

## FINANCIAL INCLUSION IN INDIA – AN OVERVIEW

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### Abstract:

The recent financial crisis has that financial innovation can have devastating systemic impacts. International standard setters' and national regulators' response has been a global concerted effort to overhaul and tighten financial regulations. However, at time of designing stricter regulations, it is crucial to avoid a backlash against financial inclusion. In the following pages we present the current state of financial inclusion globally in general and in India in particular. We also explore some trends in financial inclusion and what the most effective policies are to favor it. In doing so, we suggest that innovations aimed at countering financial exclusion may help strengthen financial system rather than weakening them.

### Key words:

BSBD DFS, ATM, ICT,MFI,NGO, CRISIL.

### Introduction:

Financial inclusion aims at drawing the “unbanked” population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance. Financial inclusion neither implies that everybody should make use of the supply, nor that providers should disregard risks and other costs when deciding to offer services. Both voluntary exclusion and unfavorable risk-return characteristics may preclude a household or a small firm, despite unrestrained access, from using one or more of the services. Such outcomes do not necessarily warrant policy intervention. Rather, policy initiatives should aim to correct market failures and to eliminate nonmarket barriers to accessing a broad range of financial services.

## FINANCIAL INCLUSION TRENDS

There has been significant but uneven progress toward financial inclusion around the world in recent years. Some of these steps have been driven by

Market – friendly policies that will be presented in more detail in a later section.

### Other success stories include:

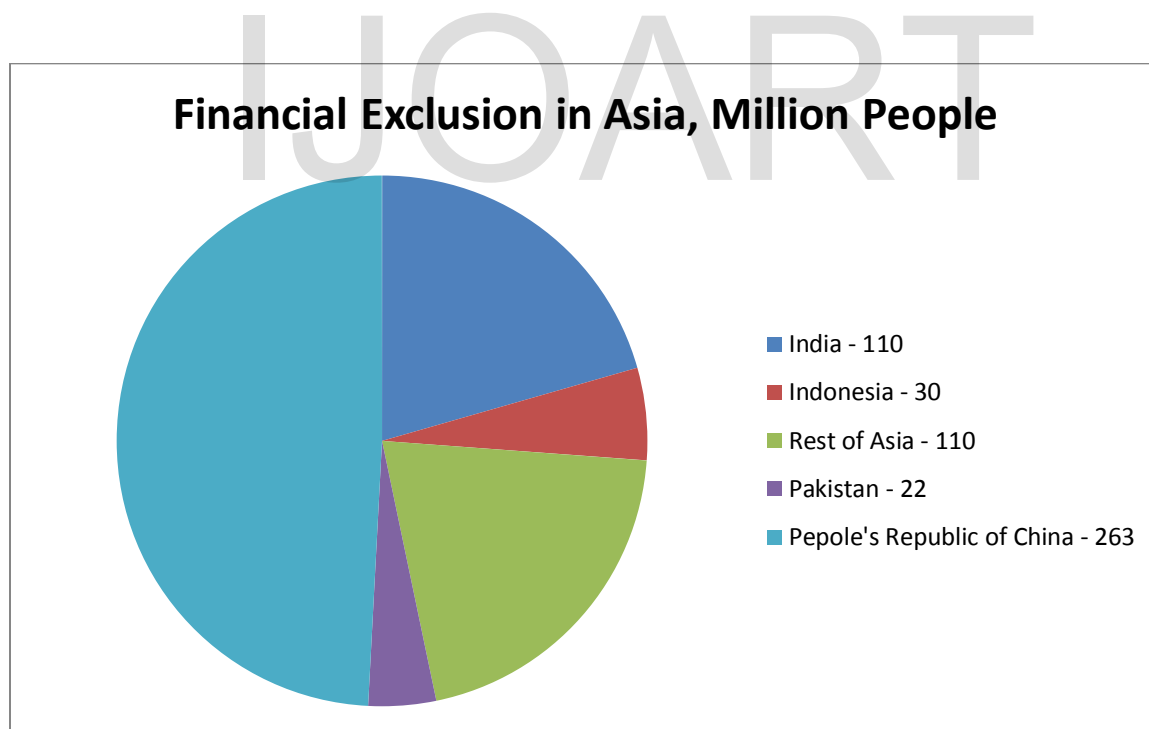
**Mongolia:** a successful turnaround of a state bank increased the number of deposit accounts by over 1.4 million since 2006, now reaching 62 percent of households.

**Philippines:** mobile phone banking has expanded to serve to 4 million clients since 2002.

**India:** access to credit among the poor is up from 7 percent in 2004 to 20–5 percent in 2009, as the microfinance sector added 9.9 million clients.

**Bangladesh:** 4–6 million new microcredit clients have been added since 2006; financial services have reached about 55 percent of poor households, substantially expanding access to savings.

**VietNam:** 2.1 million new microfinance clients have been added since 2006.



## **FINANCIAL INCLUSION IN INDIA:**

Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom.- **Nelson Mandela**

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

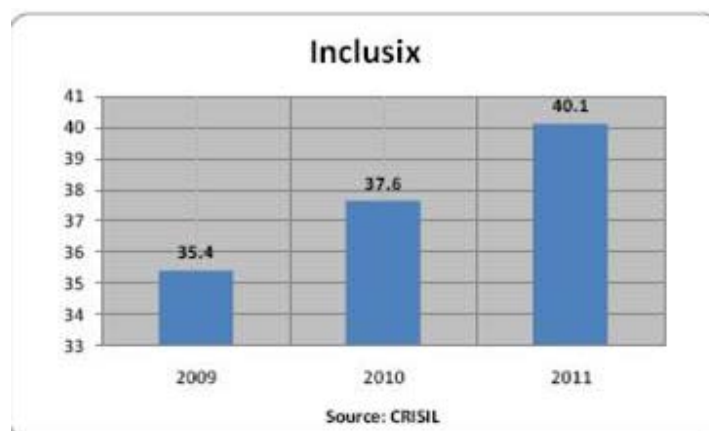
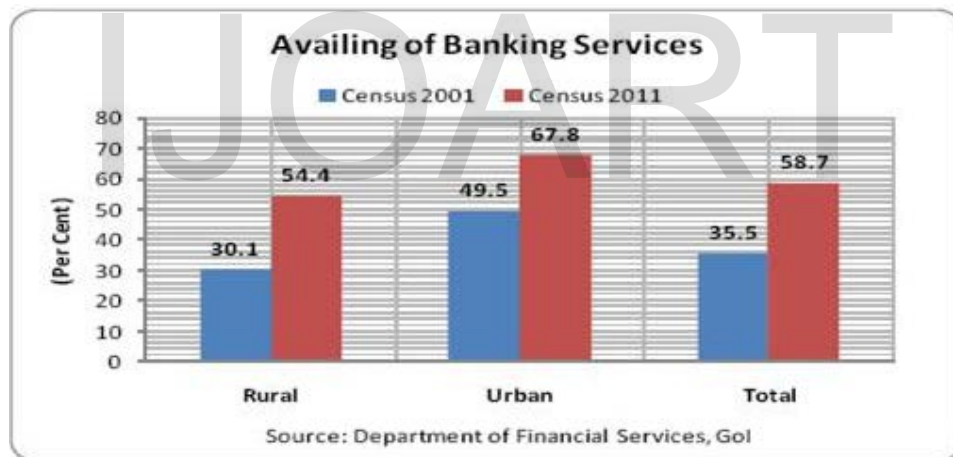
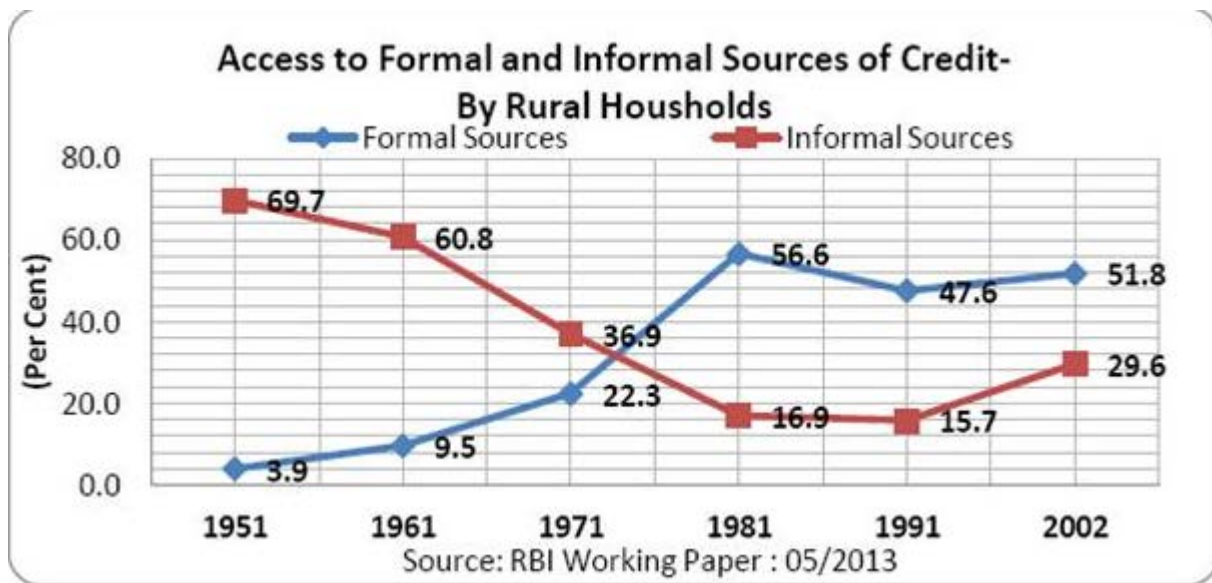
## **WHY FINANCIAL INCLUSION?**

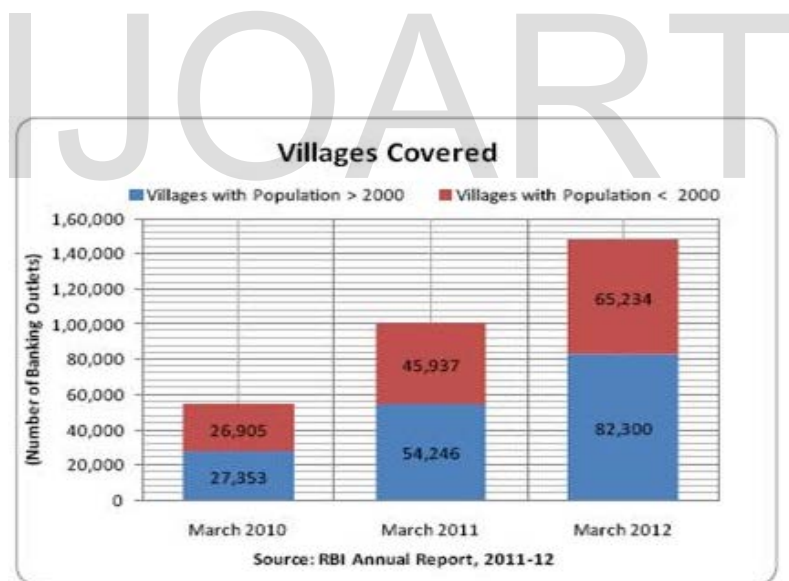
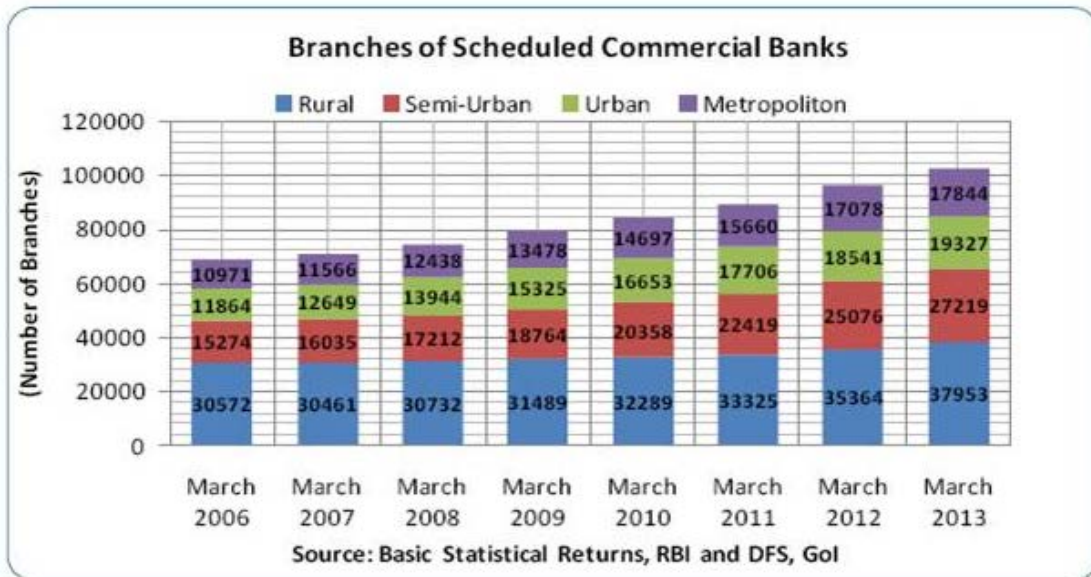
Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

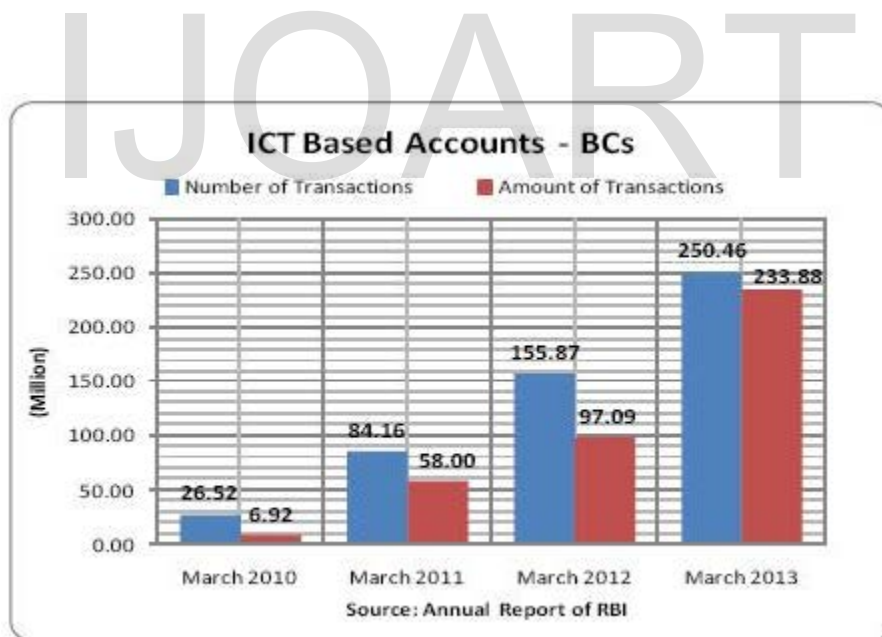
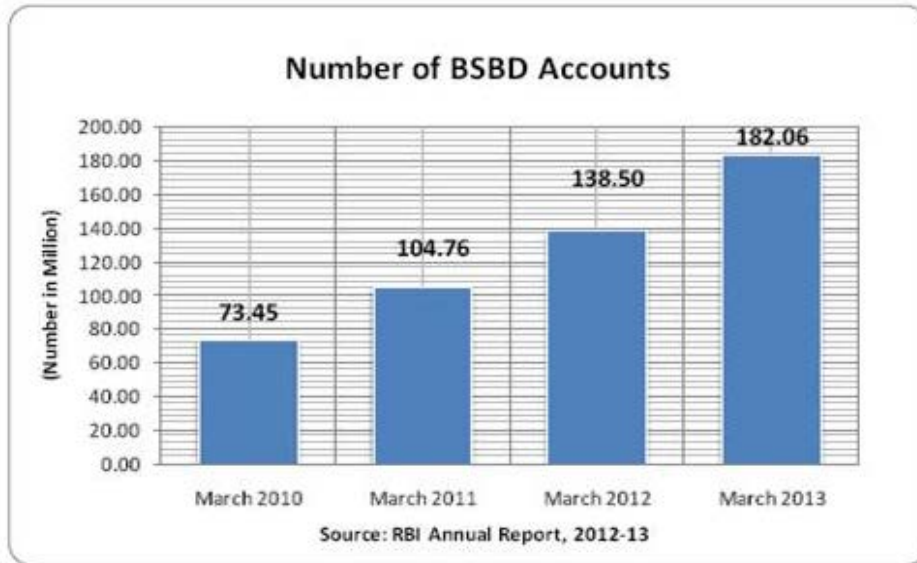
## **PradhanMantri Jan DhanYojana**

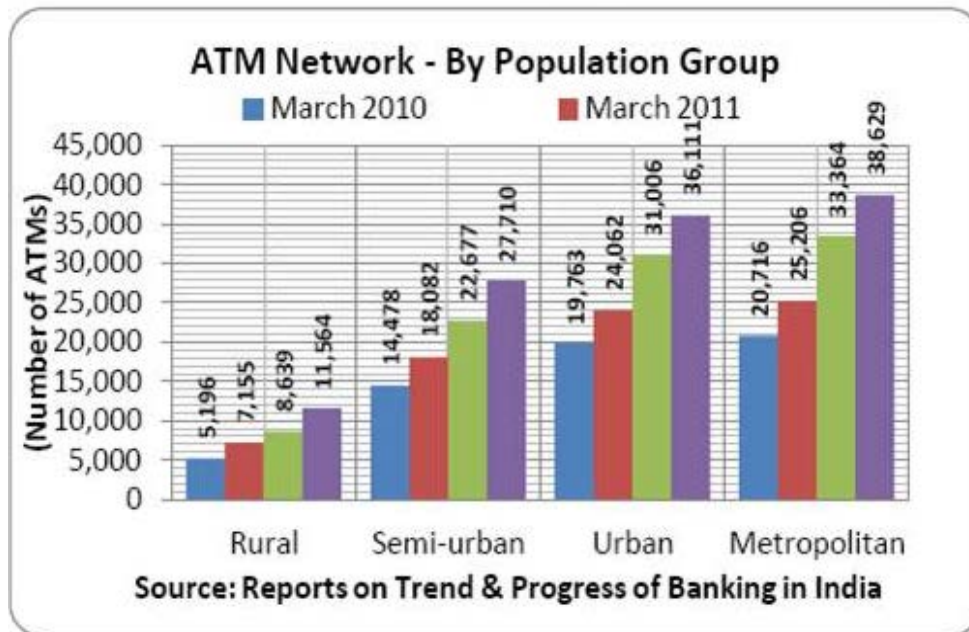
Indian Prime Minister NarendraModi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014 with a target to provide 'universal access to banking facilities' starting with **Basic Banking Accounts** with overdraft facility of Rs.5000 after six months and **RuPay** Debit card with inbuilt accident insurance cover of Rs. 1 lakh and **RuPayKisan Card** & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority".

On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.









## Recommendations

1. Banking technology has progressed fast enough and more importantly the realization that the poor is bankable has arrived. Various immediate measures which government of India should implement or which are under implementations but should be executed in a more effective manner.
2. Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Our very old post offices will be an ideal channel to pursue the future long term goals of agency banking especially in rural India.
3. Achieve synergies between the technology providers and banking channels to expand each. Application developers will be required to synergize core banking with microfinancial applications.
4. Have interest rate ceilings specified for NGO/MFI for they tend to charge higher rates of interest in a sugar coated form. These legalities can be introduced once an NGO/MFI enters into partnership with a bank.

## Conclusion:

Branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. But the above observations imply that literacy alone cannot guarantee high level financial inclusion in a state. Branch density has significant impact on financial inclusion. It is not possible to achieve financial inclusion only by creating investment awareness, without significantly improving the investment opportunities in India.

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