Financial Inclusion in India: Status, Reforms and Roadmap

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Abstract

Financial inclusion has got momentum in the recent past in India. In order to promote the accessibility and outreach of banking and financial services to the masses, banking sector reforms have been introduced by RBI besides implementing regulatory framework for financial inclusion. Financial inclusion is closely related with inclusive growth and development as envisaged in 11th Five Year Plan. There has been remarkable progress in the direction of financial inclusion in India however; sharp variations have emerged in the accessibility and outreach of financial and banking services across the states and regions of India. A large chunk of population is still out of the gamut of financial and banking services in India and therefore there are daunting challenges to promote financial inclusion and provide banking and financial services to the unbanked population and in backward areas. Against this view point, present paper purports to examine the current status of financial inclusion and suggesting roadmap for augmenting the accessibility and outreach of banking and financial services to the masses.

Keywords: *Inclusive Finance, No frill account, KYC, Micro Credit, SHG*

Introduction

Credit is one of the critical inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes

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a long way in contributing to the well-being of the people especially in the lower rungs of society. It is one of the three main challenges to input management in agriculture, the other two being physical and human (Hans, 2006). Thus access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty. But India is lagging behind in this respect so it has become the matter of concern.

Inclusive finance, including safe savings, appropriately designed loans for poor and low-income households and for micro, small and medium-sized enterprises, and appropriate insurance and payments services can help people to enhance incomes, acquire capital, manage risk, and come out of poverty (United Nations, 2006). It has been well recognized that access to financial services facilitates making and receiving financial payments and reduces transaction costs. In India, growth with equity has been the central objective right from the inception of the planning process. The Eleventh Five Year Plan, therefore, re-emphasized the need for a more inclusive growth in order to ensure that the per capita income growth is more broad-based. The farming, micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth as these sectors contributes to output and employment generation in a significant way with capacity to expand regionally diversified production and generating widely dispersed off-farm employment. Bringing the larger population within the structured and organized financial system has explicitly been on the agenda of the Reserve Bank since 2005 (Mohan, 2006).

While several central banks focus solely on inflation, many in developed and emerging economies including India also focus on growth. There is currently a perception that there are a large number of people, potential entrepreneurs, small enterprises and others, who may not have adequate access to the financial sector, which could lead to their marginalization and denial of opportunity to grow and prosper. The Reserve Bank has, therefore, introduced various new measures to encourage the expansion of financial coverage in the country. Financial inclusion is considered essential for fostering economic growth in a more inclusive fashion.

Banking sector is the major component in the financial sector. The banking network in India is wide and consisting of public and private sector banks. The commercial banks may further be classified in a variety of ways such as scheduled and non-scheduled banks, Indian and foreign banks, public sector and private sector banks. The banking sector in India has a long history. The year 1969 was a landmark in the history of commercial banking in India as Government of India nationalized 14 major commercial banks. In April, 1980, Government again nationalized 6 more commercial banks. In view of the global trends of banking and meeting out the banking needs in India, financial sector reforms were introduced in the wake of globalization and economic liberalization in India. Banking sector reforms were also introduced with the view of enabling and strengthening measures to improve stability and efficiency of banks. The enabling measures were designed to create an environment where banks could respond optimally to market signals on the basis of commercial considerations while the strengthening measures aimed at reducing the vulnerability of banks in the phase of fluctuations in economic environment. It also required suitable institutional framework conducive to development of banks needs. There has been marked impact of banking sector reforms on the performance of Indian banks in India. The public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even after the implementation of reforms since 1991. However the entry of private sector and foreign banks has created a new environment of banking that compelled public sector banks to improve the functioning and performance in the competitive environment.

Regulatory Initiatives for Financial Inclusion

The inclusion growth has registered positive and beneficial changes due to positive change in both the constituents of inclusion growth i.e. intensity change and technology change (Gokarn, 2011). The Government initiated steps for financial inclusion in 2004 by setting up a commission headed by Shri H R Khan. Major initiatives were chalked out after the Rangarajan Committee Report in 2008.

- **No-frills Accounts:** No-frills accounts are with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.
- **Relaxation on KYC Norms:** KYC requirements for opening bank accounts were relaxed for small accounts in August 2005. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address, and Aadhaar number.
- **Introduction of General Credit Cards:** With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to Rs 25,000 at their rural and semi-urban

branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit.

- **Business Correspondents and Facilitators Model:** The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in cash- out transactions, thus addressing the last-mile problem. With effect from September 2010, profit companies have also been allowed to be engaged as Bcs.
- **Use of Technology and Micro Credit:** Banks have been advised to make effective use of information and communications technology, to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.
- **SHG Bank Linkage Programme:** The credit linkage of Self Help Groups and Joint Liability Groups by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of group and dispense small loans for meeting the individual requirements of the member.
- **Creation of Funds for Financial Inclusion:** Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by Central Government for meeting the costs of development, and promotional and technology interventions. A fund of Rs. 5,000 crores in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.

- **Banking Services in Unbanked Villages:** Banks were advised to draw up a road-map to provide banking services in every unbanked village having a population of over 2,000 by March 2012. The Reserve Bank advised banks that such banking services can be extended through any of the various forms of ICT-based models. About 73,000 such unbanked villages were identified and allotted to various banks through state-level bankers committees.
- **Plan of Banks for Financial Inclusion**: The Reserve Bank advised all public and private sector banks to submit a board-approved, three-year financial inclusion plan starting April 2010. These plans broadly include self-set targets in respect of rural brick and-mortar branches opened; BCs employed; coverage of unbanked villages with a population above 2,000, as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards and General Credit Cards and other specific products designed by them to cater to the financially excluded segments.
- **Consolidation of Regional Rural Banks:** The Central Government has kicked off a major consolidation exercise among RRBs which will play an important role in the country's scheme of financial inclusion. The number of banks will be cut to 46 from 82 after the merger process. A consolidation of existing rural banks will make them more viable.
- **Performance Appraisal of Bank Staff:** Banks were advised by RBI to integrate board approved Financial Inclusion plans with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

RBI's Policy Initiatives for Financial Inclusion

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts. RBI has taken the following supporting policy initiatives in order to promote financial inclusion in the country:

Outreach

- **Branch Expansion in Rural Areas:** Branch authorization has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh, which is subject to reporting. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres. In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centres.

- **Business Correspondent/ Business Facilitator Model:** In January 2006, the Reserve Bank permitted banks to utilize the services of intermediaries in providing banking services through the use of business facilitators and business correspondents. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

- **Combination of Branch and BC Structure to Deliver Financial Inclusion:** The idea is to have a combination of physical branch network and BCs for extending financial inclusion, especially in geographically dispersed areas. To ensure increased banking penetration and control over operations of BCs, banks have been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) at a reasonable distance of about 3-4 kilometers.

- **Relaxed KYC Norms:** Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials. RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

- **Roadmap for Banking Services in Unbanked Villages:** In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March, 2010. Banks have successfully met this target and have covered 74398 unbanked villages. In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4, 90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.

Products

- **Bouquet of Financial Services:** In order to ensure that all the financial needs of the customers are met, we have advised banks to offer a minimum of four basic products, viz. (1) A savings cum overdraft account, (2) A pure savings account, ideally a recurring or variable recurring deposit, (3) A remittance product to facilitate EBT and other remittances, and (4) Entrepreneurial credit products like a General Purpose Credit Card or Kisan Credit Card.

Transactions

- **Direct Benefit Transfer:** The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network, using the Aadhaar based platform as a unique identifier of beneficiaries. In order to ensure smooth roll out of the Government's Direct Benefit Transfer initiative, banks have been advised to: (1) Open accounts of all eligible individuals in camp mode with the support of local Government authorities, (2) Seed the existing and new accounts with Aadhaar numbers, (3) Put in place an effective mechanism to monitor and review the progress in implementation of DBT.

Financial Inclusion Plan of Banks:

- **Financial Inclusion Plan 2010-13:** Banks have been encouraged to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans. The first phase of Financial Inclusion Plans was implemented over the period 2010-2013. The Reserve Bank has sought to use the Financial Inclusion Plans as the basis for Financial Inclusion initiatives at the bank level. RBI has put in place a structured, comprehensive monitoring mechanism for evaluating banks' performance against their Financial Inclusion plans. Annual review meetings are being held with CMDs of banks to ensure top management support and commitment to the Financial Inclusion process.

- **Financial Inclusion Plan 2013-16:** In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh 3 year Financial Inclusion Plan for the period 2013-16. Banks have also been advised that the Financial Inclusion Plans prepared by them are disaggregated and percolated down up to the branch level. The disaggregation of the plans is being done with a view to ensure involvement of bank staff across the hierarchy, in the Financial Inclusion efforts and also to ensure uniformity in the reporting structure under the Financial Inclusion Plan. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

Status of Financial Inclusion

The large section of population below the expenditure curve also points to a worrying inequity in incomes, something that should concern planners as the government looks to target benefits for those who need them through initiatives like food security and employment guarantees (Sunday Times, 2012). India's schemes might be off target, or suffering from poor reach while benefits of economic growth are not meeting the government's objectives of “inclusive growth” as it is evident from the data (Table 1) that there is a concentration of buying power in the top 30 per cent-35 per cent of the population. The 60-plus per cent of population below the average monthly spending is clearly not progressing as fast as the segment whose income and expenditure is disproportionately influencing the statistical mean (Sunday Times, 2012).

Table No. 1: Position of Households Availing Banking Services

	As per Census 2001			As per Census 2011		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Number of households availing banking services**	**Number**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Source: *Census of India 2011*

Among the States, there is not much to choose between those often stigmatized as "backward" like UP and Bihar, Gujarat and Maharashtra. Even in the better off States, the percentage of rural populations below the average monthly expenditure line is above 60 per cent. In urban areas, it is a shade under 60 per cent for Gujarat, but almost 70 per cent for Maharashtra (Sunday Times, The extent of financial exclusion in India is (Khan, 2012) found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, and credit and debit cards. State wise percentage of households (Govt., 2012), availing Banking Services in 2011 (Table 2), clearly show that there still remain a large number of households which do not avail banking services, resulting to financial exclusion.

Table No. 2 : State-wise Percentage of Households Availing Banking Services in 2011

[redacted]

About half of farmer households are financially excluded from both formal/ informal sources. Of the total farmer households, only 27 per cent access formal sources of credit; one third of this group also borrowed from non-formal sources. Overall, 73 per cent of farmer households have no access to formal sources of credit. Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64 per cent of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66 per cent. However, over the period of five decades, there has been overall improvement in access to formal sources4 of credit by the rural households (Table 3).

Table No. 3: Access to Credit by Rural Households

[redacted]

As per census 2011, only 58.7 per cent of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas. Sadhan Kumar (2011) worked out an Index on financial inclusion (IFI) based on three variables namely penetration (number of adults having bank account), availability of banking services (number of bank branches per 1000 population) and usage (measured as outstanding credit and deposit). The results indicate that Kerala, Maharashtra and Karnataka has achieved high financial inclusion (IFI >0.5), while Tamil Nadu, Punjab, A.P, H.P, Sikkim, and Haryana identified as a group of medium financial inclusion and the remaining states have very low financial inclusion (Table 4).

Table No. 4 : Availing of Banking Services

[redacted]

Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country (Table 5). In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly. The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010. Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

Table No. 5 : Branches of Scheduled Commercial Banks in India

[redacted]

Expansion of banking network is done through the opening of new bank branches in various regions. The distribution of new branches region wise and population group wise is shown in the Table 6. The Southern region, which is already well banked, had the highest share of new bank branches in 2010-11 in comparison to other region whereas north eastern region is still least banked. Out of total new branches opened by SCB, 22 per cent were in rural areas, 42 per cent were in semi-urban areas, 17.9 per cent in urban and 18.1 per cent in metropolitan. The concentration of ATMs has been reported significantly high in southern region followed by northern and western region while it was reported least in north-eastern region.

Table No. 6 : Distribution of New Bank Branches Across Regions and Population Groups

[redacted]

Region-wise population per branch and share in credit is shown in Table 7. Population per bank branch has been reported significantly high in north-eastern region followed by eastern and central region while low population per bank branch was recorded in southern region. Western region has witnessed lion's share in credit while north-eastern region received credit least.

Table No. 7 : Region-wise Population Per Bank Branch

[redacted]

Banks have, up to June 2011, opened banking outlets in 1.07 lakh villages up from just 54,258 as on March 2010. Out of these, 22,870 villages have been covered through brick-&-mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans, etc. Basic banking no frills account with nil or very low minimum balance requirement as well as no charges for not maintaining such minimum balance, were introduced as per RBI directive in 2005. As on June 2011, 7.91 crores No-frills accounts have been opened by banks with outstanding balance of Rs. 5,944.73 crores. Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban braches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Interest rate on the facility is completely deregulated. As on June 2011, banks had provided credit aggregating Rs. 2,356.25 crores in 10.70 lakh General Credit Card (GCC) accounts. Kisan Credit Cards to small farmers have been issued by banks. As on June 30, 2011, the total number of KCCs issued has been reported as 202.89 lakh with a total amount outstanding to the tune of 1, 36,122.32 crores (Table 8).

Table No. 8 : Data Related to Number of Villages Covered, No-Frill Account, GCC and KCC

[redacted]

The total number of ATMs in rural India witnessed a CAGR of 30.6 per cent during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013 (Table 9).

Table No. 9 : Expansion of ATMs Network

[redacted]

Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs. 2622.98 billion. Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts. In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.

Table No. 10 : Number of Credit Cards Issued by Banks

(In Millions)

[redacted]

The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs. 6.92 billion to Rs. 233.88 billion during the same period (Table 10).

Financial education, financial inclusion and financial stability are three elements of an integral strategy. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Going forward, these two strategies promote greater financial stability. Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously. RBI has issued revised guidelines on the financial literacy Centres (FLC) on June 6, 2012, for setting up FLCs. This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (NABARD,2012). Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs. At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crore as at end Sept 2013. MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations. Bank credit to MSME sector witnessed a CAGR of 31.4 per cent during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76 per cent, while private sector banks accounted for 20.2 per cent and foreign banks accounted for only 3.8 per cent as on March 31, 201211 (Table 11).

Table No. 11: Bank Credit to MSME

[redacted]

Financial inclusion is one of the biggest challenges facing the banking sector today. The Reserve Bank has been encouraging the banking sector to expand the banking network both through setting up of new branches and also through BC model by leveraging upon the information and communication technology (ICT). As a result of all these efforts the status of financial inclusion improved in 2010-11 over the previous year (Table 12). Various indicators mentioned below in the table are showing growth in year 2010-11 when compared with the previous year 2009-2010. Still the extent of financial exclusion is shocking.

Table No. 12 : Progress of Financial Inclusion

[redacted]

To strengthen the financial inclusion drive, almost all banks have made financial inclusion plans (FIPs) to cover villages with population more than and also less than 2000 and Reserve Bank is closely monitoring the implementation of these plans. The progress made under FIPs is provided in Table 6.33. The total number of villages covered by at least one banking outlet grew at 82 percent in 2010-11 over the previous year. Importantly, in 2010-11, 47 percent of the total villages covered under FIPs were villages with population less than 2,000. It can be understood from the table that banks have been heavily relying on BCs to expand the banking network in the unbanked areas under FIPs. In 2010-11, almost 77 percent of the total villages covered were through BCs. The number of 'no-frills' accounts recorded a growth of 50 per cent in 2010-11 over the previous year. The share of 'no-frills' accounts with overdrafts in the total 'no-frills' accounts improved from 0.3 per cent in 2009-10 to six per cent in 2010-11. The number of Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) witnessed growth of 15 per cent and 49 per cent, respectively in 2010-11 over the previous year(Table 13).

Table No. 13 : Progress Made Under Financial Inclusion Plans

[redacted]

The analysis of micro credit programmes on women empowerment simply demonstrate that government's policies for empowering weaker sections articulate focus on forward and backward linkages to make them economically independent and self-reliant. The micro credit strategy for economic empowerment laid out in the Tenth Five Year Plan while Government of India started SHG based micro credit programmes viz. Swashakti, Swayamsiddha, RMK and SGSY for economic empowerment of rural poor women. Moreover the term loan and micro credit programmes and schemes are also being implemented by Apex bodies of the Ministry of Social Justice and Empowerment, Ministry of Tribal Affairs, Ministry of Minority Affairs and the financial institutions such as SIDBI and NABARD. These programmes have no doubt created opportunities for starting of income generating activities, convergence of schemes and programmes and social empowerment for women.

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. Further analysis shows that poverty is getting concentrated continuously in the poorer states. The importance of financial inclusion has been emphatically underlined in the wake of the financial crisis. As we all know, the crisis has had a significant negative impact on lives of individuals globally. Millions of people have lost their livelihoods, their homes and savings. One of the prominent reasons for the crisis was that the financial system was focused on furthering its own interests and lost its linkage to the real sector and with the society at large. The crisis also resulted in a realization that free market forces do not always result in greater efficiency in the financial system, particularly while protecting the interests of the vulnerable sections of society. This is due to the information asymmetry working against these sections, thereby placing them at a severe disadvantage. In wake of the Crisis, therefore, Financial Inclusion has emerged as a policy imperative for inclusive growth in several countries across the globe. However, though much lip service has been paid to Financial Inclusion, the actual progress has remained far from satisfactory. It is regrettable that the entire debate surrounding financial inclusion has generated significant heat and sound, but little light. Financial inclusion is the main agenda which India needs to achieve for becoming a global player. Financial access will attract more global market players in our country which will result in increasing employment and business opportunities. Moreover, financial inclusion will lead to reduction in poverty and empowerment of marginalized, backward and weaker sections of society. However, India needs to address the supply side factors besides improving the existing infrastructure, bank and ATM network and access to improved technology.

Suggestions

- Financial inclusion along with the Governmental development programmes will lead to an overall financial and economic development in our country and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth. It is important not to introduce electronic payment system for poor class because majority of the population in this category are illiterate and the cost of deploying electronic payment services for the large number of accounts having lower deposits would not be profitable.

- The Government welfare programmes targeted towards the poor may be linked with banks. All the monetary benefits should be routed through banks only. Any government or social security payments or payments under all the government schemes should be strictly routed through the service area bank account. This will make people in rural areas to compulsorily have an account in their service area branch to avail the government benefits.
- The solutions for financial inclusion lies in channelizing existing resources and building up a platform for public –private partnerships using technology. There are three important constituents for inclusive growth i.e. infrastructure, advanced technology and user's network which are mandatory for providing easy, safe and affordable financial services.
- Infrastructure development is an essential prerequisite for attaining greater inclusive growth. Adequate rural infrastructure facilities and improvements in terms of availability of electricity, improved connectivity through provision of rural roads and telecommunications, construction of warehouses and market infrastructure are expected to lead to efficient supply chain management in agriculture and hence greater demand for banking activities in rural areas.
- Outreach of financial institutions may be increased through intermediaries like SHGs, MFIs, civil society organizations, etc., through the use of business facilitators and business

correspondents. Mobile banks need to be promoted to resolve the problem of access to isolated and remote regions. The banks need to aggressively adopt mobile banking as a strategy for increasing their outreach in the rural areas. Regulatory mechanism to support mobile banking with cash in/ cash out facilities also need to be put in place as early as possible. There is also a need for effective coordination among the various agencies like banks, NGOs, MFIs, Govt. participating in inclusive growth.

- Tailor made financial products that suit the requirement of bottom of pyramid should be designed at affordable cost. The regional imbalance in financial inclusion needs to be corrected and special efforts in this regard may have to be taken by NABARD. Micro insurance services should be given greater importance while extending financial services. There is imperative need of encouraging bancassurance - a term coined by combining the two words bank and insurance - connotes distribution of insurance products through banking channels.

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