

Financial Inclusion Initiatives

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Introduction:

Meaning of Financial Inclusion (FI)

Financial inclusion(FI) means and includes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups in a given society. Access to finance by the poor and vulnerable groups is a prerequisite for achieving inclusive growth in any given economic system. Economies world over try varied methods and mechanism to achieve this end. Their experiences are so different from each other that they provide valuable reference points and help as practical examples. However they also point out the need for country specific studies, as FI depends on the social and economic conditions which varies from country to country. The need for working towards complete financial inclusion (FI) is more pronounced that it has become rather a compulsion than a choice in emerging economies like India.

Financial Inclusion (FI) basically measures the efficacy in which financial resources are pooled and bartered. Simply stated it covers the financial literacy level of the population, their banking habits and the coverage of the entire financial system.

Objective : To understand the meaning and importance of financial inclusion and study the corrective measures taken against financial exclusion. To study the financial inclusion initiatives taken by the Government of India and the RBI.

Research Methodology : Secondary data from research projects, books and magazines were read and analysed to compile this research paper (abstract and power point presentation.)

Stated Hypothesis

The Government of India and the RBI are keen on introducing and supporting financial inclusion programmes in India.

Definition of Financial Inclusion

Financial Inclusion can be defined as “a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy.”

The Government of India’s ‘Committee on Financial Inclusion in India’ begins its report by defining Financial Inclusion “as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost.”

Definition of Financial Exclusion

“Financial exclusion is the lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship. Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region.”

Why financial inclusion?

Complete financial inclusion is a necessary condition for economic development.

Complete financial inclusion will result into uniform growth in all sectors of the economy. Equal opportunities for all the segments in the society. Stability of the financial system. Smooth mobility of factors of production within the country. Eradication of poverty and improves the standard of the individuals. Overall improvement in the quality of life. Better distribution of wealth (prevents concentration of wealth in a few hands). Discourages, and in the long run prevents the growth of parallel economy. Better image for the country. Better utilization of the resources. More employment opportunities. Empowerment of vulnerable group in the society.

Efforts therefore must be in place for spreading awareness about the new developments in the field of banking and finance in terms of products and processes in the field of banking and finance in terms of products and processes such that the desired benefit is achieved in the national level. Currently the reach is rather restricted to a small segment of the population who voluntarily takes interest in knowing and understanding the developments in these areas. What is required is large scale **financial literacy** such that inclusive growth can be achieved by the end of the of the eleventh plan period i.e.year 2012.

Complete financial inclusion may not be a sufficient condition for economic development of a country but definitely it is a necessary condition.

Simply put FI is not just about people having ‘access’ per se to a basic bank account, or being provided with the opportunity to open an account. Public can only be properly ‘included’ if they have access to fair, affordable products and services (financial) that meet their needs, they are treated fairly, ethically, and with integrity by the financial institutions that provide those products and services effectively. A narrow definition of inclusion can have the effect of disguising the scale of financial exclusion and exaggerate the success of initiatives undertaken.

Any economy can claim of complete FI only when financial services like insurance (life, health and property) are availed of by larger sections of the society. They must be

comfortable while using banking services with the help of latest technology. Financial literacy about availability of credit, methods of repayment, new financial products and their availability etc., must be on the higher side. By bringing the vulnerable group into the peripheral of the existing system growth can be achieved.

FINANCIAL EXCLUSION – CORRECTIVE MEASURES

The Indian financial system which is effectively controlled by the GOI and RBI has been reacting positively in order to solve the problem of FE. Many committees have been appointed in order to study the reasons for FE. They have come out with detailed study of this aspect and have suggested various steps to be taken as recommendations. These recommendations got manifested in the form of steps taken by both GOI and RBI. Branch expansion programme was given the necessary thrust. Incentives were given for those who willingly managed the rural branches. Innovative ideas were introduced. They include Self Help Group (SHG)-Bank linkage programme, support to Micro Finance Institutions (MFI), establishing kiosks in rural locations, kisan credit card, GCC amongst others. SBI has been very active in introducing tiny cards and other related benefits.

Government of India, as a member of international bodies deputed experts to participate in conferences and conventions in order to keep track over the global developments in the field. This enabled to be proactive as far as FI measures are concerned. These programmes definitely enhanced knowledge transfer from developed countries. Initiatives undertaken by the Government and RBI are given in chronological order below. By acknowledging and recognizing the role of business correspondents and business facilitators in fostering financial inclusion the RBI gave a boost to the drive for complete FI in India. Initially introduced by RBI the concept was quickly accepted by many participating banks including, Indian Bank, HDFC Bank, Canara Bank and Union Bank of India. The model suggested by RBI has been suitably modified by the respective banks as per the location and area covered by them. Except Indian Bank which has adapted the model by orienting the requirement of rural and urban other banks catered to the requirements for rural financial inclusion. ICICI bank has designed a model which can be applied to both rural and urban population.

Models for Financial Inclusion

For rural India – MFI – SHG-Bank linkage model

Rural Financial Inclusion – Mangalam model

RBI's model for credit disbursement function of banks – Business Correspondent Model

Validating the hypothesis : Annexure 1 states the steps taken by the Government of India and the RBI for FI. The strategies are effective and they have been able to effect FI in the economy.

MEASURES TAKEN TO IMPROVE FINANCIAL INCLUSION

- Few of the factors listed above have already been addressed by the RBI and other banks.
- KYC – Know Your Customer norms has been simplified.
- Credit cards are made available at an affordable price.
- The community-bank linkage programme has been initiated.
- The Indian financial system which is effectively controlled by the GOI and RBI has been reacting positively in order to solve the problems of FE.
- Detailed study has been conducted by various committees and they have suggested several STEPS to be taken by the RBI AND GOI. These steps were RECOMMENDATIONS given by expert committees.
- **Steps or recommendations were** : BRANCH EXPANSION PROGRAMMES were given a thrust.
- Incentives were given to those who willingly managed RURAL BRANCES.
- **INNOVATIVE IDEAS -were introduced such as :**
- SHG-Self Help Groups-Bank Linkage programme
- Support to MFI – Micro Finance Institutions
- Establishing Kiosks in rural locations
- Kisan Credit Card
- GCC
- SBI has been very active in introducing tiny credit cards and other related benefits.
- The Government of India deputed experts to participate in conference and conventions in order to keep track over the global developments in the field.
- These programmes definitely enhanced knowledge transfer from developed countries.

STEPS TAKEN BY THE GOVERNMENT OF INDIA AND RBI FOR FINANCIAL INCLUSION

The Government of India and the Reserve Bank of India were keen on introducing and supporting financial inclusion programmes in India. Policy measures were announced from time to time in order to keep the momentum. Besides the normal

supportive role both the GOI and the RBI were showing their readiness in incorporating changes in the existing rules and regulations. Introduction of the “No Frills Accounts” is one such step. By simplifying KYC norms the apex bank has shown the direction to the banking community in reaching out to the poor and underprivileged.

Following is the indicative list of the various steps taken by the GOI and the RBI

**INITIATIVES BY THE GOVERNMENT OF INDIA (GOI) –
Annexure 1**

1969-1993	Branch expansion through Nationalisation – average population covered per branch reduced from 64,000 to 15,00 (approximately)
1993-2004	Constant efforts to outreach by regular campaign Encouragement and incentives for RURAL Branches. Compulsory posting in rural branches before promotion. Encouragement to SHGs, MFIs for participating in financial inclusion measures.
July 2006	Launch of Financial Information Network and Operations. (FINO) Encouragement and initiatives for rural branches.
2007-2008	During the budget speech 2007-08 FM announced Creation of two funds. 1. Financial inclusion fund – Developmental / Promotional 2. Financial inclusion technology fund – Technology adoption /innovation This was to give financial support to mission FI
2008-09	Declared as the year of financial inclusion. Appointment of Rangarajan Committee on financial inclusion. Appointment of Raghuram Rajan Committee on financial sector.

INITIATIVES BY RBI

1969-2004	Branch expansion through Nationalization More thrust to RRBs and LABs.
2004-2005 all segments of	Banks were encouraged to provide banking services to of population Appointment of a committee on Rural Credit and Micro Finance popularly known as Khan Committee. RBI annual policy spelt the need for FI.
Nov 2005 account”	Banks advised to provide basic banking “no frills account” KYC Principles simplified to open accounts. General Purpose Credit (GCC) facility up to Rs 25,000 at rural and urban branches. OTS – One time settlement was introduced.
January 2006	Banks allowed to use services of NGOs, SHGs, MFI, civil service organizations as Business Facilitators and Business Correspondents. Business Correspondents allowed to do “Cash-in-cash-out” transactions at BC locations and branchless banking.
April 2006	One district in each state identified by SLBC for 100% FI
October 2006	A status report was tabled out of study undertaken jointly by Micro Credit Innovation Department, NABARD and Rural Finance Programme on ‘Challenges and potential for Indian Banks to implement Business facilitator and Business Correspondent Models’
June 2007	Multi-lingual website in 13 languages launched By RBI.

2010-11

To address this need the Union Finance Minister in his Budget Speech 2010-11 directed banks, to provide appropriate banking facilities to habitations having population in excess of 2,000 by March, 2012 using various models and technologies including branchless banking through Business Correspondents.

Accordingly, the banks through the forum of State Level Banker Committees (SLBCs), have formulated their roadmaps for Financial Inclusion and have identified approximately 73,000 habitations having a population of over 2,000 for providing banking facilities. These habitations have been allocated to Commercial Banks, Regional Rural Banks and Cooperative Banks for providing banking facilities in a time bound manner. This would provide new bank accounts to around 5 crore rural households.

Accordingly, a nationwide programme on financial inclusion, "Swabhimaan" was launched in February, 2011 by the Government, which is focused on bringing the deprived sections of the society in banking network to ensure that the benefits of economic growth reach everyone at all levels. This campaign is a big step towards socio-economic equality by bringing the underprivileged segments of Indian population into the formal banking fold for the first time.

"Swabhimaan" is a path-breaking initiative by the Government and the Indian Banks' Association to cover economic distance between rural and urban India. This campaign promises to bring basic banking services to 73,000 unbanked villages with a population of 2,000 and above by March, 2012 and at least 5 crore new accounts will be opened. The movement will facilitate opening of banks accounts, provide need-based credit, remittance facilities and help to promote financial literacy in rural India. The programme will increase the demand for credit among

the millions of small and marginal farmers and rural artisans who will benefit by having access to banking facilities.

This financial inclusion campaign named, “Swabhimaan” aims at providing branchless banking services through the use of technology. The vision for this programme is social application of modern technology. Banks will provide basic services like deposits, withdrawals and remittances using the services of Business Correspondents also known as Bank Saathi. This initiative also enables Government subsidies and social security benefits to now be directly credited to the accounts of the beneficiaries so that they could draw the money from the Business Correspondents in their village itself. The Government hopes to reach the benefits of micro insurance and micro pension products to the masses through this banking linkage. It would now be possible for the large number of migrant workers in urban areas to remit money to their relatives in distant villages quickly and safely.

The facilities provided through banking outlets will enhance social security by facilitating the availability of allied services in course of time like micro insurance, access to mutual funds, pensions, etc. Banking facilities like Savings Bank, recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques will be provided.

The Banks are also working together with the Unique Identification Authority of India (UIDAI) for enrolment, opening bank accounts and also to facilitate transfer of government subsidies and other payments.

The success of this programme will depend on the

proper utilization of the Business Correspondents (BCs) or Bank Saathis, who are persons engaged by Banks to create a closer relationship between the formal financial system and the people living in the rural hinterland, far away from brick and mortar bank branches. The BCs will help in making available banking facilities to the interior areas through various handheld mobile devices and other technologies that reduce cost and have the ability to record banking transactions and to communicate the record of such transactions to the Bank using the internet facilities / GPRS.

The progress of “Swabhimaan” programme will be monitored through the State Level Bankers Committee mechanism. District Magistrates/Collectors are being sensitized in this regard to ensure proper monitoring of the programme through coordinated efforts of all stake-holders. The State Governments have been advised to route all Government benefits and social security payments through the banking system so that the benefits reach the beneficiaries timely and efficiently and leakages are reduced substantially.

“Swabhimaan” campaign is expected to benefit millions of small and marginal farmers and rural artisans by providing them easy access to credit at lower rates and save them from clutches and exploitation by moneylenders.

Conclusion : Financial inclusion will succeed once the hindrance in the process is removed. These blocks or hindrances are

- Standardised financial products which are beyond the comprehension of the poor and the downtrodden.
- Complicated procedure and multiple formalities.
- Unfriendly attitude of the service providers.

- Use of foreign language other than the ones which the customers are familiar and comfortable with.
- Highly priced financial products beyond the reach of people below poverty line.
- Stringent rules which act as a barrier.
- Lack of connectivity with the community.
- Absence of awareness programmes and proper advertisements.
- Strong unorganised sector.
- Existence of other systems
- Financial illiteracy
- Consequences of Financial Exclusion (FE)

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