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# Role of Financial Inclusion in India

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## Introduction

The make in India initiative started by government of India helps to facilitate investment, foster innovation, enhance skill development, protect intellectual property, build manufacturing infrastructure. For contribution of at least 25% of GDP by 2022 in manufacturing sector growth should be 12-14% Per annum higher than the GDP rate.

Make in India has come with lots of benefits and advantages for the Indian economy. Due to this fact, companies from across the globe have invested in the Indian campaign, and have thrived successfully. Make in India a hub for the manufacturing companies, overshadowing countries like the USA, in the collecting FDI upto $63 billion during the previous year.

- This will help in creating job market for over 10 million people in India.
- Manufacturing done here would boost India's GDP, trade and economic grow.

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the disadvantaged poor. Financial inclusion is also considered to be a business opportunity for the formal financial institutions. It would help them in penetrating into unbanked areas and thereby attaining profit. Besides the bankers, the developmental authorities also have a major role in developing the supportive infrastructure, both physical and social. The four pillars of inclusive growth are productivity, employment, financial inclusion and infrastructure development. Literacy, health and communication are some of the essential ingredients needed for inclusive growth.

The emerging trends in financial inclusion have gained growing attention among developing countries Policymakers and central bankers from around the world. The Emerging economies enhanced interest towards economic growth with specific interest on the factors that lead to higher savings and investments, which have been viewed as important determinants of economic growth (Anita Gardeva and Elisabeth Rhyne., 2011). The present pattern for savings, and investment, has been developed with the objective to address the hypothetical and empirical issues and to steer the design of enhanced policies and improvisations of methodologies in practice. Although India has made improvement in financial inclusion in the past few years, but IMF Financial survey shows that "India lags behind with other emerging nations in financial inclusion by a significant margin" (Nair, 2012)

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the disadvantaged poor. Financial inclusion is also considered to be a business opportunity for the formal financial institutions. It would help them in penetrating into unbanked areas and thereby attaining profit. Besides the bankers, the developmental authorities also have a major role in developing the supportive infrastructure, both physical and social. The four pillars of inclusive growth are productivity, employment, financial inclusion and infrastructure development. Literacy, health and communication are some of the essential ingredients needed for inclusive growth. Financial inclusion is a flagship programme of the Reserve Bank. Its objective is to bring people, hitherto excluded, under the ambit of formal financial institutions. To push towards universal financial inclusion, the Reserve Bank has taken several initiatives. These include advising banks on devising their Financial Inclusion Plan and constituting a Financial Inclusion Advisory Committee (FIAC). The Committee, under the Chairmanship of Dr. K.C. Chakrabarty, is helping banks to develop a viable and sustainable model of banking services that focuses on accessible and affordable financial services. To sensitize financially illiterate people, financial literacy programmes have been initiated by the Reserve Bank in collaboration with commercial banks. Opening multiple channels of credit delivery is expected to improve access to institutional credit for excluded people, which, in turn, may help bring them within the ambit of the growth process.

According to **Chakraborty (2011)**, Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

**An RBI report (2014b)** studied various challenges and evaluate alternatives in the domain of technology that can help large scale expansion of mobile banking across the country. The report divided the challenges into 2 broad categories – Customer enrollment related issues and Technical issues. Customer enrollment related issues include mobile number registration, M-PIN (mobile pin) generation process, concerns relating to security as a factor affecting on-boarding of customers, education of bank's staff and customer education. On the other hand, technical issues include access channels for transactions, cumbersome transaction process, and coordination with MNOs (Mobile Network Operators) in a mobile banking eco-system. The report has a detailed comparison of four channels of mobile banking - SMS (Short Message Service), USSD (Unstructured Supplementary Service Data), IVRS (Interactive Voice Response System) and Mobile Banking Application, and evaluates each one of them based on accessibility, security and usability. To resolve the different problems identified, the report suggests to develop a common mobile application, using SMS and GPRS channels, for all banks and telecom operators. The aforementioned application should enable the user to perform basic mobile banking operations such as enquiring his/her account balance, transfer and remittance of money. The application is expected to be developed in such a way that it provides a simple menu driven, interactive interface to the user. Such an application can be developed by combined efforts of telecom operators and banks. The application can be embedded on all new SIM cards, so that any person buying a new card has a preinstalled application. For customers already using SIM cards, the application can be transferred "over the air" (OTA) using a dynamic STK (SIM Application Tool Kit) facility.

There are 4 pillars of Financial Inclusion:

- A pure savings product with inbuilt overdraft facility
- A Recurring Deposit product
- A Remittance product and
- Entrepreneurship credit in the form of Kissan Credit Card (KCC) / General Credit Card( GCC)

## Objectives of the study

1. To review the objectives and role of Financial inclusion in India
2. To analyze the advantages of financial inclusion in India
3. To discuss the way forward to weaning out less privileged unorganized markets etc.

## Objectives of Financial Inclusion

1. Extending formal banking system among the less privileged in urban & rural India.
2. Weaning them away from unorganized money markets and moneylenders.
3. Equipping them with the confidence to make informed financial decisions.

The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, Including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment;
- Competition to ensure choice and affordability for clients.

## Role of Financial Inclusion

- Financial Inclusion is delivery of banking services at an affordable cost to the vast section of disadvantaged and low income group.
- Financial inclusion also means extending the banking habit among the less privileged in urban and rural India and weaning them away from unorganized money markets and moneylenders.

## Financial Inclusion in India

- 41% of the population in India is unbanked.
- 40% is unbanked in urban areas.
- 61% is unbanked in rural areas.

- Higher in North Eastern(63%) and Eastern regions (59%).
- Only 14% of adult population have loan accounts.
- 9.5% in rural areas.
- 14% in urban areas.
- North Eastern (7%) and Eastern regions (8%).
- (Source RBI)

## Financial Exclusion in India

- 203 million households in India.
- 147 million households in rural areas – 89 million are farmer households – 51.4% of farm households have no access to formal or informal sources of credit – 73% of farm households have no access to formal sources of credit.
- Share of moneylenders in debt finance has increased.

(Source RBI)

## Financial Inclusion & Business Prospects

- Taking Banking Services to the Common Man Through Financial Inclusion.
- Implementation of Unique Identification (UID) coupled with new technologies will expedite the process of financial inclusion in the country.

## Advantages to Banks

- Extend reach to unbanked people.
- Increase deposit base through SHGs/villagers.
- Earnings from loan disbursements.
- Help rural India by providing Microcredit.
- Enables Micro Insurance.
- Earnings through money transfers.
- Can participate in Govt. business like NREG scheme – pension disbursements etc.

## Way forward to weaning out the privileged unorganized money markets and moneylenders

- Equipping them with the confidence to make informed financial decisions.
- Regulatory and promotional efforts by the government and RBI for the promotion of financial inclusion is:
- Big push for the business correspondent model by Banks.
- Mandatory Government to Person (G2P) payments in Banks and Post Office accounts using electronic transfers.
- Rolling out of the concept of a “no frills” account for small value transactions.
- Enabling of the provision of micro-insurance services through facilitating regulation.
- Establishment of funds to finance promotional activities that support the above measures and reinforce the work of microfinance institutions.

- Attempt to revive the cooperative credit system along with a number of small steps that facilitate inclusion within the existing system like.
- Simplified Know Your Customer (KYC) norms and interest rate deregulation for small value accounts.
- An increased emphasis on devising payment systems that address the needs of low income families.

Small investments but increasing realization of the significance of financial literacy to ensure meaningful financial inclusion and increased emphasis on consumer protection. In practice, each regulatory and promotional measure has been constrained by over emphasis on aspects by regulators:

- The BC model met with limited success for four years before the decision to liberalise it was taken. Even today, its future success is yet to be determined given the non-existence of an established replicable business model. Use of the no frills account is minimal despite its linkage to government welfare payments.
- Micro-insurance is yet to be rolled out in a big way outside the limited confines of micro-credit cover.
- The funds allocated to promote financial inclusion are administered within the traditional framework and do not sufficiently emphasize innovation and
- The cooperative credit system has undergone several rounds of revival and yet its true potential remains to be tapped.

## Financial Decisions

Case managers and financial educators have a common understanding of the financial issues and challenges facing clients, notwithstanding differences in the context of service or geography. Based on the field scan, as well as the in-depth interviews, the contractor learned that the clients of case managers and other frontline staff-primarily of nonprofit, community-based organizations – vary broadly in terms of programmatic contexts and types of interactions with clients. Often, they were described through the lens of the service provided, such as: individuals who are chronically homeless; survivors of domestic violence; meal center guests; refugees and immigrants; Head Start parents; individuals served by workforce development programs; individuals in transitional or public housing; and young people in foster care. All of the clients were moderate to low-income and had limited assets. ICF also examined programs that serve urban areas, suburban and rural areas, an individual county, a multi-county region within a state, community members on an Indian reservation, an entire state, and various communities nationwide. While the service context and the geographic location of the organizations reviewed throughout the field scan varied, there was clear commonality in the financial issues that financial educators, case managers, and other front-line staff felt the clients most often experienced.

## Financial Empowerment Training for Social Services Programs

It should be noted that access to affordable housing was frequently cited by case managers as an issue that can be fundamental to long-term financial stability; however, training and solutions related to access to housing are beyond the scope of the CFPB financial empowerment training and as a result, are not included in this list.

## Common Financial Issues and Challenges

Financial topic Issues and challenges Credit Having no or poor credit history, or having credit issues that prevent employment or access to financial and other services Debt Having too much debt, not understanding their debt situation (garnishments, collections, or other debt creating judgments), having medical debt in particular, or unsustainable levels of debt Budgeting Having too many expenses given level of income or not understanding their income and expense situation Income Not having income, enough income, or job opportunities Banking or use of financial services Using high-cost financial services because they are convenient or because clients are unbanked Asset building Having little to no understanding of assets, how assets help create a ladder out of poverty, and ways to build and protect assets sustainably. This listing encompasses input from financial-education providers.

## Financial education provider outcomes

- Increased understanding of the barriers and challenges case managers face in providing financial education to clients as well as the opportunities. Increased understanding of the context in which case managers provide financial education. Increased ability to provide relevant and specific training to case managers that: Improves their confidence in talking about financial issues with clients.
- Increases their basic financial knowledge.
- Increases their ability to use specific tools with clients and within different cultural and situational contexts. Increases their ability to provide the right financial content at the right time with clients. Increases their ability to make appropriate and specific referrals.
- Increases their ability to use the resources of the CFPB.

## Conclusion

This study was an attempt to understand the process behind the recent financial inclusion constrain in India. Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the proper financial services across the world. With only 34% of population occupied in formal banking, the second highest number after China, India has 135 million monetarily expelled households. Further, the actual rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. Financial Inclusion has far attainment results, which can help many people, come out of miserable dearth conditions. Financial inclusion provides formal individuality, access to expenses system and deposit insurance. The aim of financial inclusion is to expand the scope of activities of the organized financial system to comprise within its realm people with low incomes. Through graduated credit, the effort must be to lift the poor from one level to another so that they come out of poverty.

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