The State of Financial Inclusion – An Overview and Advancement

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***Abstract*: - Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. In India, few households have access to banking services. There are many factors affecting access to financial services by weaker section of society in India. Several steps have been taken by the Reserve Bank of India and the Government to bring the financially excluded people to the fold of the formal banking services. Financial Access Survey for 2016 released by International Monetary Fund (IMF) shows that in India there only 13 commercial bank branches per 1,00,000 individuals. PM Jan Dhan Yojna (PMJDY) was highly successful in opening bank accounts in which more than 97% of the accounts were opened with the public banks, but around 72% of these accounts show 'zero balances'. More than 1 crore bank accounts have been opened under PMJDY. However, despite the opening of such accounts, access has been lower. Access to banking is an important indicator of the level of financial inclusion in the country. India's urban and semi-urban region performs fairly well, however rural region is still underdeveloped in banking. Digital India campaign recently launched schemes like MUDRA, startup India, PMJDY, initiation of new banks like payment banks, PSL certificates trading etc. are in the right direction. With government moving towards DBT for subsidies financial inclusion becomes very critical. Focus should shift to increase coverage, reach of services and ease of availing credit.**

***Keywords:* Financial Inclusion, banking services, India, bank accounts**

I. INTRODUCTION

Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. In India, few households have access to banking services. There are many factors affecting access to financial services by weaker section of society in India. Ease and consistency in financial inclusion in India is useful to the poor. The banking services should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and a path to keep in savings for the old age

II. HISTORY OF FINANCIAL INCLUSION IN INDIA

In the Indian perspective, the term 'Financial Inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Sri. Y. Venugopal Reddy (Governor, RBI). The RBI insisted the banks with a view to achieve greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005-06). The Central Bank had introduced "no-frills" accounts in 2005 to provide basic banking facilities to poor and promote financial inclusion. The account could be maintained without or with very low minimum balance. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations/ Self Help Groups, micro-finance institutions, and other civil society organizations as mediators 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. As a result of the campaign, states or union territories like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. In August, 2012, RBI asked banks to drop the "no-frill" tag from the basic saving accounts as the category has become a dishonor. It has asked the banks to provide zero balance facility in the basic banking accounts along with ATM-cum-debit cards without any extra charge. RBI has asked the banks to convert the existing 'no-frills' accounts into 'Basic Savings Bank Deposit Accounts'. The main advantage is making the basic banking facilities available in a more uniform manner across banking system. As per the modified guidelines, the services available in these accounts will include receipt of money through electronic payment channels or by cheques issued by government agencies. This would also help those covered under the welfare schemes like MNREGA in receiving payments.

III. IMPORTANCE OF FINANCIAL INCLUSION

Financial inclusion and financial literacy have been important policy goals for quite some time. There is a long history of financial inclusion in India. It has traditionally been understood to mean opening new bank branches in rural and unbanked areas. For central banks, financial inclusion matters for a number of reasons. There is the impact of financial inclusion, and financial development more generally, on long-term economic growth and poverty reduction, and thus on the macroeconomic environment. Access to appropriate financial instruments may allow the poor or otherwise disadvantaged to invest in physical assets and education, reducing income discrimination and contributing to economic growth. Financial inclusion has important implications for monetary and financial stability, policy areas that sit at the very core of central banking. Increased financial inclusion significantly changes the behavior of firms and consumers, in turn influencing the effectiveness of monetary policy.

The policy makers have been focusing on financial inclusion of Indian rural and semi rural areas primarily for the following crucial requirements:

1. Generating a stage for inculcating the habit to save money: The poor have been living below the poverty line mainly because of the absence of savings. Existence of banking services and products aims to provide a critical tool to inculcate the habit to save. With this people shifted from traditional modes of their savings in land, gold, buildings, etc.
2. Providing formal credit opportunities: In earlier times, the unbanked peoples used to be dependent of informal channels of credit like family members, friends and moneylenders. Availability of adequate and apparent credit form formal banking services increase productivity and wealth in the countryside.
3. Educating the public about subsidies and welfare programmes: Government started pushing of direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. For this purpose, it is required an efficient and affordable banking system that can reach out to all.

IV. FINANCIAL INCLUSION ADVANCEMENT IN INDIA

The banking sectors take a lead role in promoting financial inclusion in India. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the perspective of the various limitations in delivering subsidies, direct transfers using technology is an exceptional idea. The beneficiary needs to have at least one bank account.

Several steps have been taken by the Reserve Bank of India and the Government to bring the financially excluded people to the fold of the formal banking services. Financial Access Survey for 2016 released by International Monetary Fund (IMF) shows that in India there only 13 commercial bank branches per 1,00,000 individuals. PM Jan Dhan Yojna (PMJDY) was highly successful in opening bank accounts in which more than **97%** of the accounts were opened with the public banks, but around **72%** of these accounts show ‘zero balances’. More than 1 crore bank accounts have been opened under PMJDY. However, despite the opening of such accounts, access has been lower. Access to banking is an important indicator of the level of financial inclusion in the country. Digital India campaign recently launched schemes like MUDRA, startup India, PMJDY, initiation of new banks like payment banks, PSL certificates trading etc. are in the right direction. With government moving towards DBT for subsidies financial inclusion becomes very critical. Focus should shift to increase coverage, reach of services and ease of availing credit.

V. CHALLENGES TO INCREASE FINANCIAL INCLUSION

It is quite clear that the task of covering a population of 1.26 billion with banking services is extremely large. Customers and banks/ other financial institutes are responsible for financial inclusion. The banks and other financial institutions are largely expected to educate the customers. The customers side challenges are illiteracy, lack of awareness about financial products, irregular income, lack of confidence in formal banking institutions etc. Banks and financial institutions side challenges are non-availability of branches in rural area, high rules and regulations and limited number of service providers etc.

VI. CONCLUSION

It can be concluded that India is at moderate level regarding financial inclusion as compared to other countries regarding number of branches, ATMs, bank credit and bank deposits. RBI has adopted various strategies such as no-frill account, use of regional languages, simple KYC norms, mobile banking using cell phones etc to strengthen financial inclusion. To cope up with the challenges to increase financial inclusion, there is a need of feasible and sustainable business models with focus on accessible and affordable products and services with technology service providers for efficient handling of low value, large volume transactions and appropriate regulatory and risk management policies that ensure financial inclusion.

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