

AN ANALYTICAL STUDY ON FINANCIAL INCLUSION IN INDIA

INTRODUCTION

Financial inclusion is the delivery of financial services in a suitable manner and at a reasonable cost to vast sections of underprivileged and low income group population. It refers to a customer having access to a range of formal financial services. Under the chairmanship of C. Rangarajan a committee on financial inclusion was formed. It defined the term financial inclusion as, "The process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." India is a rural dominant country. Most of these people are poor and they do not have access to any formal financial services. The prime objective of financial inclusion is to provide the financial services to such areas.

FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated into the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account.

In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50, 000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services.

These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% Financial Inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India being a mostly agrarian economy hardly has schemes which lend for agriculture. Along with Microfinance we need to

focus on Micro insurance too.

OBJECTIVES OF THE STUDY

- To know the strategies adopted by RBI for strengthening financial inclusion
- To identify India’s position regarding financial inclusion compared with some other selected countries.
- To evaluate the role of banks towards “financial inclusion”
- To identify the challenges to be faced by the country for strengthening financial inclusion

FINANCIAL INCLUSION - INDIA’S POSITION COMPARED WITH OTHER COUNTRIES

India’s Position Compared with Other Countries

(Per 0.1 Million Adults)

(As per cent of GDP)

Sl. No.	Country	Number of Branches	Number of ATMs	Bank Credit	Bank Deposits
1	India	10.91	5.44	43.62	60.11
2	Austria	11.81	48.16	35.26	32.57
3	Brazil	13.76	120.62	29.04	47.51
4	France	43.11	110.07	56.03	39.15
5	Mexico	15.22	47.28	16.19	20.91
6	UK	25.51	64.58	467.97	427.49
7	US	35.74	173.75	46.04	53.14
8	Korea	18.63	250.29	84.17	74.51
9	Philippines	7.69	14.88	27.57	53.02

Source: World Bank, Financial Access Survey(2010).

Coverage of Banking Services in India

Sl. No.	Region	Current Account	Savings Account	Total Population	Total no. of Accounts	Total no. of Accounts (%)
1	North	4215701	52416125	32676462	56631826	17.65
2	North East	476603	6891081	38495089	7367684	2.3
3	East	1814219	47876140	227613073	49690359	15.48
4	Central	2202217	64254189	255713495	66456406	20.71
5	West	3178102	49525101	149071747	52703203	16.42
6	South	4666014	83386898	223445381	88052912	27.44
	All India	16552856	304349534	1027015247	320902390	100

Sources: National Sample Survey Organization (2012).

RECOMMENDATIONS

- 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.

- Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications.
- 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

Literacy is a major tool for creating investment awareness, and financial inclusion. But literacy alone cannot promise 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 an India.

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