivation
   e) In Rural and Urban areas a number of new bank should be set up
3. Each Bank would have a structured System generated MIS system to monitor the function of Bank Mitr (Business Correspondent) in the field. The format would be standardised across the system for ease and uniformity purposes. This shall be uploaded regularly on the Portal created by DFS for this purpose
4. This MIS would have a linkage with the portal for DFS i.e. 'financialservices.gov.in'. All banks have already been provided with the necessary ID and password to access this portal.
5. The MIS reports to be collected for monitoring during the campaign will have two parts, one would be the reports generated by the banks from the CBS which shall be weekly and the second part will have reports from the SLBCs which will also involve surveys of the ground level position. The ground level survey should be completed within 3 months of the start of the campaign.
6. It was decided to link the lady of the house as head of the household with the other members in the CBS so that the

number the households that are covered during the campaign can be ascertained.

7. IBA will have a monitoring committee which shall review the progress on weekly basis. The information for monitoring shall be extracted from the DFS portal.
8. A Project Management Group would be set up in DFS comprising of sector experts to do a day to day monitoring.
9. SLBCs will have a Toll Free Number connected to a call center. Citizens facing difficulty in opening of account may call on this number where his/her complaint shall be registered. The same shall then be forwarded to the concerned for necessary action within 15 days.

Conclusions

From the above discussion, it may be concluded that India along with other countries of the world has put Financial Inclusion process into a mission mode given that it can effectively help in addressing the concern of inclusive growth. However, still Financial exclusion remains an area of concern given the low levels of financial penetration and deepening in the country- only 30,000 habitations out of a total of 6,00,000 habitations have a commercial bank branch and just about 40% of population across the country have bank accounts. So what and all the Government forming the policies for financial inclusion is successful only when all sector of population include themselves in banking sector.

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