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FINACIAL INCLUSION – INCLUSION OF EXCLUSION FOR THE DEVELOPMENT

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Absrtact
This paper outlines the importance of financial inclusion (banking the poor) as a way for the self sufficient regional development. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. In this globalised scenario, large segments of the world's population are excluded from formal payments system and financial markets while financial markets are developing and globalising rapidly. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganised sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women. This paper intends to find out the integration between the government, RBI and banking institutions in developing the policies and financial products to promote the regional development by serving the excluded groups of the society. The main purpose of FI is to induce saving mentality in the minds of rural population and availing credit facilities to identify the income generating opportunities which helps to reduce poverty. Thus the paper concludes the role and importance of financial inclusion in delivering financial services which ensures the development of our country through the maximum participation of excluded segment of the society. This study is mainly based on the secondary data collected from RBI websites and reviews of some experts.

Key Words: Financial Inclusion, Banking Services.

*"**Almost** half of the population of the world lives in rural regions and mostly in a state poverty. Such inequalities in human development have been one of the primary reasons for unrest and, in some parts of the world, even violence."~ Abdul Kalam.*

Introduction
A developing country like in India, 70% of the population resides in rural areas and below poverty line. The persons who lives in rural areas are illiterate about the basic financial services available in our economy. "Banking the poor"- through financial inclusion has a vital role in the development of our economy. The financial regulators (RBI, NABARD, SIDBI etc.), government and banking institution are the important players in the implementation of the system. The success story of Micro Finance by Grameen bank in Bangladesh gives a boost up to policy makers to think about the concept as a tool for the development. Micro-finance helps to find out new opportunities for women in our country. Under the successful implementation of FI, the excluded sections are able to get a new insight for exploring the available opportunities in an innovative manner which leads to the better quality life of poor people.

What is Financial Inclusion?
The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

Former United Nations, Secretary-General Kofi Annan, on 29 December 2003, said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."

Reasons for Financial Inclusion
1. The lack of financial literacy and poor relationship between the financial institution (banks) and poor people which results the excluded sections of the society.
2. The non – availability of banking services in rural and semi-rural areas.

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3. The exploitation of money lenders by charging high rate of interest.The subsidies given by government to the poor people does not reaching in their hands. In the absence of direct cash transfer to the beneficiaries resulted the leakage of amounts.
4. To induce the saving mentality this helps to the capital formulation of our country.
5. Accumulation of fund which helps to provide small credits or loans to protect and promotion of small scale industries.
6. Maintenance charges levied on the bank accounts kept away the poor people from opening of an account.

RBI 'S Policy Initiatives for Financial Inclusion

1. No – Frills Account: In November 2005, banks were advised by the RBI to make available a basic banking 'no-frills account with low or nil minimum balance free from charge to expand the outreach of such accounts to vast sections of the population. To meet basic customer needs, banks are advised to offer four basic accounts:
   - 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).
2. Financial literacy center: RBI has asked the State Level Banking Commission to set up a credit counseling center in one districts as a pilot and extend it to all other in due course. The Finance Minister in his budget for 2007-08 has announced the setting up of two funds for FI; the first called Financial Inclusion Fund for developmental and promotional interventions and the other called Financial Inclusion Technology Fund to meet cost of technology adoption.
3. Business Correspondent: Adoption of BC mechanism helps to facilitate banking services in those areas where banks are unable to open branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this un-banked population.
4. Financial inclusion branches: RBI has directed the banking institutions to open 25% of branches in rural and semi-rural areas to extend financial services to poor people.
5. Electronic Benefits Transfer: Human-less transferring of funds to beneficiaries directly through accounts helps to reduce the various levels of bureaucracy or leakage of funds. This will help the beneficiaries to get their government subsidies in their Aadhaar linking accounts directly.
6. Promotion of SHGs: The opening of branches in villages helps to do their daily transactions through opening of an account.
7. Credit facilities: The various orientation programmes helps to educate the availability of credit facilities and subsidies for the promotion and extension of new ventures.
8. Farmer's Club: NABARD encourages banks to promote Farmer's Club in rural areas which is known as 'Vikas Volunteer Vahnini (VVV) Programme'. These clubs are the grassroot informal forums of farmers.
9. Relaxed KYC norms: Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials. RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

Challenges in Financial Inslusion

1. Absence of continuous transactions in the opened accountants. It will affect the profitability measured on the basis of volume of business rather than number of customers served.
2. Lack of proper communication between the bank and account holders.
3. Lack of proper infrastructure facilities may affect the cost of extension and maintenance of branches.
4. In order to serve the excluded category of customers, they should develop different strategies according to the regional importance.
5. Technological issues are the major problems in providing scalable, sustainable and cost efficient financial services.

Conclusion

According to CRISIL MD & CEO Mrs. Roopa Kudva, in a computation of FI in 632 districts across India, rating agency CRISIL found that the FI in Pondicherry, Chandigargh and Kerala to be the highest while FI in Manipur, Nagaland and Bihar having the lowest scores. According to the methodology to measure FI, they used three critical parameters of basic banking services - branch penetration, deposit penetration and credit penetration. All India average score is 40.1. on the basis of this, estimate that in FY 14 the economic growth will move up and GDP growth rate will touch at 6% and the rupee will settle at

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Rs. 56. It is clear that FI will ensure our country's sustainable growth through prosperity. So a collaborative approach of government, financial regulators and commercial banks will definitely help to overcome the challenges.

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