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# FINANCIAL INCLUSION INITIATIVES IN INDIA

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***ABSTRACT:***

***Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the clutches of local money lenders. The present paper tries to present an overview of financial inclusion initiatives in India.***

## INTRODUCTION:

Financial Inclusion or Inclusive Growth is the availability of banking services at an affordable cost to disadvantaged and low-income groups. Opposite of financial inclusion is financial exclusion. A group or person which can be consider as financial excluded if they do not have access to formal financial services such as banking facility.

In India most of people are not aware about financial inclusion and the people who know think that it is having a saving or current account with any bank. But it is not only savings and current account; it also includes credit, loans, remittance, insurance services, pension plans and many more services.

Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty. In view of this, Financial Inclusion has been identified as a key dimension of the overall strategy of "Towards Faster and More Inclusive Growth" envisaged in the eleventh Five Year Plan (2007-12).

## BENEFITS OF FINANCIAL INCLUSION

Financial Inclusion enables good financial decision making through financial literacy and qualified advice as also access to financial services for all, particularly the vulnerable groups such as weaker sections, minorities, migrants, elderly, micro entrepreneurs and low income groups at an affordable cost so as to enable them to:

- Manage their finances on day to day basis confidently, effectively and securely;
- Plan for the future to protect themselves against short term variation in income and expenditure and for wealth creation and gaining from financial sector developments; and
- Deal with financial distress effectively thereby reducing their vulnerability to the unexpected.

India stands 50th amongst 100 countries in index of financial inclusion to find out the extent of reach of banking services. Only 34% of Indian individuals have access to or receive banking services. The main reason for not using financial services is the lack of a regular income and not enough savings. Another reason is proximity of the financial service. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. The customers who are excluded are totally unaware about benefits of financial services provided by banks. They borrow money from money lenders; friends and relatives to fulfill their financial requirements. They find it easier to approach them than to banks. Banks asks for collateral against loan which is difficult to provide for low income group even lot of paper work need to be done, keep them away from banking system. Lack of awareness about financial services on the part of villagers and bankers traditional thinking is the main hurdle in it. It seems to lack of financial literacy.

"Trend and Progress of Banking in India 2010-11" says that out of every 1000 persons only 99 had a credit account and 600 had a deposit account with a bank, at the end of March 2010.This shocking character of exclusion of a very large population would tend to make our expedition towards progress hard and costly. Affordable financial services especially savings and credit would improve livelihood opportunities and increase rural income and thus contribute to social, economic and political stability and well being.

## OBJECTIVES OF FINANCIAL INCLUSION

Financial Inclusion or inclusive financing is the delivery of financial services at affordable cost 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 delivery of banking services at an affordable cost ('no frills' accounts) to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.

Financial Inclusion process is initiated with the following objectives.

- Extending formal banking system among less privileged in urban and rural India.
- Saving them from unorganized money markets and moneylenders.
- Equipping them with the confidence to make informed financial decisions.

## FINANCIAL INCLUSION IN INDIA: EARLIER EFFORTS

If we examine the economic history of post independent India it is easy to find that the process of making financial services available to the poor has been on the agenda of the planners since its inception. The concept and delivery mechanism for such services have evolved overtime. The journey to the Banking Correspondent model has been quite long. Even though the coinage of the term 'Inclusive Growth' and 'Financial Inclusion' is of recent origin, a glance at the strategies pursued by the Government of India indicates its intent of bringing about inclusive growth. The road leading to the BC Model brings out clearly.

Earlier efforts of Financial Inclusion are being presented hereunder in a synoptic view:

- Development of a three tier Co-operative structure during 1947-1970.
- The take-over of The Imperial Bank in 1956 to what is presently known as State Bank of India.
- Bringing in Social Control on the Banking System in 1967 and identification of Priority Sectors for the growth of the economy.
- Nationalisation of 14 Major Commercial Banks in 1969 ( Nationalisation of 7 Banks in the second round in 1980) and introduction of Lead Bank Scheme to provide a road map for expansion of branch network in areas with either no branches or with poor penetration, identification of credit potential and coordinated efforts towards deployment of credit.
- Introduction of Differential Interest Rate Scheme (DIR) in 1972 wherein public sector banks were required to extend credit to economically weaker sections at 4% rate of interest per annum.
- Instituting a '20 Point Program' in 1975, focusing on the schemes targeted at poverty reduction, employment creation, health and education.
- Setting up of Regional Rural Banks (RRBs) in 1976, to provide access to banking for the rural poor. RRBs were to function as institutions with a local falvour and a bias towards the rural sector in a cost effective manner.
- Introduction of Integrated Rural Development Program (IRDP) throughout the country on 2 October 1980 in order to provide self employment to the rural poor through a combination of capital subsidy and bank credit.
- Introduction of Service Area Approach in 1989 in Banking. Launching 'Swarna Jayanthi Gram Swarozgar Yojana' (SGSY) IN 1999 harnessing the Self Help Group movement picking up in the rural India, through the NGO movement.
- The first half of the first decade in 21$^{st}$ Century witnessed a resurgence of SHGs, largely by women prompted by various institutions including NGOs. The period also witnessed emergence of a new set of institutions, Microfinance Institutions (MFIs), who were targeting the poor, to address their credit needs.

All these initiatives did not quite widely attend to the problem of financial exclusion and the gap was showing signs of widening. Therefore, the Government of India wanted to pursue its Financial Inclusion agenda with greater vigor.

## VARIOUS MODELS EMPLOYED BY BANKS

In January 2006, the Reserve Bank of India issued a new set of guidelines allowing bank to employ two categories of intermediaries – Business Correspondents (BCs) and Business Facilitators (BFs) – to expand their outreach. BCs are permitted to carry out transaction on behalf of the bank as agents. The BFs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but do not transact on behalf of the bank.

It is not possible for banks to open brick and mortar branches in every village as it is not economically viable. Banks have to find out alternate ways to cover all the villages under financial inclusion. They have adopted Mobile van facility, ultra small branches and BCA model for providing financial services to financially excluded rural population. With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, Reserve Bank of India has instructed banks to use the service of Non-governmental organization/Self-help Groups (SHGs//NGOs), Microfinance Institutions (MFIs), and other Civil Society Organizations (CSOs) as intermediaries in providing financial and banking services through Business Facilitator and Business Correspondent Models.

Business Correspondents (BCs) & Business Facilitators (BFs) are representatives appointed by banks to act as their agent and provide banking services in remote locations where the bank does not have a presence in order to promote financial inclusion. The fundamental difference in the role of the BC and BF is that BCs are permitted to carry out regular transactions for customers on behalf of the bank. BFs are only responsible for spreading awareness related to banking and bank's products, assisting the bank in business generation activities and recovery of bad debts. However, they do not undertake any cash transactions.

### Pradhan Mantri Jan Dhan Yojana – Recent Initiative

Pradhan Mantri Jan Dhan Yojana (PMJDY) was introduced by Prime Minister Narendra Modi on August 15, 2004 to ensure access to various financial services to the excluded sections i.e. weaker sections and low income groups. The scheme envisions universal access to banking facilities with at least one basic banking account for every household. This will promote financial literacy, access to credit and insurance. The beneficiaries will receive a RuPay Debit Card having inbuilt accident insurance cover of Rs. 1 lakh. In addition, there is a life insurance cover of Rs. 30,000 to those who opened their bank accounts for the first time between 15 August 2014 and 26 January 2015. The scheme has entered the Guinness Book of World Records for opening the majority of bank accounts in the first week of the launch of the scheme.[9]

PMJDY was conceived with a view to provide comprehensive and inclusive growth. This is best reflected in Prime Minister Modi's words, "Sab Ka Saath, Sab Ka Vikas." Targeted at those who have never had a bank account in their lives, the scheme has simplified the whole process of opening an account.

In the Second phase (from August 2015 to 14 August 2018), micro finance and unorganized sector pension schemes would also be provided. Bank accounts opened after 36 January 2015 would be eligible for life insurance cover and micro insurance in this phase. As it is difficult to spread bank branches across all unbanked areas, Business Correspondents (BCs) will be deployed on a large scale to help carry out the plan.

The programme for financial inclusion under the PMJDY is based on six pillars:

- The country will be divided into a number of sub-service areas (SSA), each with 1,000-1,500 households. One banking outlet (branch or BC) will be established within a distance of five km from every SSA by August 2015.
- One bank account will be ensured for every household by August 2015, along with a RuPay debit card and an accident cover worth Rs. 1 lakh. If the credit history is satisfactory during the first six months, the account holder will become eligible for an overdraft worth Rs. 5,000.
- Financial literacy programmes will be expanded by August 2015 to spread awareness about financial services.
- A Credit Guarantee Fund will be created before August 2018 to cover potential defaults in overdrafts.
- All willing and eligible persons will be provided with micro-insurance by August 2018, and
- Pension Payments under the Swavalamban Yojana for workers in the unorganized sector will be paid through bank accounts by August 2018.

## CONCLUSION

India has deep root of financial inclusion. The Indian Government has a long history of working to expand financial inclusion. In 1904 co-operative movement has been started which was milestone in Indian economic history. After independence the GoI adopted planned economic development for the country. Accordingly, five year plans came into existence since 1951. 430 commercial banks were in the private sector those days. These banks are field to helping GoI in their social objectives. Thus, on 19th July, 1969 14 major Commercial Banks were nationalized. It was a big step towards financial inclusion.

In February 1992, SHG-Bank Linkage Programme has been launched by NABARD as pilot project during the period of economic reforms in India which was major initiative in financial inclusion. It proved to be a revolutionary programme for alleviating poverty through capacity building and empowerment of the rural poor, especially women. Microcredit extended either directly or through any intermediary is considered as part of bank's priority sector lending. The SHG-Bank linkage programme provides opportunities for the rural poor to participate in the development process. It is cost effective and ensures that more and more people are brought under sustainable developmental activities, within a short span of time.

With the launch of Pradhan Mantri Jan Dhan Yojana in August 2014, India has ushered into a new regime of financial inclusion. The Jan Dhan Yojana, announced by Prime Ministe Narendra Modi on August 15 and launched on August 28, envisages access to banking services to all unbanked individuals in India. Under PMJDY, 75 million people would be provided with a bank account and an overdraft facility of Rs. 5,000 each. Further, every account holder will be provided a debit care RuPay and Rs. 1 lakh accident insurance cover. Those opening an account before January 26, 2015, will also be entitled to avail of a life insurance cover of Rs. 30,000.

The scheme would also facilitate the use of mobile banking among the poor through the National Unified USSD Platform (NUUP). The NUUP would allow customers to access banking services using a single number across all banks, irrespective of the telecom provider or mobile handset being used **(National Payments Corporation of India, 2014)**.

Jan Dhan Yojana under the leadership of Prime Minister has proven the ability of govt. in scaling up the execution. Full fruits of the scheme are yet to be seen. But**,** opening up of 12 crore plus accounts in less than six months was a phenomenal success.

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