FINANCIAL INCLUSION AS A MAJOR TOOL FOR BUILDING A SUCCESS MODEL IN THE INDIAN CONTEXT

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ABSTRACT

Today by far financial inclusion is the delivery of financial services at an affordable cost which can be banked by all too hitherto unbanked environments, keeping in mind especially under-privileged and low income consumers. The government of India as well as Reserve bank of India has certainly taken major initiatives to spread banking services such as expanding the number of rural bank branches as well as allowing the banking correspondent model and adoption of CBS technology. Nonetheless financial inclusion is also a great business and social opportunity while it is also a daunting challenge in size and scope. As of now the main focus of financial inclusion in India is to promote sustainable development and also generating employment in rural areas for the rural population. Today out of 19.9 crore households in India, only 6.82 crore households have access to banking services. Certainly an attempt has been made in this paper to study the various financial inclusion models used in India, the challenges and way out.

Keywords: Financial Inclusion, CBS Technology, Banking Services, Affordable Cost, Sustainable Development, Unbanked Environments

I. INTRODUCTION

Inclusion as such is the process of bringing in a loop the leftouts and definitely when it comes to financial inclusion it is the process of ensuring access to financial services and adequate as well as timely credit which where needed by vulnerable groups such as low income groups and weaker sections at much affordable cost. At this present juncture it is very much important to understand and anticipate that a person with reasonable access to some of the financial services just for the sake of fulfilling the mandate of financial inclusion certainly does not construe inclusion as such in true sense. Lack of awareness and financial literacy among rural population of the country is certainly hindering the growth of the economy as majority of population does not have access to

formal credit and other institutions of similar kind. In order to overcome the economic progress of the country the banking sector emerged with some technological innovations such as ATM, Debit and Credit cards, internet banking etc. This technological introduction brought a change in the urban society but majority of rural population is still unaware of these changes and also is excluded from formal banking. The problem of financial exclusion is not singularly faced by India but also whole world. Latest statistics show that 70% of adult population of emerging markets is excluded from benefits of banking and when it comes to India things are not too different. In recent years India has made enormous strides towards greater financial inclusion. India too has been adopting best practices from around the world that are relevant and also is leveraging the nation's inherent strengths to accelerate ongoing efforts towards greater financial inclusion- a critical economic and social imperative of the country.

II. LITERATURE OF REVIEW

Since last decade financial inclusion has been a burning issue. A lot has been discussed on the issue by Reserve Bank of India, government officials and it also has been a research point all over the world. To address the issues of financial inclusion an exclusive committee was formed under the chairmanship of Dr. C. Rangarajan report was published in January 2008 on the work done giving a definition and extent of exclusion as well as demand side factors.

World Scenario: Mainly the problem of exclusion has been faced worldwide and many countries till date are trying to tackle with available sources of information. As such the models used by various countries are certainly base for Financial Inclusion Plan in India. Thus in tackling the problem of financial inclusion it may be worthwhile to have a look at the international experience.

Kamath (2008) attempted to understand the impact of Micro-Finance Institution (MFI) loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The Financial diary methodology was used to collect the data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of the households of Ramanagar area, Karnataka, India, and the Principle Component Analysis (PCA) methodology was used to analyze data and come to conclusion

Chakraborty (2011) opines that financial inclusion is the process of ensuring access to appropriate financial services and products which are needed by all the sections of society including vulnerable groups such as low income groups and weaker sections at an affordable cost in a much fair and transparent manner more importantly by mainstream institutional players. This issue certainly started gaining more relevance and importance recently in news media. He further concluded based on his studies that in India, financial inclusion has remained a pipe dream with majority of Indians continuing to lack access and coverage to banking services.

According to planning commission (2009) in common parlance financial inclusion refers to universal access to wide range of financial services such as equity and insurance products. Household access to financial services includes access to credit and wealth creation, contingency planning. Access to wealth creation includes investment and savings based on household's level of financial literacy and risk perception among of people.

Access to contingency planning would help future savings such as buffer savings, insurable contingencies, retirement savings and access to credit includes housing loans, consumption loans and emergency loans.

III. MAJOR OBJECTIVES OF THE STUDY

1. To know the various dimensions of financial inclusion
2. To study the importance of financial inclusion in economic development
3. To study the evolution of Financial inclusion in India
4. To know the various models used in financial inclusion
5. To study the way out measures for financial inclusion in India
6.

IV. VARIOUS DIMENSIONS OF FINANCIAL INCLUSION

The level of financial inclusion in India can well be measured based on three critical and tangible dimensions. These dimensions can be broadly classified and discussed under following heads:

a. Credit Penetration: It necessarily takes the average of three measures namely number of small borrower loan accounts per one lakh population, number of loan accounts per one lakh population and number of agriculture advances per one lakh population
b. Branch Penetration: Penetration of a bank branch is measured as number of bank branches per one lakh population for a given area. This also refers to the penetration of commercial bank branches and ATM's for provision of maximum formal financial services to the rural population
c. Deposit penetration: It can be measured as the number of saving deposit accounts per one lakh population. With help of this particular measure the extent of usage of formal credit system can be analyzed.

V. IMPORTANCE OF FINANCIAL INCLUSION IN ECONOMIC DEVELOPMENT

Financial inclusion as such is a universal issue. Today a lot has been debated on the relationship which exists between financial inclusiveness, poverty reduction and economic growth as well. It is a universally accepted fact today that affordable access to financial services help poor households plan for their routine expenses to better cover unanticipated expenses and also contribute to facilitate better access to more productive and stable activities. There is also a need that financially excluded sections should be provided with those products which are much customized to their needs. It also needs improvements within the existing formal credit delivery mechanism and also evolves new models for extending the outreach. Inclusive growth as such may also make poverty reduction efforts more effective by explicitly creating more productive economic and social opportunities for the poor and vulnerable sections within the reach of society. Thus by encompassing excluded populations; inclusive growth can certainly bring in several other benefits to the economy in terms of sustainability and overall growth.

VI. EVOLUTION OF FINANCIAL INCLUSION IN INDIA

The process of evolution of financial inclusion in India has been carried out in various phases. In this regard the nationalization of banks was the first step taken for the purpose supplemented with institutional finance. The

government to a certain extent strengthened financial delivery through co-operatives and also by nationalizing banks and launching various innovative schemes and other programs for generating self employment and contributing to sustainable rural development as a result of which branches of commercial banks and RBI's increased from 8, 321 in the year 1969 to 69, 288 branches at the end of march 2009. Also the average population per branch office decreased from 64,000 to 14,000 during the same period. The second phase focused towards initiating and strengthening financial sector through various reforms and also changes in regulatory norms during 1990's. The major highlights of this phase being the introduction of Self help groups, bank linkages and Kisan credit cards. The focus mainly in this phase was vested on providing credit benefits to the masses and it also turned to be a good success especially for women. The current phase from 2005 onwards which is also called as third phase has been explicitly a policy decision with greater emphasis on extension as well as coverage. To improve financial inclusion at the present scenario many initiatives are taken by both Government and RBI to improve position and strengthen position.

VII. VARIOUS MODELS USED IN FINANCIAL INCLUSION

Some of the major models used in financial inclusion are as follows:

- **Correspondent Banking**: Reserve bank of India in January 2006 permitted banks to use intermediaries as Business correspondents (BC's) or Business Facilitators (BF's) for providing banking and financial services. The banking correspondents are allowed to conduct banking business as agents of banks those places which are far away from bank premises. To make inroads and serve the purpose banks were permitted to utilize services of nongovernmental organizations, self help groups, micro finance institutions and other civil society organizations. As per recent norms and policies various categories of individuals notified and identified by banks, Kirana shops etc as well as corporate and for profit companies are allowed to become business correspondents of banks.
- **Lead Bank System**: Under this scheme, each district had been assigned to different banks(both private and public) to act as consortium leader to co ordinate the various efforts of banks in the particular district particularly in matters like credit planning and branch expansion. Under this particular scheme it was targeted that all villages above 2000 or more population will be provided access to financial services. Urban financial inclusion is also used to provide banking services to entire population residing in metro and other urban areas as such
- **Banking on Mobile**: In India mobile penetration is very high. To tap and make use of this opportunity green signal was given from RBI on October 12, 2008 and 32 banks were authorized to provide banking on mobile facility. The objective of achieving financial inclusion with help of technology looks far beyond target. Thus to improve the situation financial inclusion technology fund was established with overall corpus amount of 5000 million to create technology infrastructure with comprehensive credit information. As mobile connectivity was thought of as cheap but much reliable model to reach out to people subsequently mobile banking guidelines were issued by RBI

- **Microfinance Model**: Today there are many variety of micro credit models operating in India making it by far the world's best laboratory for microfinance. The model includes microfinance system in India including self help groups

VIII. Way out measures for financial inclusion in India

One of the causes as well as consequences of poverty and backwardness is inadequate access to all the forms of capital. Thus to look at financial inclusion in an isolated way is problematic. The focus on financial literacy should be the basic step and then reduction in poverty should be given equal attention. If financial inclusion has to succeed, the eventual benefactor from this game plan- the banks- have to make upfront investment in financial literacy and financial counseling, which becomes market investment for banks in the long run. One of the main reasons of less use of services by the lower group is not having sufficient income itself. The problem can be tackled by providing sufficient income opportunities and financial inclusion can become the source of it but only if it is seen as a business model and not as an obligation to be fulfilled. The banks should be given enough space to select the appropriate model suitable to the working conditions of the bank.

With the high coverage of society it is possible to serve the unbanked and make a reasonable profit as the rule of economies of scale applies to it as well. The banks have the opportunity to increase the income from the fee based services and the example is already set by IDBI bank. While public sector banks have achieved substantial broadening in branch outreach, their effectiveness has been constrained by high cost and inefficiencies, inadequate incentive structures, limited staff and inadequate technology use.

To grab the opportunity the infrastructure base has to be very strong. It needs a development in few areas:

- Delivery model is the key. What is needed is a complete eco system
- Introduce Products/Supply Chain focused Credit Facilities and Payment Instruments
- Introduction of appropriate credit facilities as well as payment systems and instruments in commodity markets and production chains/supply chains seems to be new entry points to improve access to finance and financial inclusion.
- Technology today has become an enabler for improving the reach of banks to the unbanked at an affordable price.

Mobile banking has the potential of changing lives in a way that may be difficult to imagine. It can be done through various handheld mobile devices and other technologies that reduce cost and have the ability to record banking transactions and to communicate the record of such transactions to the Bank using the internet facilities / GPRS. Though much focus has been given on increasing the no frill accounts but the real problem faced which is inoperativeness of the accounts has not been taken care of. The government has tried to overcome it by providing OD facility but it's growing at a very slow rate. The awareness should be created to make maximum use of the facility by the poor. And further the facilities coming the umbrella should be increased and should not be limited to just opening a bank account and providing an OD facility of Rs. 500. One cannot ignore the fact that MFIs did cross the last mile, did bring innovative practices and did contribute a great deal to financial inclusion. Killing the MFI industry will be a big setback for the financial inclusion agenda. The potential demand for micro-loans is huge and is still largely untapped. What's required is a proper regulation of the units.

Co-operatives can play an important role in the process. Agreed that the financial condition of cooperatives in last few years has created many doubts and lost the confidence of a common man. A bailout system for those in trouble can be an option because the benefits that come can be very useful in reaching the masses. The difficulties faced while starting a new branch and convincing a new set of customers all together will be avoided as the basic problem of providing banking facilities in regional language plus investing in infrastructure including the human resources will be avoided completely. In addition it will come with the benefit of already having a good customer base, a brand image, and a human touch in banking as the care takers will be one of those from the specific masses. A strategy of takeover of cooperatives can work really well for the purpose.

IX. CONCLUSION

The above research work conducted points out the importance of financial inclusion and also highlights various policies that which has been adopted in India to increase the same in recent years. The agenda needs to be more focused and should also be more attentive towards the causes and consequences of failure. From the study it has been conducted that efforts have been made to achieve the goal but for a much diversified country like that of India it is necessary to bring the basics first and also customize the models as per the requirement and need which will certainly lead to financial development of a country and also help accelerate economic growth.

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