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Research Paper

Economic Growth: A Case of Financial Inclusion Revisited

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ABSTRACT:- Financial Inclusion[1] as the "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players".

Financial Inclusion and Financial Literacy are the twin pillars of economy where Financial Inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services.

Financial Inclusion can help the society and the economy. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income group that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot.

Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another. Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, **Financial Inclusion** has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy and of course, in the **economic growth of the nation.**

Keywords:- Financial inclusion Financial literacy Economic Growth Banking and other financial services Savings

I. INTRODUCTION

Financial Inclusion[2] is defined as "the process of ensuring 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." This paper is to highlight the requirement of financial inclusion and to estimate the social benefit from these initiatives. The government of India and RBI has out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population.

Reserve Bank of India says that the population with no access to banking services is higher in the poorer regions of the country, and is the worst in the North-Eastern and Eastern regions.

As many as 139 districts suffer from massive financial exclusion, with the adult population per branch in these districts being above 20,000 and only 3 percent with borrowings from banks. On the assumption that each adult has only one bank account (which does not hold good in practice, so that actual coverage is likely to

[1] RBI
[2] Report of the Committee on Financial Inclusion in India (Chairperson C. Rangarajan) (2008)

be worse) on an all India basis, 59 percent of the adult population in the country has bank accounts. 41 percent of the population is, therefore, unbanked. In rural areas the coverage is 39 percent against 60 percent in urban areas.

II. OBJECTIVES

1. Financial inclusion, meaning and scope,
2. Issues regarding financial exclusion,
3. Existing financial Inclusion status in India, and
4. Guidelines by the Central bank for FI

Now, we will discuss the objectives of the paper point wise, as follows

1. [3]Financial Inclusion, meaning and scope:

Financial inclusion is very important in a country like India, where almost 40 percent people are out of the gambit of financial services let alone banking. Strong and vigorous financial institutions are the pillars of economic growth, progress and success of modern economies. Lack of *accessible, affordable and appropriate* financial services has always been a global problem. Therefore, the significance of an inclusive financial system is widely accepted not only in India, but has become a policy priority in many countries. The basic points which every economy needs for providing Financial Services to its citizens are:

1. Appropriate Technology to provide Financial services to deprived classes
2. Appropriate and Efficient Delivery model
3. Involvement of mainstream banks and other Financial service providers in Financial Inclusion process
4. Strong Collaboration among Banks, Technical Service Providers, and Business Correspondent* Services including especially the state administration at grass-root level
5. Liberalization of BC model to grass root level

a. Issues regarding financial exclusion: Financial exclusion could be looked at in two ways:
Lack of access to financial services which could be due to several reasons such as:
Lack of sources of financial services in our rural areas, which are popular for the ubiquitous money lenders but do not have (safe) saving deposit and insurance services.
b. High information barriers and low awareness especially for women and in rural areas
c. Inadequate access to formal financial institutions that exist to the extent that the banks couldn't extend their outreach to the poor due to various reasons like high cost of operations, less volume and more number of clients, etc. among many others.
d. Poor functioning and financial history of some beleaguered financial institutions such as financial cooperatives in many states which limit the effectiveness of their outreach figures.
B. ***Some more attributes of Informal Financial Services, due to which there is exclusion, are:***

a. High risks to saving: loss of savings is an easily discernible phenomenon in low income neighborhoods in urban areas.
b. High cost of credit and exploitative terms: credit against collateral such as gold is even more expensive than the effective interest rates, similarly, rates paid by hawkers and vendors who repay on daily basis are very high.
c. High cost and leakages in money transfers: the delays in sending money home through all informal channels add to these.
d. Near absence of insurance and pension services: life, asset, and health insurance needs.

2. Existing Financial Inclusion status in India

A snapshot of the progress made by banks under the FIPs (April 10 – March 13) for key parameters, during the three year period is as under:
Nearly 2, 68, 000 banking outlets have been set up in villages as on March 13 as against 67,694 banking outlets in villages in March 2010
About 7400 rural branches opened during this period

[3] **NFA + BC = FI Where, BC = Banks + OFIs + MFIs + IT**
NFA = No Frills Saving Bank Account
BC = Banks + Other Financial Institutions + Micro Finance Institutions + Information Technology
OFI = Insurance Companies, Mutual Funds, Pension Companies

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Nearly 109 million Basic Savings Bank Deposit Accounts (BSBDAs) have been added, taking the total no. of BSBDAs to 182 million. Share of ICT based accounts have increased substantially – Percentage of ICT accounts to total BSBDAs has increased from 25% in March 10 to 45% in March 13

With the addition of nearly 9.48 million **farm sector households** during this period, 33.8 million households have been provided with small entrepreneurial credit as at the end of March 2013

With the addition of nearly 2.25 million **non farm sector households** during this period, 3.6 million households have been provided with small entrepreneurial credit as at the end of March 2013.

About 4904 lakh transactions have been carried out in ICT based accounts through BCs during the three year period.

3. Guidelines and policies by the *Central Bank* for FI

Reserve Bank of India and Government of India is navigating the path to financial inclusion by means of policies and supervision. To remove all obstacles and hurdles in the way of financial inclusion RBI and GOI has taken a lot of initiatives and policy measures.

These initiatives and policy measures are:-

No-frills Accounts-People in the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts (accounts which are different from normal) without a minimum balance requirement. The transaction charges are reasonable and small overdrafts are also allowed. This initiative of RBI proved to be very effective.

Overdraft facilities to be provided in Account-Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. Banks have been advised and directed to provide small OD in such accounts.

Regional languages to be promoted-Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening disclosure etc. in the regional language as well.

Know Your Customer (KYC) Norms and Guidelines to be simplified-To open a Regular Account, a customer has to provide documents on (a) Proof of identity, and (b) Proof of address, as per RBI guidelines. But customers face difficulties in providing the requisite documentation for opening regular bank accounts. Also, most rural inhabitants do not have any of the identity documents that are required for account opening and compliance with Know Your Customer (KYC) norms. For that reason, the account opening process has been simplified for people who intend to keep balances not exceeding Rs.50,000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100,000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms. In addition to this, a Sub-Group of senior officers of some public sector banks (PSBs), constituted by Department of financial services, has suggested uniform KYC guidelines and a common list of documents, for guidance and adoption by the PSBs.

Savings Bank Account Opening Form is made simple-To ease the opening of bank account by the migratory labour, street hawkers and other poorer sections of the society, "Simplified Account Opening Form" has been designed. Banks have been requested to put in place a system to enable the customer to fill the account opening form on an „online" mode. This form contains sections for Small Accounts, Accounts with Introduction and Basic Saving Bank Deposit Account.

Financial Literacy to be scaled up-Financial Literacy Programs have been initiated by RBI to improve financial education and literacy so that people will become aware about the basic financial terms and services provided by banks and financial institutions. RBI provides support to Financial Literacy and Credit Counseling Centers (FLCCs).The broad objective of the FLCCs will be to provide free financial literacy/education and credit counseling.

Simplified branch authorization-With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI centres with population less than 50,000 under general permission consent, subject to reporting (since December 2009).On the other hand, banks can open branches in any centre-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

General Credit Cards (GCCs) and Kisan Credit Cards -Banks have been advised to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs.25,000/- at their Rural and Semi-Urban branches. Kisan Credit Cards to small time farmers have been issued by banks.

Business Correspondents (BCs) and Business Facilitators (BFs) 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.

SHG Bank-Linkage Programme-The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) 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 members. In 2012 about 80 lakh SHGs were linked with various banks across the country.

Opening of branches in unbanked rural locations-To target excluded section of society in rural locations attention was given to expansion and opening of bank branches in those centers. Consequently, banks have been mandated in the Monetary Policy Statement to target at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centers.

Use and promotion of ICT in Banking-Financial inclusion approach basically focuses on the exercise of ICT (Information and Communication Technology) to expand access to banking facilities and services. The Government and the RBI supporting and promoting commercial and cooperatives banks to offer banking facilities to the society by using modern technology i.e. ATM, micro-ATMs, mobile banking and business correspondents, E-banking, smart cards, Aadhaar Enabled Payment Systems (AEPS) etc.

Rural Infrastructure Development-Under Rural Infrastructure Development Fund (RIDF), NABARD grant loans to State Governments for the creation of rural infrastructure, broadly under agriculture and related sectors, rural connectivity and social sector.

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 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.

Research Methodology

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, report of World Bank on FI, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI).

III. SCOPE AND CHALLENGES OF FINANCIAL INCLUSION

Recent developments in technology have transformed banking from the traditional brick-and-mortar infrastructure to a system supplemented by other channels like Automated Teller Machines (ATM), credit/debit cards, internet banking, online money transfers, etc.

The Reserve Bank of India (RBI) has enabled branchless banking by facilitating the business correspondent/facilitator model, enabling non-government organizations, micro-finance bodies, co-operative societies, grocery shops, PCOs and individuals to collect small deposits, disburse and recover certain loans, and also sell other financial products, like insurance, pension and mutual funds, and to handle small remittances and payments. But is it also true that while a large number of no-frills accounts have been opened; those that are operational have yet to reach a meaningful level. On its part, the government has also unveiled a number of initiatives to mainstream the marginalized, like making small borrowers eligible for another loan, issuing them credit cards without security, asking banks to adopt one district for 100 per cent financial inclusion, and establishment of the financial inclusion fund and the financial inclusion technology fund. This apart, there are over 83 million Kisan Credit Cards. Similarly, there are over 5 million self-help groups (SHG) having savings of almost Rs 4000 cr.

The Reserve Bank of India (RBI) have said time and again that financial inclusion is not restricted merely to opening of bank accounts and should imply provision of all financial services like credit, remittance and overdraft facilities for the rural poor.

Regulatory challenges: Scope of BC modal to be widened

The RBI circular on ***Business Correspondent Model*** allows, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 of companies, and Post Offices to act as Business Correspondents. Most organizations incorporated in these forms have social mandates, with less emphasis on business model. The present guidelines exclude NBFC/MFIs from the ambit of being a Business Correspondent. The current experience of MFI outreach in India shows high growth and outreach to the poor, and at the same time, limitations on the types of financial services that can be offered by them. The BC framework allows for this to be corrected. However, currently, the legal form that allows MFIs to grow in size and scale and access greater resources is not permissible to be as a Business Correspondent. Most MFIs incorporated under other legal forms, permissible under the BC framework; aim to reregister as NBFCs to attract capital for expansion and scale of business. Non

Banking Finance Companies (NBFCs) should be brought under the ambit of Business Correspondent framework, as they not only serve the need of scale through their high outreach, but also have access to resources for professional management of an enhanced responsibility through the BC model.

Associated challenges

From the perspective of the banks, providing such services would have various risk associated with it. The major risks to the banks are legal, reputation and operational risks. These risks are to be managed with tight and regular monitoring, developing systems and procedures and by developing effective risk mitigating tools and matrix. The banks can consider evaluating these institutions through various bench mark indicators and procedures like:

1. Capital Adequacy
2. Governance
3. Liquidity of the institution and placing minimum liquidity at banks concerned in the form of deposits
4. Improved and Strict Systems and procedures
5. Regular inspections of the BC either through in-house or external auditors.

NBFC-MFIs, registered with the RBI could be monitored with appropriate and tight controls, systems, procedure and risk mitigating tools and other bench mark norms like CAR and liquidity, including penalty and withdrawals of business correspondents.

The Road ahead

Financial inclusion is a much talked about but complex issue which cannot be solved alone by any institution or authority in the system. Formal financial institutions such as, banks, insurance companies, mutual funds, pension companies will have to join hands with small NGO-MFIs, larger NBFC-MFIs, and technology providers to enable financial inclusion.

The strengths of these institutions will have to be put together through sound collaborations for financial inclusion. Organizations of Local and National presence have to ensure that these partnerships of NBFC-MFIs look at both commercial and social aspects of FI to achieve the scale, volume and sustainability.

This partnership-act will have to tackle financial exclusion in **two main** ways:

1. There is a supply of appropriate and affordable financial services available to those who need them
2. Demand for appropriate financial products, services and advice with appropriate educative delivery mechanism should be accelerated

RBIs 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 FIPs 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 FI 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.

Challenges and Way Forward

The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Our experience suggests that the banks alone will not be able to achieve this unless an entire support system partners them in this mission. Only the support of policymakers, regulators, governments, IT solution providers, media and the public at large can bring about a decisive metamorphosis in our journey towards universal financial inclusion.

Financial Inclusion of the unbanked masses is expected to unleash the hugely untapped potential of the sections of the society that constitute the bottom of the pyramid. However, in pursuing the FI mission, the normal banking model has been found wanting in terms of cost, scalability, convenience, reliability, flexibility and continuity. To ensure that the banks give adequate attention to financial inclusion, they must view this as a viable business proposition rather than as a corporate social responsibility or a regulatory obligation. For the business to remain viable it would be important to focus on increasing usage of existing banking infrastructure which would happen only if the banks can offer an entire bouquet of products and services to the holders of the large number of basic bank accounts opened during the last three years as also to the new customers that the banks acquire.

Our past experience and FIP review meetings with the banks have highlighted that if the dream of universal and a meaningful financial inclusion has to be turned into reality, then going forward, we would need to focus on the following issues:

(a) Increasing Reach
• Ensuring coverage of all unbanked villages in next 3 years
• Emphasis on increasing rural branches
• Opening of bank accounts for all eligible individuals
(b) Increasing transactions
• Leveraging on DBT
• Delivery of credit products through BCs
• Hassle free Emergency credit (In built OD)

(c) HR Structure
• Banks to review HR policy in view of FI requirements
• Examining appointing of a separate cadre of staff for cost optimization
(d) Fine-tuning the BC Model
• Stabilizing the BC delivery model
• Encouraging innovations in remittances model
• Review of Cash Management for BC operations
(e) Spreading Financial Literacy
• Implementing National Strategy for Financial Education
• Creating Dedicated Website- Inclusion in School Curriculum
• Organizing Financial Literacy Camps

Suggestions for Financial Inclusion

1. The private banks and other Financial Institutions should take Financial Inclusion as a business prospect rather than compulsion so that probable business opportunity can be utilized by tapping and targeting untapped and unorganized market, particularly in the Rural India.
2. The MFIs (Micro financial Institutions) need to function under and be held answerable to clear regulations that are overseen by a single regulator RBI. Micro financial institutions must be regulated by a separate regulator like SEBI, only then MFIs can play a convincing, dependable and sustainable role.
3. Customer awareness can easily be built through E-banking and M-banking services with the use of modern technology.
4. The commercial banks, specially Private and foreign banks should plan a coordinated campaign in partnership with the trainers and professional to educate all the customers in general and deprived customers in particular about the basic financial products, services and offerings. The RBI should lead them and guide them.

IV. CONCLUSION

For achieving complete financial inclusion and for inclusive Financial growth, the RBI, Central Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. There should be proper **financial inclusion regulation** in our country and access to financial services should be made through SHGs and MFIs. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.
A long road is to be crossed before we reach to the end but the bells are ringing.

Scope for Further Research

Financial Inclusion or access to financial products and services by the poor is an impressive thought. The thought is that MFIs have delivered on by bringing in more than 23 million disadvantaged people into the financial system. But with the RBI cutting the wings of MFIs, the big query now is who will lend money to the poor? The RBI is approaching banks to drive financial inclusion. But is it the best way out for the poor and banks?

Now, as we are approaching to give the banking licenses to private institutions and companies in 2014, we must think what can be further done in this regard is needed to be studied and researched.

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Annexure-1

[4]India Financial Inclusion Data till 2011

Account at a formal financial institution (% age 15+)	- 35%
Account at a formal financial institution, female (% age 15+)	- 26%
Account at a formal financial institution, income, bottom 40% (% age 15+)	- 27%
Account used to receive wages (% age 15+)	- 08%
Loan from a financial institution in the past year (% age 15+)	- 08%
Loan from family or friends in the past year (% age 15+)	- 20%
Debit card (% age 15+)	- 08%
Credit card (% age 15+)	- 02%
Account used to receive government payments (% age 15+)	- 04%
Account used to receive remittances (% age 15+)	- 02%
Saved at a financial institution in the past year (% age 15+)	- 12%
Saved using a savings club in the past year (% age 15+)	- 03%

[4] World Bank Data On FI, 201