

# **6th International Conference on Recent Innovations in Science, Engineering and Management**

IIMT College of Engineering (Approved by AICTE, New Delhi), Knowledge Park III, plot no. 20-A, Greater Noida, Uttar Pradesh (India) (ICRISEM)

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## **FINANCIAL INCLUSION IN INDIA – A REVIEW**

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### **ABSTRACT**

*Financial inclusion is 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. Financial Literacy and financial inclusion have been important policy goals of India for quite some time. Despite policy measures and technological innovations adopted by RBI and banking sector, the extent and penetration of financial products and services to marginalized sections of the society, the figures are not encouraging. The policy makers are now formulating a comprehensive action plan for financial inclusion as it is believed that financial inclusion is the only hope for financial development. This study is an attempt to integrate the results of existing literature on financial inclusion in India, role played by Government, RBI and the banks in promoting inclusive growth and barriers and challenges on the demand as well as supply aspects of financial inclusion. It has been observed that Government, RBI and banks have adopted various policy measures and innovative tools to ensure access of financial products and services to weaker and under privileged sections of the society. However financial illiteracy, lack of convenience, technological issues and viability has emerged as significant barriers in achieving the goal of inclusive growth.*

**Keywords:** Financial Inclusion; Inclusive Growth; Rbi; Banks; Policy; Awareness

### **I. INTRODUCTION**

Financial Literacy and financial inclusion have been important policy goals of India for quite some time. Inclusive financing or Financial inclusion is the delivery of financial services at reasonable costs to vast sections of low income population with the provision of equal opportunities. GOI (2008) defines Financial inclusion 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.

Even though the emergence of technological innovations in Indian banking sector has boosted its growth in terms of volume and complexity, there are apprehensions that banks have not been able to bring the financially weaker and underprivileged sections of the society, into the fold of basic banking services. The policy makers are now for a while formulating a comprehensive action plan for financial inclusion as it is believed that financial inclusion is the only hope for financial development.

Hon'ble Prime Minister Shri Narendra Modi announced a new scheme Pradhan Mantri Jan Dhan Yojana (PMJDY) on August 15, 2014 and launched it as a national operation for financial inclusion on August 28, 2014 to ensure financial inclusion for weaker section of the society for providing banking, pension and insurance to

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reduce the negative effects of earlier schemes, thus giving them financial freedom and stability. 1.5 Crore bank accounts were opened under this scheme across the country. The implementation strategy of the plan is to utilize the existing banking infrastructure as well as expand the same to cover all households. While the existing banking network would be fully geared up to open bank accounts of the uncovered households in both rural and urban areas, the banking sector would also be expanding itself to set up an additional 50,000 Business Correspondents (BCs), more than 7,000 branches and more than 20,000 new ATMs in the first phase(Hussain Ahmed,2015). Against this background this paperaims to succinctly review literature on recent studies carried out on financial Inclusion in India and has made an attempt to synthesize the results from several primary and secondary literatures to understand the level of awareness, the role played by RBI and banks and the barriers.

## **1.1 Objective of the Paper**

- To review and investigate the level of awareness about financial inclusion in India
- To understand the role played by RBI and banks
- To examine the barriers to financial inclusion

## **II. SIGNIFICANCE**

Based on the review, this paper attempts to give an insight to the stakeholders about the barriers to financial inclusion in our country and to give recommendations to the concerned parties regarding the action that can be taken to promote a more inclusive economy.

## **2.1 Review of Literature**

The following section reviews prior literature on this topic and examine the findings. The review is primarily of peer-reviewed or edited publications.

## **III. AWARENESS ON FINANCIAL INCLUSION**

Sethy Susanta Kumar (2016) in his study has proposed a Financial Inclusion Index to measure the extent of financial inclusion across economies. Both supply side dimensions like access to savings, insurance, bank risk and demand side dimensions like banking penetration, availability of banking services and usage of banking system were used for development of index. It was observed that India is categorized on high Financial Inclusion on demand and low financial inclusion of supply side. It was recommended that GOI and RBI adopt adequate policy measures to improve supply side dimension of financial inclusion.

Pradnya P. Meshram and Abhijeet Randad(2015) carried out a survey on 100 respondents and analysedthe percentage of population for awareness offinancial inclusionfrom customers perceptive. The findings suggest that over three-fourths of the households had at least one family member who could read and write and in terms of livelihood, a majority of the households were involved in agricultural activities but still the awareness level of financial inclusion was very low. The study further suggests that it is not sufficient by merely opening a bank account as it will not meet the objective of financial inclusion. The common man should get the confidence to use the financial services which should be made available at their doorstep.

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JosephJ. and Varghese T. (2014) in their study have made an attempt to assess the current status of financial inclusion on the development of Indian economy by analyzing five state bank group and five private sector banks. The variables considered for the study were bank growth rate in terms of number of bank branches, offsite and onsite ATM, usage of credit cards and debit cards. The findings of the study suggest that the usage of debit card has increased tremendously throughout the study period and banks focused more on semi-urban areas and rural areas. The study also found that the number of people with access to the products and services offered by the banking system is very limited despite inclusive banking initiatives in the country.

The technological reforms pertained to banking sector such as e-commerce, mobile phones, email, ATMs and plastic money were available only in towns and cities, which leads to limited access to financial products and services in rural and semi urban regions Shah, P., & Dubhashi, M. (2015)

Vikram Joshi (2014) in his paper analyzed the awareness and penetration of various financial services offered by banks. An awareness index was constructed from the primary data collected from urban poor in Nagpur. It was observed that financial products like current account, demand loan, direct debit facility, credit card and mobile banking is low. Aggregate awareness of banking services offered was found to below 41%. Lack of cooperation, improper guidance, and lack of transparency are the main reasons for this level of awareness.

Shabna Mol(2014) in her study investigated the level of awareness about financial inclusion forces and examined the extent of financial inclusion among below poverty line in Kerala households in terms of continuous usage of bank account and access. For this purpose a survey was conducted on 200 respondents from Malappuram District, Kerala. The findings suggest that the literacy level and occupation of respondents are highly influenced to access and continuous usage of bank account. Further BPL households access bank account only for the enjoying the government benefits and schemes and are to a certain extent aware about financial inclusion drives and a majority of respondents are fully aware of no-frill accounts.

Rao N.N.D.S.V(2010) carried out a study to understand financial inclusion from the banker's perspective. He also emphasized that banking for the poor cannot be called as poor banking and there is a vast potential to tap the unexplored aspects of this banking. But he also strongly recommends that regular campaigns have to be conducted to create awareness about financial inclusion to the bank staff.

## **IV. ROLE OF RBI AND BANKS**

Shaik H. (2015) studied the recent measures of RBI on Financial Inclusion plan of banks for the inclusive growth process of the economy. As a first step, RBI prepared board approved Financial Inclusion Plans (FIPs) and encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels. Some of the Financial Inclusion plans of RBI include self-set targets for rural brick & mortar branches opened, coverage of unbanked villages with population above and below 2,000 through branches/ BCs/ other modes, no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC) issued etc. The Reserve Bank also used the FIP's to measure the performance of banks under their FI initiatives. Annual review meetings were held with CMDs/CEOs of banks as a follow up measure. The Reserve Bank also tried to create conducive environment to extend door step banking facilities in all the unbanked villages in a phased out manner.

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Varun Kesavan(2015) in his study focused on the approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analysed past year's progress and achievements based on secondary data. The most important measure initiated by RBI is use of local language in application forms and relaxing Know-Your-Customer (KYC) norms for small accounts with balances not exceeding INR 50,000. Some of the other notable measures are adoption of Information and Communications Technology (ICT), adoption of Electronic Benefit Transfer (EBT) and SHG Bank linkage model. SBI set up 45,487 BC Customer Service Points (CSPs) through alliances both at National and Regional level and the Bank is offering various technological enabled products through Business Correspondent (BC) channel, such as, Savings Bank, flexi RD, STDR, Remittance & SB-OD facilities. He also suggests that the government and regulators will have to initiate a drive for insurance inclusion.

Sharma and Sachdeva(2014) in their study made an attempt to highlight the various initiatives taken by government authorities and banks for reducing financial exclusion in India along with the extent to which the measures taken have been successful. The study concludes that RBI has been primarily instrumental in introducing initiatives in this regard and every successive government has taken necessary efforts to move toward better financial inclusion scenario.

Paramjeet Kaur (2014) examines the role of Indian banks and Government in implementing a sustainable financial inclusion strategy. Policy initiatives for financial inclusion include National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM), Self-Employment Scheme for Rehabilitation of Manual Scavengers (SRMS), Differential Rate of Interest Scheme (DRI). RBI has encouraged banks to formulate Financial Inclusion Plans (FIP) to be reviewed by SLBCs. Evaluation of FIPs for 2014 revealed the extent of financial inclusion in India. 5300 rural branches opened in unbanked rural centers, 33500 BC outlets opened in urban centres, 60 million basic savings accounts (BSBDAs) added, 6.2 million small farm sector credit given a d328 million transactions carried out in BC-ICT accounts. Announcement of Pradhan Mantri Jan Dhan Yojana has also given impetus to financial inclusion programs of banks.

Chakraborty (2011) addressed the role of banks in promoting financial access to financial products are restricted due to lack of awareness about the financial products, unaffordable products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. Banks are expected to tackle these supply side factors affecting financial inclusion. India's financial inclusion is designed as a bank led ICT based model. Four basic products viz : pure savings account, variable recurring deposit account, kisan credit card and general purpose credit card are expected to be delivered through the above model. Relaxation of KYC norms, simplified branch authorisation, flexibility in pricing of advances and liberalization of business correspondents' model are some of the key policy measures taken by RBI to promote financial inclusion.

Swamy and Vijayalakshmi(2010) conducted a study to find out the role of financial inclusion for inclusive growth in India. Their study asserts the significance of financial inclusion and attributes its importance to the problem caused by financial exclusion of nearly 3 billion people from the any formal financial services across the world. During the study period, India had 135 million financially excluded households, the second highest number after China. The study also found out that the financial inclusion rate was very low in India and 40 per cent of the bank account holders use their accounts not even once a month. Their findings suggest that Financial inclusion paves way to formal identity, access to payments system & deposit insurance.

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## **4.1 Barriers to Financial Inclusion**

Bharati D.B (2016) observes that providing access to finance is a form of empowerment of the vulnerable groups which has a set of some issues and challenges that needs to be addressed. From the demand side, the reasons identified in the study for financial exclusion are low income, poverty and illiteracy and lack of awareness. From the supply side branch proximity, timings, cumbersome documentation and procedures, attitude of the bank staff and language are the reasons cited.

Ranjini and Bapat (2015) in their study observed that the bank account penetration rate in India continues to be around 48 percent, as against a rate of close to 100 percent in several developed nations. They reviewed whether holding bank facilitate banking habits of poor and marginalized sections of society. Impediments in approaching the bank due to difficulties in documentation requirements, loan sanction procedure, inflexible repayment terms, inability to communicate the requirements, reluctance to approach the bank for small loans were the major barriers in the road to achieve financial inclusion. Banks needs to create more user friendly products and advertise their microfinance products to encourage active participation of marginalized sections of society in banking system.

Charan Singh (2014) observes that inspite of various measures initiated by the Reserve Bank of India and Government of India, satisfactory results is yet to be witnessed. He has classified the challenges as customer related and technical issues. Mobile number registration and pin number generation is a big deterrent for customers along with financial illiteracy. Access channels, coordination with mobile service operators other challenges for banks. Low penetration of financial services, less efficiency of business correspondents also limits the success of financial inclusion.

Rajiv Gupta (2014), Sachindra G. R (2013) examined the extent of financial inclusion in India, it was observed that marginal farmers, landless laborers, oral lessees, self-employed and unorganized sector enterprises, urban slum dwellers, migrants or ethnic minorities and socially excluded groups, senior citizens and women are out of the purview of financial inclusion. Challenges identified include (i) Agent and vendor risk. (ii) Consumption oriented expenditure patterns. (iii) Dormant accounts. (iv) Inadequate awareness levels (v) Lack of infrastructure. (vi). Low literacy rates. (vii). Poor saving habits. (viii). Recovery related issues. (ix). Small ticket transactions & high transaction costs. (x). Sustainability factor. The Government has a wide role to play in using financial inclusion as an intervention to encourage market mechanism to function in favor of the poor and underprivileged.

Ashu (2014) reviewed the measures of financial inclusion and there are many challenges faced by banks in India on financial inclusion process. Penetrations of bank branches in rural areas were unviable on account of high transaction costs. Business Correspondent (BC) model is observed to be restrictive in rural areas. Lack of financial literacy and poor marketing of financial products leads to low awareness among urban poor depended on the informal credit sources which cater according to their convenience. There is also a large degree of self-exclusion due to the existence of informal credit sources meeting their convenience. The complex financial services market offers a wide range of products however lack of awareness restricts the use of these products.

Rao S.K (2010) in his study suggests that achievement of inclusive growth was a result of the act of nationalization of banks way back in 1969. For the purpose of the study, he analysed data published by RBI to

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substantially prove the fact that banking development after nationalization has paved the way for penetration of banking into unbanked and rural areas. He is of the opinion that,in spite of the massive branch expansion activity carried out by the banks, the challenges of the banking sector has not been met and there is need for recognizing new channels to achieve full inclusive growth in the country.

Another study was carried out by Badajena, S, N and Prof. Gundimeda, H (2010) to study the impact of self-help group linkage programme in achieving financial inclusion across sixteen states during the period 2008. The study found out that despite, vast coverage of formal banking network, the basic financial services are still not accessible to larger sections of the society.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

From the review, it can be concluded that the Government of India and the Reserve Bank of India have been taking efforts to promote financial inclusion with the fundamental objective of providing financial services to the financially excluded Indian population. Despite the measures adopted and improved financial access, the studies indicate that addressing financial exclusion requires the bank's all-inclusive approach in creating more awareness about financial products, money management, debt counseling, savings and affordable credit by designing and organizing aggressive education cum promotion campaigns in unbanked parts of any region. There is also a need for harmonized action between the banks, the Government and others to make possible access to bank accounts amongst the financially excluded.

It can also be observed from the review that considerable progress has been made in implementing the reforms. Reserve Bank of India is committed to its mission and is encouraging other banks to adopt a structured and planned approach. The performances of the banks are also measured under their financial inclusion initiatives. The banks can further simplify the registration process for customers to seed their mobile number for alerts as well as financial services considering the wide spread availability of mobile phones. The deposit accounts of beneficiaries of government social payments, preferably all deposits accounts across banks can also be directly linked to Aadhaar. The Reserve Bank can also conduct surveys across states to identify the gaps and ascertain the extent of financial literacy. The findings will give a better understanding to the policy-makers of the demand-side challenges. Region specific issues can be identified by the rural branches and schemes can be devised for inclusion of different groups with varied income levels. A more robust set of quantitative and qualitative indicators can be developed covering the access and usage dimensions of financial inclusion. Efforts can also be made to align the indicators with the international standards.

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