An Overview Of Financial Inclusion In India

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Abstract

Financial Inclusion refers to worldwide access to a wide variety of financial services at a moderate cost. Financial Inclusion includes financial services such as equity products and insurance along with various banking products. Financial inclusion facilitates improved sustainable economic and social development of the country. It encouraged the empowerment of the deprived poor and women section of society with the objective of making themselves-sustained and acquainted to take sound financial decisions.

Financial inclusion is globally measured as a critical benchmark of the development and prosperity of society. Financial Inclusion refers to making financial services accessible to everyone ataffordable costs. This phenomenon is accepted and experienced by developed as well as underdeveloped countries. Recent inducements taken by the government in Indiain this regard have made some significant development.

The motive of financial inclusion is comforting access to financial services for every individual regardless of their geographic and demographic structure. This paper includes the challenges and issues of financial inclusion in India.

Key Words: Finance, Financial Services, Financial Inclusion, Development, Economy.

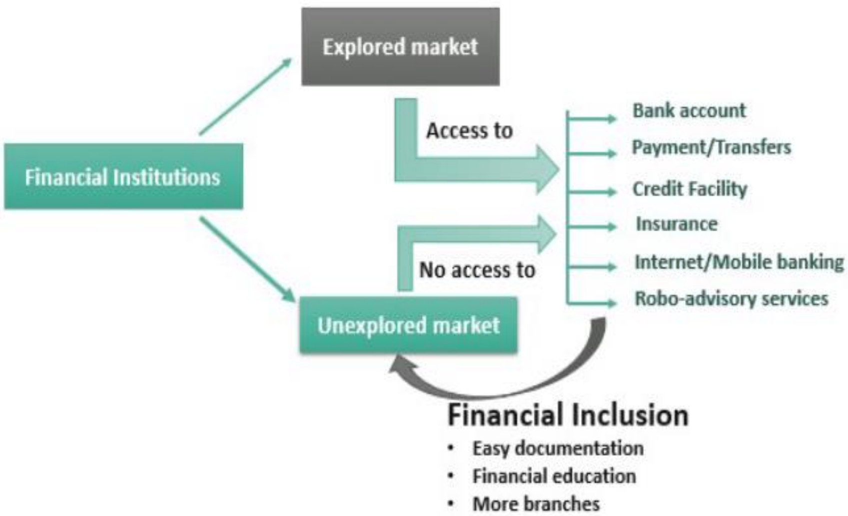
INTRODUCTION

Financial inclusion has been rapidly acknowledged as a decisive poverty mitigation tool world over, especially in the last decade. The exigency in making tools effective and better can be reviewed from the sequence of policy initiatives of governments across the world. It offers an approach to easy, safe, and economical credit and financial services for the susceptible groups, and the poor section is justifiable as a prerequisite for minimizing income in equality and defeating poverty.

An easily attainable financial system with the provision of equal opportunities enables socially and economically excluded people to enter the economy, earn a sustainable income, participate in developmental activities, prevent themselves from economic shocks, and make ample and reasonable living.

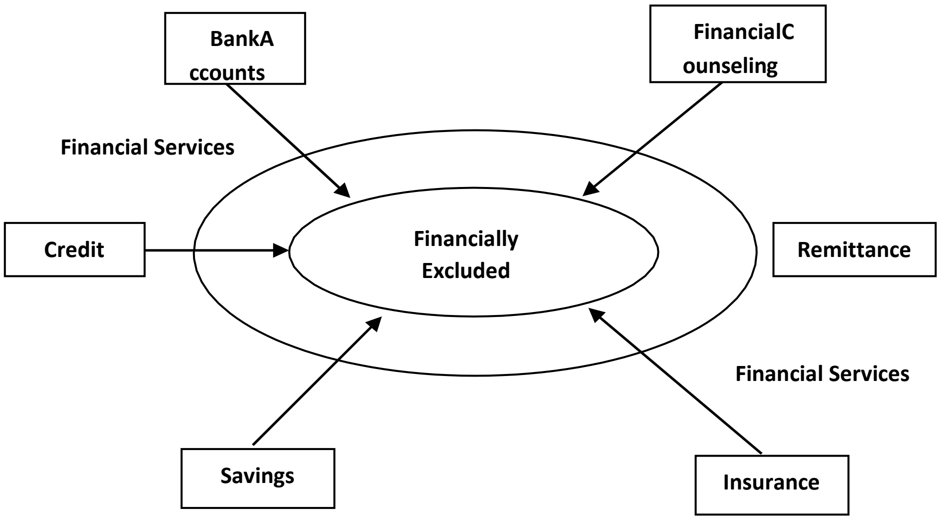
In 2014, the Global Financial Development Report on Financial Inclusion defines Financial Inclusion as
"The segment of firms and individuals that uses financial services".

FINANCIAL INCLUSION



Financial inclusion is the conveyance of financial products and services to the sections of low-income segments of society, at an attainable cost in a transparent and equitable manner by synchronized institutional participants.

Financial Inclusion framework



REVIEW OF LITERATURE

Levine (1997) usedaneo-classical view and experimentally tested and find that countries with bigger banksand more vigorous stock markets grow rapidly over successive decades even after administering other factorsof fundamentaleconomic stability and growth.

Sarma(2007)examined the financial inclusion indicators for the year 2004of 45 countries. Shehas erected the index taking into consideration the indicators which are the number of bank branches per thousand population, the number of bank accounts per hundredpopulation, and the ratio of credit and savingstoGDP of thecountry.

Rangarajan (2008) in his report has concluded that the main objective of Financial Inclusion is to reduce poverty and social harmony and balance by providing approach to 'financial services' to every group of people, especially to underprivileged,underserved,poor and disadvantaged.
These groups are acknowledged as a significant factor in all the practices required for promoting financial inclusion. The main aim of financial inclusion is extending the scope of several activities such as reimbursement, credit, and insurance facilities provided by financial structure in order to entailutmost people having low incomes.

Bhatia and Chatterjee (2010) conducted a study on the financial inclusion in the slum areas of Mumbai. It is concluded that whilst financial inclusion attributes to the function of enabling access to evident banking services at a presumed price to below poverty and underserved population. He concluded that functioning of regional banks in rural areas and amplifying banking system are some significant measures taken to assist financial inclusion.

Karmakar, et al. (2011) have assembled the financial inclusion for rural areas of the 20 major states in India. They have contemplated the vast amount of rural outlets referring to the number of accounts per outlet and per outlet deposit and credit amount as measure offinancial inclusion.

V. Ganesh kumar (2013) observed that alone literacy cannot guarantee high level of financial inclusion in a state. It is not feasible to achieve financial inclusion only by developing investment awareness, without remarkably improving the investment opportunities in India.

Singh and Roy (2015) have studied the evaluation of concept of financial inclusion. Their research is assisted by the secondary data. It is concluded that financial soundness of thegroups of people could be make certain by providing safe access and lower cost of financial services. It is evaluated that the motive behind the financial exclusion needs to be clearly recognized and eliminated through better policy initiatives.

OBJECTIVES OF THE STUDY

- To examine the factors affecting access to financial services
- To understand the concept of Financial Inclusion

RESEARCH METHODOLOGY

The researcher conducted exploratory research and the secondary data is used. This was an attempt to explore the ideas related to its concepts and studies.

The secondary data is collected from various sources that are journals, articles, newspaper, published reports, etc. Also, the data has been collected from the websites of RBI and also from various committee reports on Financial Inclusion.

FINANCIAL INCLUSION IN INDIA

Currently, the term financial inclusion has gained momentum among the professionals. Financial Inclusion marks its attention on the necessity to bring excluded people under the umbrella of financial institutions. There is no such properly accepted and universal definition of financial inclusion. It is usually defined on the basis of exclusion from the financial system. The functional definition of financial inclusion basically focuses on possession and reaches to financial services and products.

Rangarajan's committee on financial inclusion defines financial inclusion as:

"Financial Inclusion may be defined as the process of access to financial services and timely and adequate credit where needed by vulnerable groups such as low-income groups and weaker sections at an affordable cost".

The financial services include the entire spectrum of loans, savings, insurance, payments, credit, etc.

The financial system provides the transfer of resources from deficit to surplus units and both of these units consist of those with low-income groups. These services are provided with the motive to bring them out of the poverty line.

In India, the first effective step in financial inclusion was taken in the year 2005. At that time, the Chairmanand Managing Director of Indian Bank, K.C. Chakrabarty, and the RBI Governor Y.V. Reddy had organized a meeting with the Chief Minister and proposed the idea of accommodating a bank account for every household. Thereafter, from the year 2010 onwards, one of the significant ambitions of the RBI has been financial inclusion.

Financial Inclusion gained impulses during the Platinum Jubilee Celebrations of the Reserve Bank of India in 2010when the RBI elected it assist focus area. Banks were suggested by the RBI to come out with a proposal and plan of action on how theywould outstretchentire financial inclusion in India by 2012.

The financially excluded portion of the population in India mostly includes landless laborers, unorganized sectors, marginal farmers, migrants, slum dwellers, and socially excluded groups.People living in rural areas cover the majority of the group.However, in India, besides combined efforts of about a decade, and even today there are numerous people who certainly remain largely excluded from the financial system.

BENEFITS OF FINANCIAL INCLUSION

Financial inclusion facilitates sound financial decision-making with the help of financial literacy and qualified guidance and also provides access to financial services for all, majorly the vulnerable groups such as minorities, weaker sections, elderly, migrants, small entrepreneurs, and low-income level groups at a reasonable cost so as to enable them to

- Govern the finances on a day-to-day basis effectively, securely, and exuberantly.
- Plan for the future to prevent short-term alteration in expenditure and income for the creation of wealth gain from financial developments.
- Deal with financial anguish efficiently by minimizing their sensitivity to the unpredicted.

Regardless of the marked progress conducted in the field of financial inclusion, the problem of exclusion perseveres. For maintaining the ongoing policy of inclusive growth, the intent on financial inclusion is not only necessary but a precondition.

SCHEMES FOR FINANCIAL INCLUSION

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

The motive behind it is that goal to expand affordable access such as Bank Accounts of people, Credits, Insurance, and pensions.

→ Pradhan Mantri Jan Dhan Yojana was launched on the 28th of August 2014 by our honorable Prime Minister Shri Narendra Modi.
→ This scheme comes under the Ministry of Finance of India.
→ On the day of inauguration, 15 million bank accounts were opened on the first day and by the completion of the first week of the scheme, 18 million accounts were opened.
→ The main agenda of this scheme is that women have the credibility to open a bank account voluntarily and become financially self-sustaining.

- **MUDRA Yojana**

→ The Government of India launched a scheme called Prime Minister Mudra Yojana on 8th April 2015 in order to accelerate the economy.
→ This scheme helps conduct of economical loans to the small enterprise and non-corporates to fund their needs.
→ The goal of this scheme was to bring the core audience into the recognized financial label that is Financial Inclusion.

→ MUDRA that is Micro Units Development and Refinance Agency Limited is a re-financing sector which provides loans up to Rs 10 lakhs to the entitled undertaking at lower interest rates.
→ To seizure the loans, the lender needs to apply the nearby branches of the lending organizations and approach for loans under the MUDRA scheme.

• **PM Suraksha Bima Yojana**
→ Honorable Prime Minister Narendra Modi launched this scheme on 9th May 2015 for India.
→ This scheme was introduced for accidental death suggested by Finance Minister Arun Jaitley in his budget speech in February 2015.
→ It provides financial aid and an insurance policy to the people referring to the lower section of the society in case of any mishappening or accident.
→ Insurance companies from both the public and private sectors controls this scheme.

- **Atal Pension Yojana (APY)**

→ This is a government proposed pension scheme for employees employed in the unorganized sector in India.
→ This scheme is an attempt to provide old-age security to the blue-collar workers like rickshaw pullers, cobblers, street vendors, landless laborer's, workers in the agricultural sector and construction, etc.
→ This scheme was launched on 9th May 2015 and this scheme replaced the previous scheme of government which was names as "Swavalamban Yojana" and was coordinated by the authority through National Pension System.

- **Varishtha Pension Bima Yojana (VPBY)**

→ This scheme is a senior citizen pension scheme initiated by the Government of India with administrative support from Life Insurance Corporation of India (LIC).
→ Under this scheme, the person receives annual payouts until the maturity of the pension plan.
→ This scheme was first launched in 2003-04 and was later revived again in 2014-15.
→ People above 60 years of age can endorse to the plan.

- **Sukanya Samriddhi Yojana**

→ This scheme was launched by Prime Minister Narendra Modi on 22 January 2015 as part of the Beti Bachao Beti Padhao campaign, with the primary objective of securing the future of a girl child.
→ This scheme aims to improve the lives of girls in the country.
→ This scheme was launched to assist a method of saving for every family's girl child.
→ This scheme is valid for 21 years from the date of aperture the account or until the girl attains the age of marriage after the age of 18.

• **National Strategy for Financial Inclusion**
→ The Reserve Bank of India (RBI) has conceived a National Strategy for Financial Inclusion (NSFI) for the period 2019-2024.
→ It is a determined strategy that aims to strengthen the environment for various modes of financial services in digital mode in Tier II to Tier VI in order to create the infrastructure required for transition to a cashless society by March 2022.
→ RBI recognized six strategic ambitions of national strategy for financial inclusion:

- providing basic wreath of financial services
- admittance to livelihood and skill development
- education and financial literacy
- universal approach to financial services
- effective coordination
- customer grievance redressal

FACTORSAFFECTINGACCESSTOFINANCIALSERVICES

- **Gender:** The approach to credit is limited for women who do not hold title toassets such as land and property and are required to male guarantees to borrow. The states having a comparatively higher share of rural and female population usually have a relatively lower level of financial inclusion.
- **Lack of Legal identity:** This includes lack of birth certificates, employment identity cards, driving licenses, identity cards, etc. are one of the major factors that affect access to financial services.
- **Place of living-** Commercial banks favor profitable areas for functioning. This restricts the reach of people living in rural areas.
- **Limited literacy-**Limited literacy here belongs to financial literacy that is business financial skills, basic mathematics, and lack of knowledge results in a restrain in demand for financial services**.**
- **Psychological barriers-** It is often seen among low-income groups because of the psychological barrier in which services are meant for rich class only. The psychological barrier can be easily observed when older people find it

difficult to use ATMs.

CONCLUSION

Approach to financial services such as savings, insurance, and settlement are important for poverty reduction and development. In order to achieve the goal of financial inclusion, banks, NGOs, and regulators need to work together.

In relation to cooperating with stakeholders, and policymakers there is a need for microfinance that can help to speed up financial education programs that allow people to realize the economic potential of microfinance. Basically, literacy programs in finance can help achieve better results in poverty reduction.

Basically, since independence govt has been dependent on its mechanism after that on nationalization of banks to reach the poor. But govt. mechanism suffered all the demerits of corruption and bureaucracy and failed miserably.

Financial literacy is very low in India. Even the educated urban population is financially illiterate. The majority of college-going students does not know how to write cheques and cannot fill simple income tax returns.

Inclusive growth reach depends on a great emphasis on equitable distribution of growth benefits and opportunities. Financial inclusion is one of the most important and crucial opportunities that need to beequally distributed in the country in order to achievecomparatively higher growth. It needs to bein knowledge by the state that in order to bring orderly growth, the order needs to be generated withregard to inclusive finance.

Progress in financial inclusion from the time of the launch of financial inclusion **p**lans **c**learly **s**ignifies **t**hat **b**anks are developing in areas like opening banking outlets, deploying units, opening Basic Savings Bank Deposit accounts, granting credit, etc.

The hurdles in accessing financial services should also be removed to enables citizens to access financial services more and more.

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