

## FINANCIAL INCLUSION: THE ROAD AHEAD

**N. Mohamed Rafiq**

*Ph.D Research Scholar, Department of Commerce, Manonmaniam Sundaranar University, Tamil Nadu, India.*

**Dr. N. Premavathy**

*Associate Professor & Head (Retd.) PG Department of Commerce, Queen Mary's College, Chennai.*

### **ABSTRACT**

*India is on the path to becoming a cashless society. To provide all households in the country with banking services, a time-bound programme has been launched as Financial Inclusion Programme is known as Jan Dhan Yojana (Scheme for People's Wealth). It is to get convenient access to "financial inclusion" for the public to get banking services and to provide financial independence to unbanked Indians through a two-phase plan. In terms of economic growth and development, the importance of financial inclusion cannot be understated. At the micro level, it provides social security for each household in India, as they are no longer subject to extortion practices arising from banking in the informal sector, including predatory lending by loan sharks. At the macro level, financial inclusion has a major impact on economic growth. It will help to formalise many industries as income can be catalogued and taxed more efficiently. This in turn leads to better estimates of economic data, allowing for more transparency in the economy and more accurate forecasts. Revenue would increase government spending, allowing for increased financing of government led infrastructural developments. More bank accounts would also lead to an increase in reserves for Indian banks. This allows for more loans to be taken out and increases consumption and investment in the economy, both major components of GDP. Is financial inclusion means a bank account for every Indian citizen? Possibly it is a big step — if successful.*

*The present study covers in detail the various initiatives taken by the Government and banking institutions to launch mass awareness campaign bring domestic savings of unorganized, vulnerable sections of society into national banking system. The study assesses the impact of Samruddhi- the Madhya Pradesh model of financial inclusion is now being implemented by the Central Government throughout the country as "Sampoorn Vittiya Samaveshan Yojana."*

**Keywords: Financial Inclusion, Jan Dhan Yojana and Banking.**

### **1.1 INTRODUCTION**

Issues of financial stability, economic growth and managing inflation are the major challenges confronting regulators in advanced economies and are equally important for emerging economies like India. Native savings have always played a major role in Indian economy and therefore there is a need to bring the savings of the people of the unorganized sectors into banking mainstream. There is a need to create awareness among the people to bring their savings into the national banking system in order to get better returns and for social security in their old days. The corroborative efforts made by various financial institutions and public sector banks to bring more and more people in the banking network and to help the Government in achieving the objective of financial inclusion which is on its high priority, is significant. But there are enough branches in the country to provide banking facilities in a physical form and therefore new technologies are being used to provide banking facilities to the vulnerable and poor sections of the society. There were 43.9 crore bank accounts in the country during 2004 and that figure had risen to 77.32 crore till May 2014. Through financial inclusion programmes the number of villages covered in terms of bank accounts increased from 67,000 to 2.48 lakh in three years from 2010 which is about 4-1/2 times more.

In this regard, the banking facilities provided through mobile vans, business correspondents and mobile telephone services, are also very significant. Micro finance institutions are doing commendable job in providing rural finance and with entry of couple of new financial service providers such as small banks and payment banks the landscape of rural banking is going to be expanded.

## 1.2 LITERATURE REVIEW

Financial inclusion is important because it is considered as an important condition for sustaining growth (Subbarao, 2009). Bringing the larger population within the structured and organised financial system has explicitly been on the agenda of the Reserve Bank since 2005. In the Indian context, financial inclusion has been described as the provision of affordable financial services, *viz.*, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who are excluded (RBI 2014).

The research on role of Indian banks in reaching out to unbank suggested some policy choices for successful implementation of the policy of financial inclusion for sustainable growth of Indian economy (Srikanth.R (2013).

## 1.3 STATEMENT OF THE PROBLEM

To get a successful financial inclusion, banking and financial services should reach the vulnerable group's particularly poor people private banks and other financial institution has to play a vital role in filling up this gap. A system of banking and finance that relies on system of greater justice in human society and does not engage in predatory lending which leads to poor getting poorer and rich getting richer, and thus strictly prohibits exploitation is the need of the hour. The present study aims to understand and analyze the challenges and opportunities faced by unbanked to get a basic financial service in India.

## 1.4 RESEARCH OBJECTIVES:

The objective of this paper is to review briefly the progress in developing financial inclusion through banking and discuss the prospects and challenges.

The objectives of this study are listed below:

- a. To understand and recognize the importance of Financial Inclusion.
- b. To study the role of government and banks in Financial Inclusion.
- c. To offer suggestions to Indian Banks in Reaching out to the unbanked and backward Areas.

## 1.5 RESEARCH METHODOLOGY

As the study is descriptive in nature, secondary data have been employed for the study. The secondary data have been collected from relevant publications and websites and survey reports published by Banks are used for analysis.

## 2.1 GROWTH IN THE RURAL RETAIL BANKING SECTOR

The rural area suffers from lack of access to basic financial services (Jayadev M 2012). The challenge of financial inclusion presents an inflexion point for Indian banking. The biggest challenge for next decade or more to banks in the country is to capture the banking business of over 50% population of this country of over 120 billion people. There are contemporary challenges faced by Indian Rural Banking, i.e, Priority Sector Lending, Regional Rural Banks, Financial Inclusion, Financial Literacy and Education.

The growth of the rural retail banking industry raises financial inclusion by providing banking, financial products and services to rural people in the utmost ranges of the country. However, the recent emergence of microfinance institutions (MFIs) and non-banking financial corporations (NBFCs) in this sector has led to a commendable growth in the industry.

| S. No | Name of the Bank                  | Branches |            |        |               |        | ATMs    |          |         |
|-------|-----------------------------------|----------|------------|--------|---------------|--------|---------|----------|---------|
|       |                                   | Rural    | Semi-urban | Urban  | Metro-politan | Total  | On-site | Off-site | Total   |
| 1     | 2                                 | 3        | 4          | 5      | 6             | 7      | 8       | 9        | 10      |
|       | <b>Scheduled Commercial Banks</b> | 26,493   | 25,009     | 19,027 | 18,033        | 88,562 | 55,760  | 58,254   | 114,014 |
|       | <b>Public Sector Banks</b>        | 24,124   | 19,554     | 15,080 | 13,903        | 72,661 | 40,241  | 29,411   | 69,652  |
|       | <b>Nationalised Banks</b>         | 17,036   | 13,539     | 11,320 | 10,585        | 52,480 | 21,533  | 15,528   | 37,061  |
|       | <b>State Bank Group</b>           | 7,088    | 6,015      | 3,760  | 3,318         | 20,181 | 18,708  | 13,883   | 32,591  |
|       | <b>Private Sector Banks</b>       | 2,361    | 5,445      | 3,882  | 3,881         | 15,569 | 15,236  | 27,865   | 43,101  |
|       | <b>Old Private Sector Banks</b>   | 1,069    | 2,332      | 1,514  | 1,132         | 6,047  | 4,054   | 3,512    | 7,566   |
|       | <b>New Private Sector Banks</b>   | 1,292    | 3,113      | 2,368  | 2,749         | 9,522  | 11,182  | 24,353   | 35,535  |
|       | <b>Foreign Banks</b>              | 8        | 10         | 65     | 249           | 332    | 283     | 978      | 1261    |

Source: Report on trends and progress on Banking in India (2012-13).

**Table – 2, Growth of Commercial Banks and Branches from 1950 to 2000**

| Parameters                | 1950 | 1960 | CAGR 1950-1960 | 1970 | CAGR 1960-1970 | 1980  | CAGR 1970-1980 | 1985   | CAGR 1985-1990 | 1990   | CAGR 1985-1990 | 2000   | CAGR 1990-2000 |
|---------------------------|------|------|----------------|------|----------------|-------|----------------|--------|----------------|--------|----------------|--------|----------------|
| <b>Number of Banks</b>    | 605  | 345  |                | 83   |                | 157   |                | 265    |                | 274    |                | 297    | Na             |
| <b>Number of Branches</b> | 4163 | 4870 | 1.6            | 1146 | 8.6            | 34594 | 12.0           | 52721  | 8.8            | 58914  | 2.6            | 65521  | 1.1            |
| <b>Deposits</b>           | 1002 | 1953 | 6.9            | 6194 | 12.2           | 43987 | 21.7           | 101521 | 18.2           | 202720 | 17.7           | 900307 | 16.6           |

Source: Statistical Table relating to the Banks in India, RBI- various issues.

\*The figure of 1990 and 2000 are as at March-end and others are as at December-end.

CAGR - Compound average annual growth rate.

India is the tenth largest economy in the world. It can become the eighth or perhaps the seventh largest by 2017. By 2025 India could become a \$5 trillion economy and among the top five in the world (Chidambaram P 2012). The present banking network of the country comprises of scheduled commercial banks branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2 per cent) and 23,334 ATMs (14.58 per cent) are in rural areas (Economic Times 2014). Similarly the data on Branches and ATM's of scheduled commercial banks as at end-March 2009, reflects that the number of branches in 2000 was 65,521 and it was reduced to 64,608 in 2009 and the off-site ATM's as percentage of total ATM's (43.5 percent) reveal the de-growth of branches particularly Rural branches. In the pre-reform period (1991), in India, the percentage of rural bank branches to the total bank branches was as high as 56.92%. The population served per branch was 25,000 as at March-end 2000. Due to the drop-down in the growth of branches, especially in the rural sector the deposit mobilization from unorganized sector also suffered. However, 'poor repayment' was cited as the root cause for relocating many rural banks. The tendency to shift from rural areas had an adverse effect on vulnerable sector in obtaining credit. This gave an opportunity to the Mutual Fund Industries to feed the thinning financial services in the rural areas. The growth of rural deposits and credit in the pre- and post-reforms period was very sluggish. Before the liberalization of banking sector in India, the share of rural deposits to the total credit was as high as 15.46% in 1991, which declined steadily after the reforms to as low as 12.20% in 2005 (relatively deposits in 2005 and 1980 were the same). The Credit-to-Deposit (C-D ratios) have fallen sharply since the beginning of 1991, both in terms of the amount sanctioned and amount utilized (Ramachandran and Swaminathan, 2005). There was a steady decline in the C-D ratios in rural branches from over 73% to around 61% in 1984 and 1991

respectively. After 1991, there was a sharp decline in the ratio for the rural branches, i.e., as low as 39% in 2001. This is the most miserable facet of banking development in the past decade (Shetty, 2005). Decline in the C-D ratio is the result of slowdown of banking activity (low profitability with high non-performing assets) by the public sector commercial banks in rural areas. There is relatively sharp decline in the number of rural and semi-urban bank offices and in the credit disbursed in the pre- and post-reform periods. Similar trends were true of total commercial bank credit to agriculture (Chavan, 2001).

## **2.2 CURRENT SCENARIO OF FINANCIAL INCLUSION**

Financial inclusion that aims to improve access of the state's poor to finance and allows access to finance for rural households in India and various approaches to delivering financial services to the rural poor.

Jan Dhan Yojana (Scheme for People's Wealth): A comprehensive financial inclusion incorporates providing all households in the country with banking services, with particular focus to empower the weaker sections of society, including women, small and marginal farmers and labourers, both urban and rural. Jan Dhan Yojana would particularly focus to empower the weaker sections of the society, including women, small and marginal farmers and labourers. Two bank accounts in each household are proposed to be opened which will also be eligible for credit. The government has worked out a two-phase financial inclusion programme under which a basic bank account with an overdraft facility of Rs 5,000 after satisfactory completion of one year of operations would be provided to 15 crore persons by August, 2018.

In the second phase between the year 2015-2018, micro insurance and pension schemes like 'Swavlamban' would be provided. The scheme Swavalamban Yojana will be applicable to all citizens of 18 years To 55 years who join the New Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority (PFRDA).

Budget 2014 seems positive for financial inclusion which authorized universal banks in the private sector and licensing of small banks and differentiated banks should facilitate the growth of the sector and deepen financial inclusion.

Madhya Pradesh's financial inclusion model "Samridhi" through which benefits of various Government schemes to villagers are being transferred directly in their bank accounts by ultra-small banks is now being implemented by the Central Government throughout the country as "Sampoorn Vittiya Samaveshan Yojana."

Madhya Pradesh's financial inclusion model: It has been planned to open up new bank branches' buildings with cooperation of concerning gram panchayats. The State Government has provisioned `100 crore for the scheme. So far, sanction has been granted to 31 gram panchayats to construct buildings. As a result of financial inclusion, state's District Cooperative Banks have also been connected with NEFT system. National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the Scheme. Now, amounts payable to beneficiaries of social pension schemes, students' scholarships and labourers' wages are being directly deposited in their bank accounts in or around their villages. Now, post offices in remote villages are also going to be connected with this modern payment system soon.

Full financial inclusion would include "identifying the poor, creating unique biometric identifiers for them, opening linked bank accounts, and making government transfers into those accounts". While the larger impact of widespread financial inclusion will come in time, the description of actual financial services that will be included in the scheme is interesting. These are the five Ps of inclusion; product, place, price, protection, and profit; "products that address their needs; a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the moneylender, easy-to-understand accident, life and health insurance, and an avenue to engage in savings for old age."

### 3. CONCLUSION

Financial inclusion is a 'safe' way to invest, a 'reliable' way to send and receive money, a 'quick' way to borrow in times of need, and 'easy to understand' insurance products. Certainly, savings is the ultimate investment in the economy. The savings system has to be fair to the domestic savers; with inflation well into double digits and deposit interest rates way below the inflation rate, the domestic savers are virtually being robbed of their hard earned savings. The success of financial inclusion is breaking the link between poor public service, patronage, and corruption. This study found that branches in the country should provide banking facilities in a physical form and therefore new technologies are being used to provide banking facilities to the vulnerable and poor sections of the unorganized sector.

### REFERENCE

1. V. K. Ramachandran and Madhura Swaminathan (2001) "Does Informal Credit Provide Security? Rural Banking Policy in India" International Labour Office, Geneva, October 2001
2. Chavan, P. (2001) "Some Features of Rural Credit in India with Special Reference to Tamil Nadu: A Study of the Period after Bank Nationalization", in Phil, M Indira Gandhi Institute of Development Research, Mumbai.
3. Jayadev M (2012) 'Rural Retail Banking in India: 2020' tejas@iimb - An IIM Bangalore Management Review.
4. Subbarao. (2009) Financial Inclusion: Challenges and Opportunities, Remarks at the Bankers Club, Kolkota, December 9, 2009. [www.rbi.org.in](http://www.rbi.org.in)
5. Srikanth R (2013) 'A Study on - Financial Inclusion - Role of Indian Banks in Reaching Out to the Unbanked and Backward Areas' by International Journal of Applied Research and Studies (IJARS) ISSN: 2278-9480 Volume 2, Issue 9 (Sep - 2013).
6. Chidambaram P (2012) Indian rural banking sector, Big Challenges and the Road Ahead by RBI.
7. Shetty, S.L. (2005) "Financial Sector Reforms in India: An Evaluation", Prajnan, 25 (3-4), pp. 253-287.

### News items

1. Economic Times Government to complete financial inclusion drive by August 2018.  
<http://economictimes.indiatimes.com/industry/banking/finance/banking/government-to-complete-financial-inclusion-drive-by-august-2018/articleshow/39238169.cms>
2. Pranab Mukherjee on 13, July 2010 "Domestic savings played a major role in Indian economy".
3. Ganesh N. Prabhu (2014) 'Banking the Unbanked – An Indian Perspective' An IIM Bangalore Management Review.
4. [Rbi.org.in](http://Rbi.org.in)