# FINANCIAL INCLUSION INDIA AN OVER VIEW

**Presented By-Dr. Manjula Gupta**
**Associate Professor**
**Commerce**
**Maharaja Agrasen University Baddi**

# Importance of Financial Inclusion

- Financial inclusion is a buzzword now and has attracted the global attention in the recent past. The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. **C.Rangarajan Committee (2008)** defined financial inclusion 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.”**
- Though, there are few people who are enjoying all kinds of services from savings to net banking, **but still in our country around 40% of people lack access to even basic financial services like savings, credit and insurance facilities.** Financial inclusion is the road that India needs to travel towards becoming a global player

# Why Financial Inclusion?

1. To boost savings.
2. To reduce leak in subsidies and welfare distribution.
3. Credit availability.

**Scope of financial inclusion may be depicted by the following picture:**

# *Benefits of Greater FI*

- For the common man–escape from the clutches of money lenders; sending / receiving remittances; no need to hold savings in cash etc.
- For the banks–achieving access to a large untapped pool of customers.
- For the Govt.-ensuring flow of aid / grants to the targeted beneficiary. (DBT Scheme )
- For the RBI -spread of banking culture and extension of the reach of formal financial system.

# Financial Exclusion

- Currently, India ranks 2nd in the world in terms of financially excluded households after China. Financial exclusion results in widespread inequality in incomes and earning opportunities. Reasons for financial exclusion:

1. Lack of banking facility in the locality (i.e. geographical exclusion including a rural urban divide).
2. Financial illiteracy.
3. Nonchalant attitude of the staff.
4. Cumbersome documentation and procedures.
5. Unsuitable products.
6. Language.
7. Feeling uncomfortable by a section of population in visiting a bank branch.
8. Lack of awareness and initial inhibitions in approaching a formal institution.
9. Low incomes/assets.
10. Distance from branch and branch timing.
11. Fear of refusal.

# Financially Excluded Sections

1. Marginal farmers;
2. Landless labourers;
3. Oral lessees;
4. Urban slum dwellers;
5. Migrants;
6. Self-employed and unorganized sector enterprises;
7. Ethnic minorities and socially excluded groups;
8. Senior citizens and women.

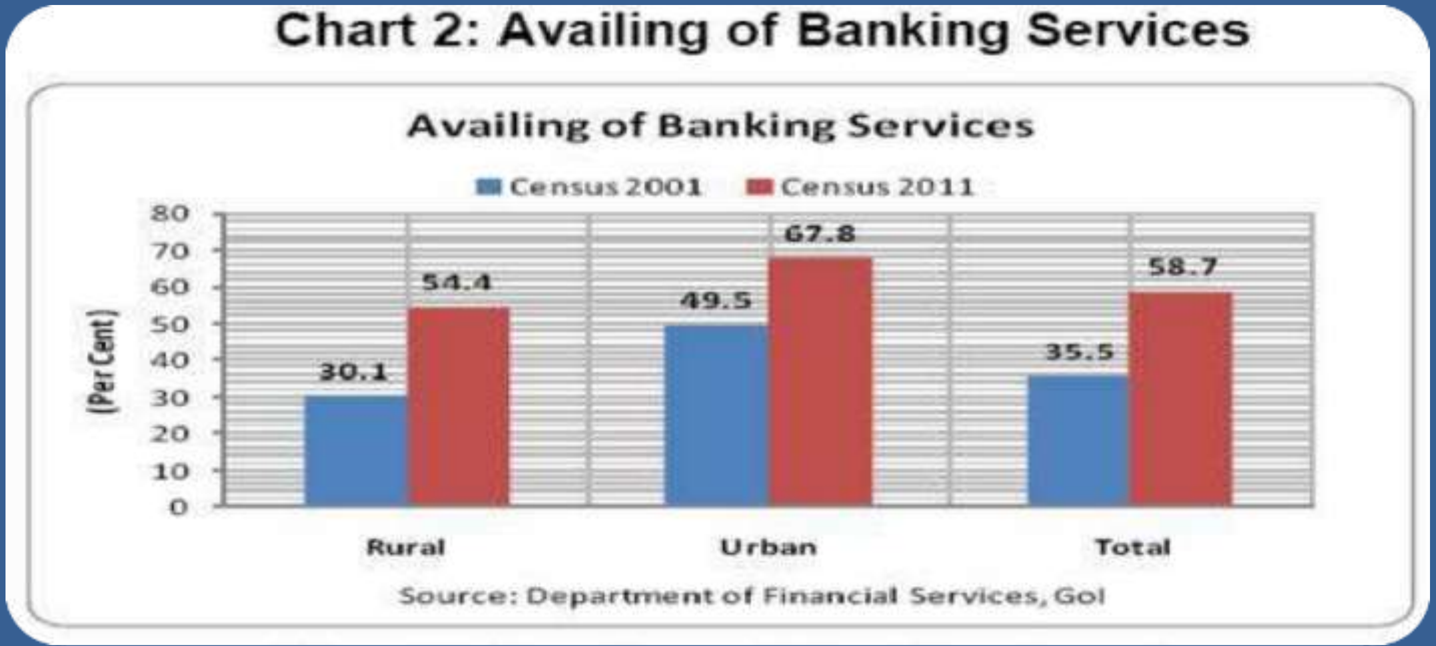
# Pradhan Mantri Jan Dhan Yojana

- 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.

The features of the scheme are:

1. Your bank account of PMDJY will be open in 3 minutes only.
2. There is Rs.5000 loan or overdraft facility.
3. Rupay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and Rupay Kisan Card
4. In next phase, micro insurance & pension etc. will also be added.
5. Insurance up to Rs.30, 000.

# Banking Services in Unbanked Villages




- **Banking services in rural has been increased from 30.1 percent in 2001 to 54.4 percent in 2011 and in urban from 49.5 percent in 2001 to 67.8 percent in 2011. It is observed that rural as well as urban people are participating in the financial services with the banking industry with increasing trend over the years.**

# India compared on financial inclusion against other countries

| Sl. No. | Country | House debt to GDP (in %) |
|---|---|---|
| 1 | USA | 82.9 |
| 2 | India | 8.9 |
| 3 | Indonesia | 12.8 |
| 4 | Taiwan | 86.3 |
| 5 | Korea | 84.8 |
| 6 | Singapore | 75.6 |
| 7 | Hong Kong | 64.2 |
| 8 | China | 36.8 |
| 9 | Malaysia | 86.8 |
| 10. | Thailand | 82.9 |
| ---------------------------------------- | ---------------------------------------- | ---------------------------------------- |
| The table show that India's among its Asian peers. | household debt-to-GDP | ratio is a mere 8.9%, lowest |

# House debt to household disposable income (in %)

| Sl. No. | Country | House debt to household disposable income (in %) |
|---|---|---|
| 1 | USA | 111 |
| 2 | Taiwan | 163 |
| 3 | Japan | 124 |
| 4 | India | 9 |
| 5 | Singapore | 210 |
| 6 | China | 48 |
| 7 | Korea | 161 |
| 8 | Thailand | 125 |
| 9<br>-----------------------------------<br>Though, India’s low level of<br>India’s household debt to | Malaysia<br>-----------------------------------<br>per capita income is the reason<br>household disposable income | 168<br>-----------------------------------<br>for the low household debt.<br>too is very low, at just 9%. |

# Level of Financial Inclusion in different States of India

# Financial Inclusion objectives and vision

Financial Inclusion, Stability, Integrity and Protection

Develop Ecosystem of Diverse set of financial products to make payments, save, borrow and manage risks

Support Consumer Centric product Design and evidenced based policy making to improve access and usage

| | | |
|---|---|---|
| Promote development of digital financial products through digital transactional accounts | Expand and diversify access points | Achieve scale with bulk payments (e.g. through Social Transfers, B2B, remittances) |

Financial Literacy and Consumer Protection

Adequate Financial Infrastructure

Enabling Laws and Regulations

Government Leadership and Commitment

# The new Financial Inclusion Mission

- It has two phases with **Phase-I** starting from 15th August 2014 and extending up to 14th August 2015.
- **Phase-II** would then kick in and last until 14th August 2018.
- The bulk of the savings, credit and remittance services will be offered in Phase-I and insurance and pension would be covered in Phase-II.
- **Digital Financial Inclusion in India**
- Technology has made rapid strides in the last few years and therefore the Government is planning to use technology especially – Mobile based services in a big way to fast track financial inclusion in the country. Till now the primary method for branchless banking has been through **Business Correspondent Model (BCM).**

# Future of Financial Inclusion in India

- Last Mile Urban Inclusion (It is expected that formal financing channels in India will cross the level of 95% inclusion by 2020 in urban areas ).
- Reactivation Drive for Dormant Accounts
- White Label ATM's in India (non-bank entities with out Bank logo called White label ATMs, e.g. Indicash, Muthoot Finance etc).
- CBS becoming CBS (Core Banking Solution - Complete Banking Solution)
- Conversion of 'no frill account' (either with `nil` or very low minimum balance) to 'regular saving bank account'
- Limited purpose branch
- Insurance inclusion
- Pension inclusion
- Electronic pass book
- Deregulation of banking license

# Strategies Adopted for Strengthening Financial Inclusion in India

- **Direct Benefit Transfer (DBT)**
- **USSD (Unstructured Supplementary Service Data) Based Mobile Banking**
- **Setting up of Ultra Small Branches (USBs)**
- **Swabhimaan Campaign: Under “Swabhimaan”**
- **Business Correspondent Model (services of Intermediaries in providing financial and banking services through the use of Business Facilitators (BFs).**
- **Bank – SHG Linkage Model**
- **Bank – MFI linkage Model**
- **MF-NBFC Model (MF-NBFC is new category of Non - banking Finance Company in providing microfinance services to the rural, semi-urban and urban poor)**

# Strategies Adopted for Strengthening Financial Inclusion in India

- Bank - Post office Model
- Opening of no-frills accounts
- Relaxation on know-your-customer (KYC) norms
- Use of technology
- Adoption of EBT ((Electronic Benefit Transfer )
- GCC (General purpose Credit Card )
- Simplified branch authorization
- Opening of branches in unbanked rural centers
- CRISIL (Credit Rating Information Services of India Limited) Financial Inclusion Index

# Challenges ahead for Financial Inclusion in India

- **Demand side challenges are**: low literacy levels, lack of awareness about financial products, irregular income, lack of trust in formal banking institutions etc. **Supply side challenges are:** non-availability of branches in rural area, more rules and regulations and high bank charges, limited number and types of financial service providers.
- This could be possible to achieve by overcoming the following shortcomings:
- Literacy awareness programs to be conducted for banking services.
- Reaching the unreached people is the challenging task to RBI & government.
- North-East area to be covered with the help of satellite oriented new technology.
- All intermediaries (BC, MF, SHG, NGO, etc.) need to be given time bound task.
- Assign responsibility to all Lead Bankers.

# Suggestions

- Various immediate measures which government of India should implement or which are under implementations, should be executed in a more effective manner.
- 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 (inter action) between the technology providers and banking channels to expand each. 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

- The role of RBI under the guidance of central government is commendable for taking drastic steps to achieve the inclusive growth. Reaching out to the hither-to unreached segment of population and providing basic financial services is the need of the hour. It goes without saying that the banking industry has shown tremendous growth in volume during the last few decades. India's fastest growing economies have become possible through financial inclusion. Despite, still there are large segments of the society outside the financial system. Continuous concerted efforts should be made to bring them under financial inclusion.

# Thank You