ISSN (Print): 2320-5504
ISSN (Online): 2347-4793

Asia Pacific Journal of Research
A peer reviewed international Journal
IMPACT FACTOR : 6.58
Print -ISSN -2320 - 5504
Online-E-ISSN - 2347 - 4793

FINANCIAL INCLUSION: ROLE OF RBI AND GOVERNMENT OF INDIA

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ABSTRACT

For developing nations inclusive growth is the key to economic growth. Inclusive growth is achieved through financial inclusion. Financial inclusion is the delivery of banking and financial services to unbanked and under-banked sections of the society at affordable cost. Financial inclusion helps in bringing the financially excluded sections of the society in the formal financial system by providing banking and financial services, arranging financial education programs and strengthening credit delivery mechanism. Regulators and Government have to play an important role in financial inclusion. This paper highlights the need and benefits of financial inclusion. It also focuses on the role played by RBI and Government of India in promoting financial inclusion in India. The paper also discusses the challenges faced by policy makers in implementation of financial inclusion in India.

Key words:
Financial inclusion, Need, RBI, Government of India, Challenges.

Introduction:

Financial inclusion also known as inclusive financing involves the delivery of financial services to the disadvantaged and low-income segments of society at affordable costs. According to the Banking Association, South Africa, financial inclusion is defined as, "the access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with the requisite consideration to protection". Globally, around 2 billion working-age adults do not have access to the formal financial services delivered by banks and financial institutions. In reality banking and financial services are made available by the Government and regulatory authorities for the use by and benefit of the public. No access to such services defeats the very purpose of developing these services. Hence the key objective of Financial Inclusion is to make available the banking and payment services to the entire population without any discrimination.

The process of economic growth with a high growth rate depends upon the participation from all sections of society. But, unfortunately the weaker sections of the society can not participate in the economic development of the country because of lack of access to banking and financial services. The non participation of some sections of the society in the economic growth is one of the biggest threat to the economic development particularly in developing countries. The banking and financial sector has undergone a surprising transformation in the last two decades.The major developments in banking technology include automated teller machines (ATM), credit/debit cards, mobile banking, online money transaction, internet banking, etc. But it needs to be noted that only certain sections of the society have access to these technologies. Various studies indicate that a large portion of the society not only from India but also from all over the world do not have an access to basic banking and financial services. This is opposite of financial inclusion and is termed financial exclusion.

Review of literature:

Sharma and Kukreja (2013) studied the relevance of financial inclusion for developing nations. They highlighted the basic features of financial inclusion, and its need for social and economic development of the society. The study focused on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. It was concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the

ISSN (Print): 2320-5504
ISSN (Online): 2347-4793

desired outcomes.

Singla (2013) explained the meaning of financial inclusion, benefits of financial inclusion, challenges faced in India in the way of the financial inclusion and various measures for the success of the financial inclusion.

Garg and Agrwal (2014) attempted to understand financial inclusion and its importance for overall development of society and Nation's economy. The study focused on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements.

Tamilarasu (2014) overviewed financial inclusion in India. The researcher studied the role of banking sectors on financial inclusion development in India.

Morgan and Pontines (2014) estimated the effects of various measures of financial inclusion (together with some control variables) on some measures of financial stability, including bank non-performing loans and bank Z-scores. They found some evidence that an increased share of lending to small and medium-sized enterprises (SMEs) aids financial stability, mainly by reducing non-performing loans (NPLs) and the probability of default by financial institutions.

Mol (2014) discussed the conceptual aspects of financial inclusion, pointed out the reasons for financial exclusion, highlighted the measures taken by Reserve Bank of India for promoting financial inclusion and the role of banks towards financial inclusion.

Raihanath and Pavitaran (2014) studied the role of commercial banks in financial inclusion program. They concluded that for the success of the financial inclusion initiative provision of banking services at an affordable cost to the disadvantaged and low income groupis very important. Commercial banks have to perform a vital role in this regard.

Park and Mercado (2015) assessed various macroeconomic and country-specific factors affecting the degree of financial inclusion. They also tested the impact of financial inclusion, along with other control variables, on poverty and income inequality. It was found that per capita income, rule of law, and demographic characteristics significantly affect financial inclusion in developing Asia. It was also found that financial inclusion significantly reduces poverty; and there was also evidence that it lowers income inequality.

Barua, Kathuria and Malik (2016) described the structure of banking and microfinance institutions in India relevant to the developing model of financial inclusion, as well as relevant regulatory structure and modes of delivery. They explained the current state of financial inclusion, as well as regulatory changes necessary to make the new architecture for inclusion viable, including a critique of some of the recommendations of the Mor Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households. They also reviewed the modes of delivery and the regulatory structure being contemplated or recently introduced. The study also discussed the case of micro, small, and medium-sized enterprises in the given context.

Objectives of the study:

1. To study the need and benefits of financial inclusion in a developing economy like India
2. To study the initiatives taken by Government and RBI in strengthening financial inclusion in India
3. To study the challenges in the implementation of financial inclusion in India

Need and benefits of financial inclusion in developing economy like India:

Despite India's higher economic growth, a major portion of the population remains unbanked. This leads to financial instability and unbalanced growth of various sections of the society. Financial inclusion is the solution to this problem. The Government and Reserve Bank of India are taking various steps for financial inclusion of those who remained out of reach of banking and financial services.financial inclusion in rural areas as well as financially backward sections of the society is utmost important as it offers many benefits. These benefits can be studied on the basis of economic level as well as stakeholders as follows:

A. On the basis of economic level

a) Macro level benefits of Financial Inclusion:

i. Higher rates of productivity
ii. Reduction in unbalanced growth
iii. Reduction in poverty
iv. Higher standards of living
v. Increase in employment
vi. Increase in national income
vii. Faster and balanced growth of the economy
viii. Better global recognition

b) **Micro level benefits of Financial Inclusion:**

i. Optimum utilisation of savings
ii. Better standard of living and self esteem
iii. Better income
iv. Increase in risk taking capacity
v. Safety of assets

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B. **On the basis of various stakeholders:**

a) Benefits to the users:

i. Building savings
ii. Availing credit
iii. Making investments
iv. Access to insurance, loans, money transfer
v. Economic independence
vi. Improved standards of living

b) **Benefits to the banker:**

i. Low cost deposits
ii. Better management of liquidity, risks and inequality in assets and liabilities
iii. Increase in profits

c) **Benefits to the intermediaries:**

i. Opportunity to earn additional income
ii. Increase in client base
iii. Greater honour

d) **Benefits to the technology providers:**

i. Wider market
ii. Increase in business
iii. Contribution in the development of the society

e) **Benefits to the regulators:**

i. Help in protection of consumers
ii. Protection of interest of all the stakeholders

f) **Benefits to the society:**

i. Reduction in the distribution cost of subsidies and other security payments
ii. Help in reducing the leakages

g) **Benefits to the economy:**

i. Increase in the capital formation by bringing more savings in the in the conventional financial channels
ii. Balanced economic growth

Initiatives taken by Government and RBI in strengthening financial inclusion in India:

Government and Reserve bank of India play an important role in promoting financial inclusion for economic growth. Government and RBI has taken various steps in this regard. These are discussed below:

A. Initiatives taken by Government:

Government of India is the central actor in financial inclusion initiative. Government of India has designed several schemes with financial inclusion objective at the center. These are explained below:

a. Pradhan Mantri Jan Dhan Yojna:

On August 15, 2014, Honorable Prime Minister Shri Narendra Modi announced Pradhan Mantri Jan Dhan Yojana (PMJDY) as a national mission for financial inclusion of weaker section of the society for providing banking, insurance and pension services giving them financial freedom and stability. 1.5 Crore bank accounts were opened under this scheme across the country on the inaugural day.

b. PM Suraksha Bima Yojna and PM Jeevan Jyoti Bima Yojana

One more step towards financial inclusion was the the accidental insurance scheme, PM Suraksha Bima Yojna and the life insurance scheme, PM Jeevan Jyoti Bima Yojna. These are available to all saving bank account holders in the age of 18 to 70 years and it provides a cover of Rs.2 lakh in case of death or total disability and Rs.1 lakh in case of partial disability, in return for an annual premium of Rs.12/-, to be auto-debited from the account.

c. Atal Pension Yojana

Atal Pension Yojana (APY) was also a step by Government of India towards financial inclusion. Under this scheme, a person is required to make regular monthly contribution for a period of 20 years or more to become eligible for a pension of Rs.1,000 to Rs.5,000 per month depending upon his quantum of contribution.

d. Self Help Group Bank Linkage Program:

Self Help Group Bank Linkage Program is the micro-finance program which is implemented by commercial banks, regional rural banks and cooperative banks.

e. National pension scheme (NPS):

National Pension Scheme was introduced by Government of India in 2004 as a move from a defined-benefit pension system to a defined-contribution pension system. Initially the scheme was introduced for the new government recruits excluding armed forces. With effect from May 1st, 2009, all citizens of the country including the unorganized sector workers were included in

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ISSN (Online): 2347-4793

NPS. The scheme is administered by the Pension Fund Regulatory and Development Authority (PFRDA) on behalf of the Government of India.

f. Swavalamban scheme :

Swavalamban scheme was launched in October 2010. It was the unorganized sector pension scheme. It was closed in May 2015 and was replaced by Atal pension Yojana scheme on June 1st 2015.

g. Swarnajayanti Gram Swarojgar Yojana (SGSY):

Swarnajayanti Gram Swarojgar Yojana was launched in December 1999. It was a centrally sponsored scheme that followed the mechanism of forming SHGs of rural poor households. SGSY was formed by restructuring and combining Integrated Rural Development Program (IRDP) and other allied skills generation programs, namely Training for Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWRCA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS).

h. National Rural Livelihood Mission (NRLM) :

National Rural Livelihood Mission was launched in June 2010 by the Ministry of Rural Development. With the help of international institutions like the World Bank, this scheme combined hand holding, training and capacity building and credit linkage. **i. Aadhaar Unique Identification Authority in India (UIDAI):**

Aadhaar Unique Identification Authority in India was an initiative for providing an individual identification number to every citizen of India which will serve as a proof of identity and address, anywhere in India and enable people to have access to services such as banking, mobile phone connections and other government and non-government schemes.

B. Initiatives taken by RBI:

Various programs and schemes are designed by RBI for pushing financial inclusion in India. These include the following:

a. Opening of No-Frills accounts:

In November 2005, RBI introduced a new concept of banking known as 'no-frills' account with nil or very low minimum balance in order to make such accounts accessible to vast sections of the society.

b. Relaxation of KYC Norms:

The KYC norms were very strict which inhibited linkage of common people with the Banking System. Hence in August 2005 in order to simplify the procedures, Know Your Customer (KYC) requirements for opening bank accounts were relaxed for small accounts. KYC guidelines were simplified to facilitate easy opening of accounts especially for small customers. Small accounts can now be opened without any documentation by just giving a self certification in the presence of bank officials.

c. Basic Financial services:

In order to ensure that the financial needs of the customers are met, banks were advised to offer a minimum of four basic products, viz.;

- A savings cum overdraft account;
- A pure savings account, ideally a recurring or variable recurring deposit;
- A remittance product to facilitate EBT and other remittances; and
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC).

d. Use of Technology:

Technology has tremendous potential to address the issues of delivery of banking and financial services in rural and remote areas. Hence the commercial banks were advised to implement various technologies like CBS so as to enable them to reach the remotest area.

e. Engaging Business Correspondents:

In January 2006, the Reserve Bank permitted banks to engage intermediaries as Business Facilitators (BFs) and Business Correspondents (BCs) for providing banking and financial services. By following test and learn approach, the list of eligible individuals/entities who can be engaged as BCs is being widened from time to time. Mobile network companies have joined hands with banks in making available banking services to India‟s unbanked population. Thus banks can use the network of mobile companies. The agents of mobile companies work as Customer Service Providers (CSPs) and provide BC services, which helps in expanding the outreach of banks.

f. Direct Benefit Transfer:

Direct benefit transfer validating identity through Aadhaar Card facilitated delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. Banks were advised to open accounts of all eligible individuals with the support of local Government authorities in order to ensure smooth functioning of the Government's Direct Benefit Transfer (DBT) initiative. Banks were also advised to monitor and review the progress in implementation of DBT.

g. Simplified Branch Authorization:

In December 2009, domestic scheduled commercial banks were permitted to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, to address the issue of uneven spread of bank branches. Branch Authorisation was been relaxed to the extent that banks do not require prior permission to open branches even in tier I centres with population less than 1 lakh.

h. Opening of branches in unbanked rural centres:

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ISSN (Online): 2347-4793

Banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres for increasing the number of branches in rural ares. Banks were advised to open small intermediary brick and mortar structures between the base branch and the unbanked villages.

i. Financial Literacy:

Financial Literacy plays an important role promoting financial inclusion. Hence efforts were taken to educate school and college students, women, rural and urban poor, pensioners and senior citizens, about general banking concepts helping them in taking informed financial decisions. Nearly 800 financial literacy centres were set up by banks. Financial Literacy Centres organize outdoor literacy camps for a period of three months and delivered in three phases. In these camps, along with creating awareness, accounts are also opened.

j.Roadmap for providing Banking Services in unbanked villages with population more than 2000:

A phase-wise approach was adopted to provide banking services in all unbanked villages in the country. In the first phase, nearly 74000 villages with population more than 2000 were provided with a banking outlet, and in the second phase, the remaining unbanked villages with population less than 2000, numbering around 4,90,000, were identified and allocated to banks, for opening of banking outlets by Match 2016.

k. Financial Inclusion Plan of Banks:

Banks were encouraged to follow a planned and phased approach to financial inclusion with the involvement of the highest level management personnel by preparing Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented during the period 2010-2013. FIPs were used by RBI to compare actual achievements with the planned one.

Challenges in the implementation of financial inclusion in India:

Financial inclusion in India is full of various challenges. These are as follows:

a. Inclusion of poor and rural people:

Banking and financial services are used mainly by educated, urban and economically sound people and not by all the sections of the society. Even after 66 years of Independence, rural and poor people depend on informal sectors like moneylenders for finance. Hence the challenge is to include these sections of the society in the formal financial system.

b. Financial illiteracy and lack of knowledge:

One of the biggest challenge in the way of financial inclusion is financial illiteracy and lack of knowledge about banking and financial services. Lack of basic knowledge prevents and demotivates the people to access banking and financial services.

c. Unaffordable costs:

Poor people because of lack of funds avoid using banking and financial services as they feel that the services are unaffordable.

d. Documentary evidences:

Access to formal financial services requires various documents as proof of persons' identity, income, birth certificates nationality, domicile, etc. which is also a big problem in the way of financial inclusion as poor people generally do not have these documents.

e. Lack of infrastructure in nearby area:

High distance between residence and the bank premises, poor infrastructure are also the challenges which come in the way of financial inclusion.

f. Problem in understanding the language:

Uneducated people face problem in understanding the formal language and thus avoid using formal banking and financial services.

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