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CURRENT INITIATIVES AND CHALLENGES OF FINANCIAL INCLUSION PROGRAMME IN INDIA

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Abstract:

Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people. Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable which is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an important tool for inclusive growth which ensures equal opportunity for all This article focuses on the RBI and Government of India initiatives, current status and some of the challenges faced by the banks and financial inclusion plan in India on the basis of facts and data supplied by various secondary sources.

Index Terms: Financial Inclusion, GCCs, Inclusive Growth, KCCs & RBI

1. Introduction:

Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people. Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable which is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. It is in fact, one of the essential conditions for reduction of poverty and socioeconomic inequalities in the society. (Rangarajan, 2008). A broad working definition of Financial inclusion in Indian context as defined in Rangarajan Committee (2008) is "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Here the financial services include wide range of services like access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. The objective behind these services is to provide economic security to the lower income households by ensuring equal opportunity for all. As far as India is concerned, the growth potential in the SMEs sector is enormous. But limited access to savings, loan, insurance and remittances are their major constraints to growth. Financial inclusion provides access to payments and insurance to this sector. Marginal farmers, landless labours, self employed in the unorganised sector, urban slum dwellers, migrants, ethnic minorities, women and socially excluded groups are often excluded from the formal credit system. In order to bring the majority of the Indian excluded population within the ambit of the formal financial system, the RBI has started various initiatives in order to provide financial services to the unreached people with the help of financial institutions. It is in this background, the present paper attempts to study the RBI and Government of India initiatives, current status and some of the challenges faced by the banks and financial inclusion plan in India on the basis of facts and data supplied by various secondary sources.

2. Review of Literature:

Some of the literature related to the financial inclusion is: Ammannaya, K.K. (2007) identifies financial inclusion as an important means to achieve inclusive growth. He stressed that financial inclusion must cover not only the provision of avenues for savings bank account and other deposit products, but also provision of credit facilities for productive purposes. This can be made possible by making banking more inclusive through expanding the coverage of banking service by reaching the vast unbanked population of the country. Manoj (2009) in his article pointed out the main cause of financial exclusion to be the lack of regular substantial income. Most of the excluded customers were not aware of the banking services and money lenders were the easier source of loans. Therefore banks should take initiative by making KYC norms, business correspondent model, opening up of no frills account system etc. Chattopadhyay, Sadhan Kumar (2011 has developed a financial inclusion Index (IFI) using data on three dimensions of financial inclusion. It is revealed from the index that Kolkata district leads with the highest value of IFI, while rest of the districts show a very low level of financial inclusion. A survey was also conducted in the state in order to gauge the financial inclusion in rural Bengal and the results reveal that around 38 per cent of the respondents do not have sufficient income to open a savings account in the bank.

3. Objectives of the Study:

- ✓ To examine the various approaches adopted by banks, steps taken by the regulatory bodies and various government initiatives to achieve financial inclusion in India.
- ✓ To list out some of the challenges faced by the financial inclusion programmes in India.

4. Research Methodology:

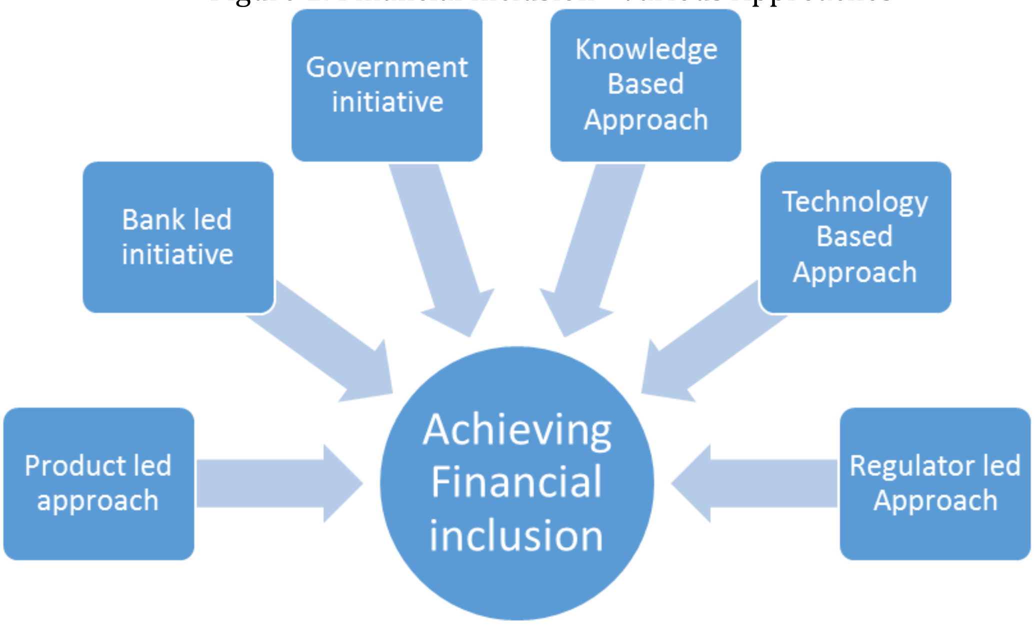
The present study is descriptive in nature. The study relies exclusively on secondary data. The data used for the study has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, Report on trend and progress of banking in India and from various reputed journals.

5. Results and Discussion

Approaches To Achieve Financial Inclusion in India:

Various measures have been taken by banks, GOI and RBI as part of financial inclusion plan in India. Some of the currently adopted financial inclusion initiatives are highlighted below.

Figure 1: Financial Inclusion –Various Approaches



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Product Based Approach:

Reserve bank of India has come up with a certain innovative products for enabling a common man to get the benefit of the financial inclusion plan through the financial institutions. Some of such initiatives include

No- Frills Account (NFAs):

RBI introduced this concept in November 2005 to provide access to basic baking services to financially excluded peoples. No-Frills Account refers to zero balance or very minimum balance. In 2012, the banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges. However, the number of transactions could be restricted so as to prevent misuse of such accounts. As a part of this, our present Prime Minister announced a National Mission Plan known as PMJDY. Guinness World Records Recognises the Achievements made under PMJDY, it says "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014". By 23 September 2015, 18.47 crore accounts were opened.

Kisan Credit cards (KCCs):

Under this scheme banks issue smart cards to the farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2014-15, public and private sector banks issued 3 million smart cards as KCCs. The Scheme is being implemented by all the District Central Cooperative Banks, Regional Rural Banks (RRBs) and Public Sector Commercial Banks throughout the country. The number of live/operative KCCs issued by Cooperative Banks, RRBs and commercial banks as on 30 September 2014 are as under:

Table 1: Number of Operative KCCs as On 30 September 2014

(No. In lakhs)

Cooperative Banks	RRBs	Commercial Banks	Total
384.92	116.12	218.06	719.1

Source: Annual Report, Ministry of Finance 2014-15

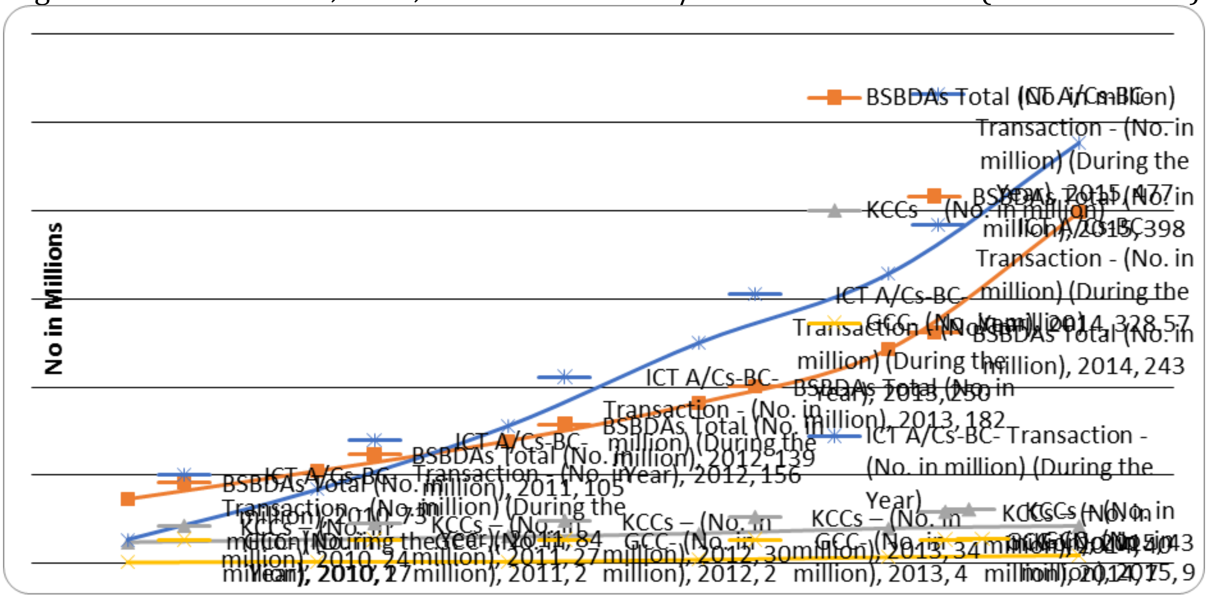
General Purpose Credit Cards (GCC):

It was introduced by Reserve bank of India, in 2005 and issued guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec.2013 under this approach bank also fulfill Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

Saving Account with Overdraft Facility:

Banks have been advised to provide overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

Figure 2: Trend in KCCs, GCCs, BSBDAS and ICT A/CS-BC- Transactions (No. In Millions)



Source: Trend and progress of Banking in India, various issues.

Bank Led Approach:

Self Help Grop - Bank Led Initiative (SLBP):- The SHG - Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in a sustainable manner. In this model, the banks involve themselves with a group of local people with the idea of enabling them to pool up their savings. The same is deposited with the bank against which the bank also provides a certain amount of credit facility. The group takes a decision to whether to lend to any member of the group. The bank provides the framework, accounting services and support to the group to manage their deposits and lending. Thus the model has an approach of savings first, lending later. The banks do not have a risk in such lending as the borrower's reputation and peer pressure in the group would reduce the risk of bad loans considerably. However, the model has some issues that affect the program.

Business Facilitators (BFs)/Business Correspondents (BCs):

It is a model based on information and communication technology (ICT). In this model the intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the banks themselves and later with improvisations and RBI policy support, the model on the back of innovative technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, i.e., the banks. However, a number of issues both for the partner banks and also for the regulators have surfaced since the start of this model. Some of them being

Regulatory Approach:

Simplified KYC Norms: - KYC is a process by which banks obtain information about the identity and address of the customers. This process helps to ensure that banks' services are not misused. The KYC procedure is to be completed by the banks while opening accounts and also periodically update the same. Under KYC norms; a customer has to provide number of documents for opening an account as per RBI guidelines. Now, RBI has relaxed a number of norms for accounts opened by people who plan to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100, 000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms. A bank account can be opened with just one address proof, permanent or local, helping migrant workers and employees with transferable jobs who at present face cumbersome procedure to access banking services. . Further, RBI has allowed 'Aadhaar' the unique identification number allotted by UIDAI, GOI to be used as one of the eligible document for meeting the KYC requirement for opening a bank account. Recently in September 2013, we have allowed banks to provide e-KYC services based on Aadhaar, thus paving the way for account opening of all the people.

6. Technology Based Approach:

Mobile Banking:

One of the most remarkable developments in terms of innovation in order to harness the full power of technology, the banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m-Pesa by Vodafone and Airtel Money.

Kiosk / ATM Based Banking:

In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches.

Branchless Banking:

Some of the leading banks have come up with this concept where there would be an online system with chat facility assisting the person to make use of various electronic machines for depositing and withdrawing cash and cheques. However this initiative is in a very initial stage and has a limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and hence this concept is currently limited to urban and semi-urban areas.

Nationwide Electronic Financial Inclusion System (NEFIS):

The recent introduction of direct benefit transfer for validating the identity of the beneficiary through Aadhaar will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans of routing all social security payments through the banking network using the Aadhaar based platform as a unique financial address of beneficiaries. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database is expected to empower a bank customer to use Aadhaar as his/her identity to access various financial services.

7. Knowledge Based Approaches:

Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

Financial Literacy and Credit Counselling (FLCC) Centres:

RBI has advised banks to set up Financial Literacy Centre's (FLC) in all the districts of the country. Banks have already set up around 942 FLCs as of March 2014. Banks have been further advised to scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps, at least once a month, both by the FLCs and also by all the rural branches. In order to ensure consistency in the messages reaching the target audience of financially excluded people during the Financial Literacy Camps, RBI has prepared a comprehensive Financial Literacy Guide containing Guidance Note for

Trainers, Operational Guidelines for conduct of Financial Literacy Camps & Financial Literacy Material as also a Financial Diary and a set of 16 posters. Banks have been advised to use the material as a standard curriculum to impart basic conceptual understanding of financial products and services. It was advised that the rural branches of scheduled commercial banks should increase efforts through conduct of outdoor Financial Literacy Camps at least once a month. Accordingly, 718 FLCs had been set up as at end of March 2013. A total of 2.2 million people had been educated through awareness camps, seminars and lectures during April 2012 to March 2013.

8. Governments Initiatives:

The government has taken various initiatives indirectly through the regulators, government promoted schemes through its various ministries. Some such initiatives have been listed below.

Women SHGs Development Fund:

It was proposed by The Union Budget 2011-2012 with an amount of Rs. 500 crore to empower women and promote their SHGs. The responsibility of managing the fund is of NABARD. It managed the same through two of its major microfinance funds, namely Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).

Financial Inclusion Fund (FIF):

The objective of FIF is to support developmental and promotional activities with a view to securing greater financial inclusion, particularly among weaker sections, low income groups and in backward regions or hitherto unbanked areas.

Financial Inclusion Technology Fund (FITF):

The objective of FITF is to enhance investment in information and communication technology (ICT) aimed at promoting financial inclusion, stimulate the transfer of research and technology in financial inclusion, increase the technological absorption capacity of financial service providers or users and encourage an environment of innovation and cooperation among stakeholders.

Swarnjayanti Gram Swarozgar Yojana (SGSY):

It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

National Rural Livelihood Mission (NRLM):

It was established in June 2010 by the Ministry of Rural Development (MoRD), GoI with emphasis on SHGs. It is based on the success of Indira Kranti Patham (IKP), a poverty alleviation program being implemented in Andhra Pradesh.

The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):

This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. As the payments are made through the bank/post office accounts, in 2010-11, nearly 10 crore bank/post office accounts have been opened.

Aadhaar:

Unique Identification Authority of India (UIDAI):- The GoI has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the GoI. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhaar number will also enable people to have access to services such as banking, mobile phone connections and other government and nongovernment services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrollment with Aadhaar without going to a bank. The individual will be able to access such bank accounts through a micro-ATM network with large geographic reach.

9. Issues and Challenges:

Several issues and challenges are faced by the financial inclusion programme in India in the area of Financial Inclusion for achieving Inclusive growth. Some of them are stated below;

Spatial Distribution of Banking Services:

Even though there has been considerable increase in the number of bank offices in the rural areas as a result of the policy intervention by the government and the concerted efforts of Reserve Bank of India and the public sector banks, 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.

Regional Distribution of Banking Services:

The various data reveals the uneven distribution of the banking services in terms of population coverage per bank office in the six regions namely; Northern, North-eastern, Eastern, Central, Western and Southern regions of the country.

Bank Branches:

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.

SC/ST Population:

In the areas of Scheduled Castes/Scheduled Tribes population the progress of Financial Inclusion is slow which points out the efforts that has to be taken for achieving inclusive growth through financial inclusion in order to bring in social and economic equity in the society.

Overcoming Bankers' Aversion for Financial Inclusion:

Even though no banker openly expresses his aversion for the financial inclusion process, clearly it can be noticed that they are averse to it in view of the cost aspects involved in opening of no frill accounts. Besides these challenges, banks also have to face some issues in reaching banking services among the socially excluded group consist of:

- ✓ **Technological Barriers:** Absence of an appropriate technology is a serious challenge. Transaction costs are too high because technology is not leveraged fully. Finger print storage and retrieval need to be made convenient. It is an issue because of lack of standards and training and maintenance.
- ✓ **Demand Side Barriers:** Demand side barriers include lack of financial literacy, lack of awareness of financial services and products, social exclusion and the fact that certain products being currently offered are not suitable for the poor.
- ✓ **Supply Side Barriers:** Supply side barriers are the issues with high transaction costs, lack of communication and the lack of a proper framework or infrastructure.
- ✓ **High Cost:** It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them.

- ✓ **Lack of Awareness:** Many people are unaware of the banking terms and conditions laid down from time to time.
- ✓ **High Transaction Charges:** Various commercial banks across the globe levy transaction charges on credit or debit transactions, on cheque book issuance etc.
- ✓ **Lack of Access:** As most of the commercial banks are located in the vicinity of cities, people in rural areas (mainly in developing countries) have a geographical barrier in accessing banks. The lack of accessibility to financial services to the poor and disadvantaged class has been identified as one of the serious threat for including the poor in the process of inclusive growth (NABARD, 2012).
- ✓ **Illiteracy:** a substantial number of people are unable to take recourse to banking services due to illiteracy.

10. Conclusion:

The Government of India and the Reserve Bank of India have been making intensive efforts to promote financial inclusion as one of the important national objectives of the country which consists of - 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. All these efforts intends to include vast segment of unbanked people in to mainstream banking such as Micro Finance- Self Help Group Model (1992), Kisan Credit Card (1998), No Frill Accounts (2004), Business Correspondents and Business Facilitators (2006, 2009) but the path of financial inclusion is continuous to be challenging. Though the number of no frills accounts has grown phenomenally, an important challenge is to keep these accounts operational because so many are found to be dormant. Therefore, Regulatory bodies, banks and Government should intensively work on create awareness by educating people about finance. Hence, there is a need for coordinated action between the banks, the Government and other related institutions to facilitate access to bank accounts amongst the financially excluded.

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