FINANCIAL INCLUSION ADVANCEMENTS: WAY FORWARD

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Abstract

An inclusive financial system is among the top priorities for many countries and considered to be instrumental in achieving equitable growth. Financial inclusion is proved to be a powerful accelerator of economic progress and can help to achieve intense poverty elimination. The Financial inclusion access to a range of financial services includes Savings, Credit, Insurance, Remittance and other banking / payment services to all 'bankable' households and enterprises at a reasonable cost. The Government and the regulators initiatives are contributing factor for the inclusive growth and going forward, transformation for Financial Inclusions with the new thought process, bold reforms, technological advancements and supportive business models. This research paper is an attempt to analyse the Indian Financial Inclusion status and the areas to be utilize for the comprehensive inclusion. Recognizing that 2.5 billion adults worldwide are "unbanked"; the World Bank has put forward a vision for achieving universal financial access by 2020. More than 50 countries, including India, have made ambitious commitments to financial inclusion targets.

Keywords: Financial inclusion, Comprehensive Inclusion, Growth

Introduction

Access to credit is a key link between economic opportunity and economic outcome. By empowering individuals and families to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth. One of the biggest economic stories of this time is the reduction of poverty around the globe. Many low-income and emerging economies are catching up with richer nations in terms of per capita income. An inclusive financial system is among the top priorities for many countries, and considered to be instrumental in achieving equitable growth in several.

A financial service plays a critical role in facilitating economic growth and reducing income inequality. Inclusive financial systems allow poor people to smoothen their consumption and insure themselves against economic vulnerabilities - from illness and accidents to theft and unemployment. Financial inclusion enables poor people to save and to borrow - allowing them to build their assets, to invest in education and livelihoods opportunities, and thus to improve their quality of life. Inclusive finance especially

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benefits disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years, across the world.

In recent times the Government and RBI have provided a much needed push for financial inclusion in the country. However, there remain some concerns and challenges that must be addressed for attaining continuous comprehensive financial inclusion. This paper explores such concerns, achievements and expected advancements.

Research Methodology

Research methodology is partially descriptive and partially exploratory. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, RBI Report, Report by the Secretariat – Inclusive Finance India 2015 and Report of NABARD etc.

Financial Inclusion in India: Background

The C.Rangarajan Committee on Financial Inclusion defines financial inclusion as "the process ofensuring 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."

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.

The focus of financial inclusion in India thus far has overwhelmingly been on delivering credit through microfinance channels, state-owned banks and through state-promoted self-help groups (SHGs). The Pradhan Mantri Jan–DhanYojana (PMJDY) has complemented these efforts by forcefully accelerating the previous efforts of the Reserve Bank of India (RBI) of promoting financial inclusion through facilitating opening of bank accounts.

Reality check

In India most of the Financial Inclusion policies are limited to the Bank accounts and Credit to the deprived but over and above this; the basic accounts also need to focus on customized services for deprived segment. With reference to the report published by brookingsIndia Impact Series in Jan 2015 following real problems and desires are identified through survey by deprived population-

1. **Lump sums of cash**: The large population is engaged in either in microenterprise and agricultural activities, so they need to have or generate large sums of money to purchase fertilizers or invest in human capital such as healthcare, children's education and weddings. However, there are constraints on the ability to generate such large sums. Hence, they require financial instruments that meet these needs by helping them 'save up' to a lump sum amount.

2. **Daily expenditure**: Funding for day-to-day expenditure is a need that the poor face, and is often unaddressed by the financial institutions. This need is most acute for those farmers who receive a few lump sums over the year. However, these sums of money are almost immediately used up. There is a need to set some money aside in the months of no income and also for future expenditure. This need is also important for other categories of workers who receive intermittent income, like daily labourers, in order to bridge gaps in earnings. Therefore, the provision of financial services, such as savings bank accounts, can be instrumental in cash flow management for households.

3. **Unexpected circumstances**: Situations in which the poor often find themselves unable to provide are unavoidable crises like adverse weather conditions, health emergencies, natural calamities and Inflation. These negative shocks drive the marginal poor back into poverty by forcing them to resort to borrowing from informal sources such as moneylenders or to sell assets. Risk exposure can also disincentives them from investing in activities which could yield higher productivity.
   Access to insurance instruments as well as savings can provide a buffer in times of extreme shocks such that they don't resort to costly income–smoothing activities.

4. **Time consuming operations at Financial Institutions**: This becomes service oriented issue face by the deprived segment in rural areas. The financial institution representative to the population ratio isnon-proportionate which leads to long queues and huge time. Thus, technological advancements with customize help desks will be a welcome approach.

5. **Financial Literacy**: Illiterate mass and required information in regional language is also a challenging factor to deal with deprived customers. Educating people about financial risks can prevent them from investing in suspicious schemes. Such schemes are particularly widespread amongst the poor and vulnerable sections of the Indian society, as recent scams have highlighted. Regulation should also ensure customer protection and transparency through requirements of clear and standardized reporting by the sellers of financial instruments.

Advancing Financial Inclusions

The inclusive growth is an outcome of more financial inclusions. India trails countries like Kenya, South Africa and Brazil. The silver lining is that the government is committed to inclusive growth where financial inclusion plays a crucial role in helping provide numerous benefits through the strengthening of the banking system, better access to financial resources and transparent governance.The Pradhan Mantri Jan DhanYojana (PMJDY), the biggest financial inclusion initiative in the world, is a case in point. A year after the scheme was implemented across India, its success has highlighted the enormous role that financial inclusion programmes can play in the growth of the economy. At present, more than 17.5 crore bank accounts have been opened under the initiative and people have deposited more than 22,000 crore in them. Plus, zero-balance accounts under PMJDY have declined from 76% to 45.74% since its inception. PMJDY is enabling citizens at the grassroots to perform financial transactions and keep their hard-earned money safe.

1. **Advancement through innovation**: Product designs critically important when it comes to developing savings instruments for low-income households. The instruments provided and facilitated by the financial sector, from the government to the banks to local state authorities must be designed according to the needs of the specific market segment.
   Internationally, the success of Bank Rakyat Indonesia (BRI) in providing commercially viable financial services – loans and savings, along with other financial products to the low-income households has provided a benchmarking evolution. BRI built a customer base of over 30 million depositors through tailoring their products and services offered to the needs of the clients, thereby incentivizing them to better utilize their savings accounts. BRI accounts are

structured in a way which encourages more savings than loans. The management practices at the BRI have also been innovative such that each bank unit(branch) functions as an independent entity with its own targets and employee reward policies. These innovations in product and management practices have collectively made the BRI a long term profitable bank with the distinction of being one of the few large banks in the region which survived the East Asian financial crisis. Thailand's largest state owned bank- Bank of Agriculture and Agricultural Cooperatives (BAAC) -followed BRI's lead and there are discussions of bank reforms in China along the BRI model.

2. **Insurance**: To have protection against the uncertainty Insurance product is the best suit. Besides savings, the protection for products, including health, life, property and crop can be customize, so the safety and security can be inculcate in the minds of poor people. Previous research indicates that though the access to credit and savings instruments can serve as insurance mechanisms along with societal arrangements of reciprocity, these are expensive in comparison to access to insurance instruments (Ravi, 2006). The new PMJDY provides some forms of insurance but is limited to accident and life. Launched in 2008, Rashtriya Swasthya BimaYojana(RSBY) aims to provide health insurance coverage to all below poverty line (BPL) families in India. Till date more than 37 million BPL families have been enrolled in this health insurance scheme but it remains to be seen whether it is an effective tool to protect poor households from health shocks. Previous research has shown that limited understanding of health insurance results in a significantly lower claims to coverage ratio for the low income segment (Ravi & Rai, 2011).

3. **Technology**: Technology has been the key in reducing the problem of access to banking services, and with schemes such as the PMJDY. The technological options are now wide ranging, and with India's booming telecom sector, the option of using mobile payments as a means for financial inclusion is feasible. According to the latest data released by the Telecom Regulatory Authority of India, the total number of mobile subscribers in India is around 900million. Therefore, telecom companies have emerged as a viable tool to achieve financial inclusion. In Kenya, M-Pesa is one example of how mobile technology is used to complete banking transactions. The core idea of businesses such as M-Pesa rests solely on the facilitation of financial transactions via mobile phones. Under this system, customers can transfer money directly between accounts as well as between other customers as well, as long as both parties have M-Pesa (Kapoor et al., 2007).

Conclusion

Financial inclusion is a collective responsibility. It is a task for both the government and the private sector. Each has a role to play—the private sector in harnessing technology and adapting to consumer needs, the government in creating an enabling environment for greater financial inclusion. Civil society also has a role to play, of course, by providing informal support and oversight.

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