FINANCIAL INCLUSION – A MEANS FOR INCLUSIVE GROWTH

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Abstract

Access to finance by the poor is a prerequisite for poverty reduction and sustainable economic development. Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. "Inclusive growth" is one of the important objectives of eleventh five year plan in India. Inclusion of each and every section of the society in the process of economic development and achieving growth with equity is the basic objective of "inclusive growth". Financial inclusion is conceived as a major driving force to achieve selfsustained inclusive economic growth. Financial inclusion can be defined as the process of ensuring access to financial services and timely availability of adequate credit where needed by vulnerable Groups such as weaker sections and low income groups at an affordable cost (Report of the Committee on Financial Inclusion in India, 2008). This paper aims to highlight financial inclusion and the role of banks, financial inclusion for inclusive growth and also the issues and challenges in the area of finacial inclusion for inclusive growth.

Keywords: *Financial Inclusion, Inclusive Growth, Financial Services*

I. Introduction

Financial inclusion is integral to the inclusive growth process and sustainable development of the country. However, the financial inclusion models that banks come up with should be replicable and viable across the country. Inclusive growth is the biggest challenge that the nation faces and it is important to ensure that while the Indian economy grows rapidly, all segments of society are part of this growth process, preventing any regional disparities from derailing such growth. Financial inclusion has been identified as a priority sector in the government's efforts to make the growth process more equitable and inclusive, and technology is playing a pivotal role in this process by reducing the cost of delivery while increasing the sector's efficiency and productivity. Financial Inclusion is also important as it provides an avenue to the poor for bringing their savings into the formal financial system. It is thus essential to extend banking services to the rural hinterland at the earliest in order to include these regions in India's growth story. The provision of banking and financial services to the rural hinterland will be an enabler for inclusive growth. Financial Inclusion promotes thrift and develops culture of saving and also enables efficient paymentmechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

II. Financial Exclusion

Financial exclusion is where the financial services are not available to the people. The rural people are very much excluded from having the financial services due to non availability of financial services in their areas or it may due to high cost for getting the financial services or non awareness about the availability of financial services. The poor people in rural as well as in urban are not able to get financial services still due to above reasons and also the huge formalities in availing the same. Financial exclusion includes-

- No savings;
- No insurance;
- No affordable credit;
- No access to monetary devices;
- No assets;
- No bank account.

Financial exclusion problem also includes the problems of financial discrimination and financial exploitation. The following are financially excluded:

- Poor people;
- Socially under privileged people;
- Disabled persons;
- Old as well as children;
- Women;
- Uneducated persons;
- Ethnic minorities;
- Unemployed people.

III. Objectives

The objective of this paper is to identify the role of banks in financial inclusion,to know the need of financial inclusion for inclusive growth and to study the issues and challenges in finanial inclusion.

IV. Financial Inclusion and Banks

Financial inclusion includes meeting the small credit needs of the people, giving them access to the payments systems and providing remittance facilities. For the purpose of financial inclusion it is highly required to ensure the following by the banking sector:

- **No frills accounts** –RBI directed banks to offer a basic banking 'no frills' account with low or zero minimum balances and minimum charges to expand the outreach of such accounts to the low income groups;
- **Easier Credit Facility** – Banks were directed to introduce a General Purpose Credit Card (GCC) facility up to Rs. 25,000/-;
- **Simpler KYC Norms** – In order to ensure that the people belonging to the low income groups both in rural and urban areas, do not encounter difficulties in opening bank accounts 'Know Your Customer' (KYC)

procedure is simplified for those accounts with balances not exceeding Rs. 50,000/- and credits thereto not exceeding Rs. 1,00,000/- in a year

- **Use of Information Technology** – Banks have been urged to scale up information technology initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely accepted open standards to ensure eventual inter-operability among the different systems;

- **Electronic Benefit Transfers (EBT) through banks** – To encourage banks to adopt information and Communication Technology (ICT) solutions for enhancing their outreach RBI formulated a scheme to quicken the pace of adoption of the smart card based Electronic Benefit Transfer (EBT) mechanism by banks and rolled out the EBT system in the States that are ready to adopt the scheme. Banks are advised to work in co-ordination with the respective government departments at the Central and State levels to ensure that all State benefits are delivered to individuals only through bank accounts within a specific time frame;

- **Business – Correspondent (BC) Model** – This model ensures a closure relationship between the poor people and the organized financial system. The RBI permits the banks to use the following as BCs-
    - Non government organizations;
    - Micro Finance Institutions;
    - Retired bank employees;
    - Ex-service men;
    - Retired Government employees;
    - Section 25 companies;
    - Individual kirana/medical/fair shop owners;
    - Individual Public Call Office (PCO) operators;
    - Agents of small savings schemes of Government of India/Insurance companies;
    - Individuals who own petrol pumps;
    - Retired teachers;
    - Authorized functionaries of well run Self Help Groups (SHGs) to linked banks; and
    - Other civil society organizations.

- **Bank Branch and ATM Expansion Liberalized** – RBI has permitted domestic scheduled Commercial Banks, other than regional rural banks, to open branches in tier 3 to tier 6 centers (with population up to 49,999 as on 2001 census) without having the need to take permission of RBI in each case. RBI also totally freed the location of ATMs from prior authorization;

- **Project Financial Literacy**: RBI has initiated a 'Project Financial Literacy' with the objective of disseminating information regarding the Central Bank and general banking concepts to various target groups. RBI's financial website line offers basics of banking, finance and central banking for Children of all ages. In a comic book format, RBI simplifies the complexities of banking, finance and central banking with the goal of making the learning fun and interesting;

- **Financial Literacy and Credit counseling** – RBI has advised the convener-bank of each State Level Banks' Committee (SLBC) to set up a financial literacy-cum-counseling centre in any one district on pilot basis to provide free financial education to people in rural and urban areas on the various financial products and services while maintaining arm's length relationship with the parent bank and based on that experience to extend the facility to other districts in due course.

V. Financial Inclusion for Inclusive Growth

Inclusive growth refers *both* to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. inclusive growth by its very definition implies an equitable allocation of resources with benefits accruing to every section of society, which is a utopian concept. But the allocation of resources must be focused on the indented short and long terms benefits and economic linkages at large and not just equitable mathematically on some regional and population criteria.

Financial inclusion is necessary for inclusive growth. Growth is inclusive when there is equality of economic opportunities. The seeds of financial inclusion were sown over 35 years ago when rural banks were established throughout the country. The branch network which was just 8000 in 1969 when banks were nationalized now has increased to more than 87000 because of the banking industry coming forward to take up social responsibilities. Still numerous villages do not have any access to the banking facilities.

Financial inclusion is integral to the inclusive growth process and sustainable development of the country. However, the financial inclusion models that banks come up with should be replicable and viable across the country. The Finance Minister said that although the banking network has rapidly expanded over the years, the key challenge would be to extend the banking coverage to include the large population living in 6 lakh villages in the country. Expressing his immense confidence in the Indian banking system to deliver on the plan for financial inclusion, Mr. Mukherjee said the system, which demonstrated its resilience in the face of the recent global financial crisis, should adopt strong and urgent measures to reach the unbanked segment of society and unlock their savings and investment potentials. To tap the fortune at the bottom of the pyramid, he recommended robust electronic transfers between bank branches located in the rural hinterland. This will facilitate the rural customers to transfer their income and conduct financial transactions seamlessly. He urged the private sector to support the designing of physical products including devices, software and financial services, training and capacity building so as to create a large manpower pool including business correspondents, and develop a business plan to tap the local talent that exists in the rural areas, on the lines of the e-choupal model.

VI. Issues and Challenges

India currently faces several issues and challenges in the area of financial inclusion for inclusive growth. Salient among them are stated here below:

1. Spatial Distribution of Banking Services: Even though after often emphasized policy intervention by the government and the concerted efforts of Reserve Bank of India and the public sector banks there has been a significant increase in the number of bank offices in the rural areas; but it is not in tune with the large population living in the rural areas. For a population of 70%, only 45% of bank offices provide the financial services.

2. Regional Distribution of Banking Services: The analysis by the authors brings to the fore that there has been uneven distribution of the banking services in terms of population coverage per bank office in the six regions viz; Northern, North-eastern, Eastern, Central, Western and Southern regions of the country.

3. Bank Branches are required to be increased as it has a direct impact on the progress of financial inclusion. It is clearly established that as the bank branches increase number of bank accounts also increase significantly.

4. Poverty levels are having direct relationship with the progress of financial inclusion. The authors have established in their study that as the poverty levels decrease financial inclusion also increase. As such, there should be multi fold strategic approach in such poverty dominated areas for financial inclusion.

5. SC/ST population: It is ascertained by the authors' study that in the areas of scheduled castes/scheduled tribes population the progress of financial inclusion is slow which indicates that the efforts for Financial Inclusion has to be increased significantly in such areas in order to bring in social and economic equity in the society.

6. Overcoming Bankers' Aversion for Financial Inclusion

Even though no banker openly expresses his aversion for the financial inclusion process, overtly it can be noticed that they are averse to it in view of the cost aspects involved in opening of no frill accounts.

VII. Conclusion

Importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. With only 34% of population engaged in formal banking, India has, 135 million financially excluded households, the second highest number after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the bank account holders use their accounts not even once a month. Financial inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. Financial inclusion provides formal identity, access to payments system & deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.

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