International Journal of Research in Social Sciences
Vol. 8 Issue 12, December 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

FINANCIAL INCLUSION IN INDIA: INTRODUCTION, OBJECTIVES AND GOALS

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Introduction

Financial Inclusion is a process that enables improved and better sustainable economic and social development of the country. It focuses on raising the standard of living of the underprivileged people in the society with the objective of making them self-sufficient and well informed to make better financial decisions. It acknowledges the participation of low income groups based on the extent of their access to financial services in the economic growth.

Financial sector is the backbone for any developing nation. So the focus has to be on growth and stability of financial position of all citizens of the country in order to ensure continuous development. Consequently financial inclusion plays an indispensable role in inclusive growth of an economy. In simple terms financial inclusion strives to address the challenge of poor access of financial services to rural masses in India.

Financial Inclusion is described as the method of offering banking and financial solutions and services to every individual in the society without any form of discrimination. It primarily aims to include everybody in the society by giving them basic financial services without looking at a person's income or savings. Financial inclusion chiefly focuses on providing reliable financial solutions to the economically underprivileged sections of the society without having any unfair treatment. It intends to provide financial solutions without any signs of inequality. It is also committed to being transparent while offering financial assistance without any hidden transactions or costs.

Financial inclusion aims to eliminate the barrier of unawareness and provide economically priced financial services to the less fortunate sections of the society so that they can be financially independent without depending on charity or other means of getting funds that are actually not sustainable. Financial inclusion also intends to spread awareness about financial services and financial management among people of the society. Moreover, it wants to develop formal and systematic credit avenues for the poor people.

Objectives of Financial Inclusion

- Financial inclusion intends to help people secure financial services and products at economical prices such as deposits, fund transfer services, loans, insurance, payment services, etc.
- It aims to establish proper financial institutions to cater to the needs of the poor people. These institutions should have clear-cut regulations and should maintain high standards that are existent in the financial industry.
- Financial inclusion aims to build and maintain financial sustainability so that the less fortunate people have a certainty of funds which they struggle to have.
- Financial inclusion intends to increase awareness about the benefits of financial services among the economically underprivileged sections of the society.
- The process of financial inclusion works towards creating financial products that are suitable for the less fortunate people of the society.
- Financial inclusion intends to improve financial literacy and financial awareness in the nation.

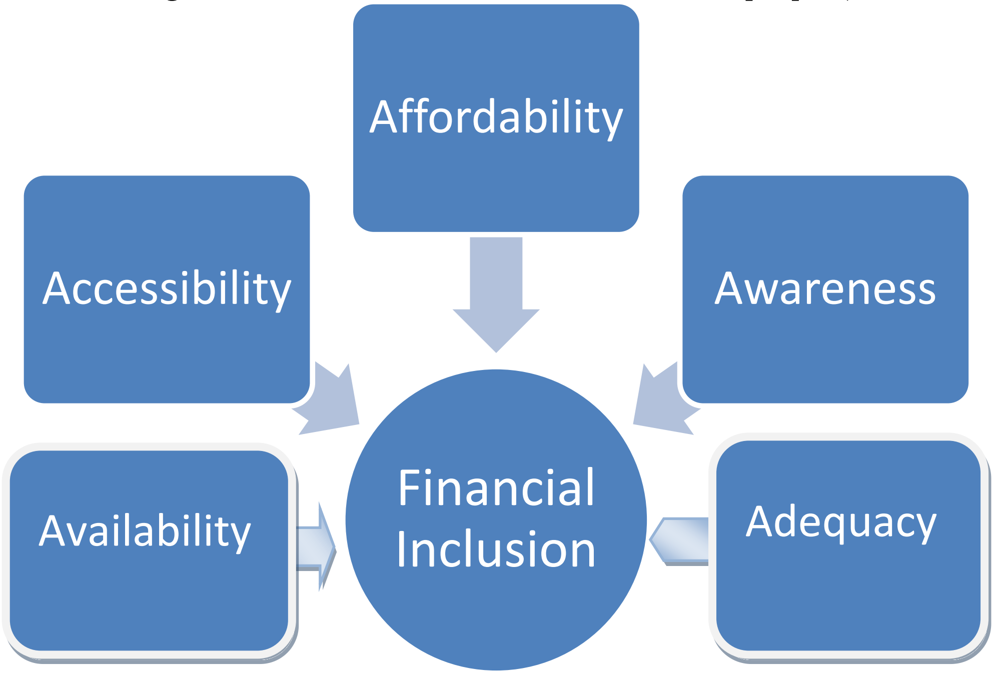
- Financial inclusion aims to bring in digital financial solutions for the economically underprivileged people of the nation.
- It also intends to bring in mobile banking or financial services in order to reach the poorest people living in extremely remote areas of the country.
- There are many governmental agencies and non-governmental organisations that are dedicated to bringing in financial inclusion. These agencies are focussed on improving the access to receiving government-approved documents. Many poor people are unable to open bank accounts or apply for a loan as they do not have any identity proof. There are so many people who live in rural areas or tribal villages who do not have knowledge about documents such as PAN, Aadhaar, Driver's License, or Electoral ID. Hence, they cannot avail many of the services offered by governmental or private institutions. Due to lack of these documents, they are unable to avail any form of subsidies offered by the government that they are actually entitled to.

Reserve Bank of India first released a formal definition of financial inclusion in 2008 and after that various researchers have tried to explain the concept. The origin of financial inclusion can be traced back to the year when United Nation initiatives were undertaken which specified the provision of credit, insurance, savings and other banking services to all "bankable households." In India, the steps towards financial inclusion were slow but quite steady and they can be glanced through table below:

❖ **Crucial Milestones of Financial Inclusion in India**

YEAR	Details of Event
1956	Imperial Bank of India was nationalized.
1968	National Credit Council was set up.
1969	Lead bank scheme was introduced
1971	Priority sector lending norms were laid down.
1975	Regional Rural Banks (RRBs) were established.
1982	National Bank for Agriculture and Rural Development (NABARD) was established
1992	Self Help Groups Linkage Programme was launched to support females of rural areas.
2000	SIDBI foundation was established for making provisions of micro credit
2004	Khan Committee was set up by Reserve Bank of India.
2005	Pilot project on financial inclusion was introduced in Mangalam village of Pondicherry by Chairman of Indian Bank Dr. K.C. Chakraborty
2007	Bill on Microfinance Regulation was proposed in parliament.
2012	Finance Department of Government of India passed Microfinance Institutions (Development and Regulations.
2012	Revised Guidelines on Financial Literacy Centres were introduced.

Microfinance institutions (MFIs) in India have played a key role in enhancing the status of financial inclusion. In a recent study carried out in 2017, five A"s of financial inclusion have been showed in form of a diagram in figure below. The **first factor** is "availability" which implies that financial inclusion means making all types of financial services available to the all individuals irrespective of income and size of credit. The **second factor** implies availability of such services at an affordable cost. The **third factor** implies that services like credit, insurance, savings etc. should not just be made available with the banks but should also be accessible for people staying in even remotest corner of the country. Under this factor various number of bank branches were set up by Public sector banks in rural areas. The **fourth factor** implies that merely making products and services available and accessible at lower cost is not sufficient, but rather there is a need to create awareness about it. Under this numerous campaigns were organized in villages, different advertisements were rolled out highlighting the importance of savings and insurance, pamphlets were distributed at every nook and corner of cities. The **last factor** implies that all the kinds of financial services need to be adequate in the sense that as focus is on people from weaker sections of society so will need loans in smaller amounts and if the loans are being offered in huge amounts it will not be acceptable for such people (Kaur et al, 2017).



Source: Kaur et al (2017)

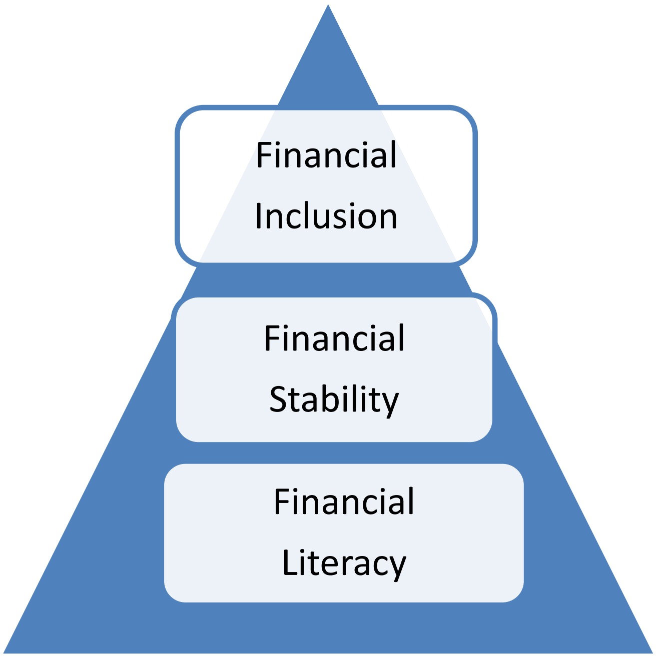
❖ Need of Financial Inclusion in India:

Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner. Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed.

Financial inclusion can be understood as an important cornerstone of economic development. A research conducted on financial inclusion reveals that for improving the financial condition of economically weaker sections of society initiatives towards financial inclusion are indispensable. It includes a wide variety of activities like savings and insurance and is not limited to extension of credit facilities. There was lower level of awareness amongst rural poor about financial inclusion plans.
RBI has also listed financial literacy as one of the aspects of financial inclusion tripod as shown in figure below. RBI laid down three principles/pillars which will guide the path towards achievement of inclusive growth. While the main focus was on financial inclusion, other two principles/pillars were used as a foundation for attaining the first objective. In a

cross country study conducted by two researchers, it was found that there is a strong positive correlation between level of financial inclusion and level of human development.

❖ Financial Inclusion Tripod



Source: Financial Stability: Issue And Challenges 2009: Valedictory Address By Dr. D Subarao, Then Governor Of RBI

Through financial inclusion the resource base of Indian financial system can be enhanced as it promotes a culture of savings amongst large segment or rural population. Further, by provision of financial services to low income groups helps them to protect their financial wealth and use it in any insistent circumstances. Easy access to formal credit will protect the vulnerable sections of society from usurious money.

❖ Financial Inclusion Schemes in India

The Government of India has been introducing several exclusive schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society. After a lot of planning and research by several financial experts and policymakers, the government launched schemes keeping financial inclusion in mind. These schemes have been launched over different years. Let us take a list of the financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Atal Pension Yojana (APY)
- Stand Up India Scheme
- Pradhan Mantri Mudra Yojana (PMMY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Sukanya Samriddhi Yojana
- Jeevan Suraksha Bandhan Yojana
- Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)
- Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives
- Varishtha Pension Bima Yojana (VPBY)

Pradhan Mantri Jan Dhan Yojana (PMJDY)

To ensure a banking account in every household, the Prime Minister, in his maiden speech from the Red Fort on August 15, 2014, announced the need for focused efforts.

- Launched by the honourable PM of India, Narendra Modi, on 28 August ,2014
- Run by the Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 crore bank accounts were opened.
- By 28 January 2015, 12.58 crore accounts were opened with around 10590 crore were deposited under the scheme.

Benefits Under PMJDY Scheme

- Interest on deposit
- Accidental insurance cover of Rs. 1.00 Lac (to be given by HDFC Ergo)
- No minimum balance required.
- Life Insurance cover of Rs. 30,000 (to be given by LIC)
- Easy transfer of money across India.
- Easy satisfactory operation of account for 6 months, an overdraft facility will be permitted.
- Overdraft facility upto Rs. 5000/- is available in only one account per household, preferably lady of the household.

Steps taken by Government and RBI for Attaining Financial Inclusion

Keeping in mind that low-income people living in rural and urban areas have very limited access to financial products and services, scheduled commercial banks (SCBs) have been asked by the Reserve Bank of India to design and offer exclusive financial products to the economically weaker sections of the society. However, due to their lack of access to instant credit facilities, banks were instructed to issue cost-efficient credit cards to the low-income groups of the society. Some of the special financial products provided to them include:

- **General Credit Cards (GCC):** Banks were asked by the RBI to launch and offer General Credit Card facilities with an amount of up to Rs.25,000 at their branches located in semi-urban and rural areas.
- **Kisan Credit Cards (KCC):** The Reserve Bank of India also instructed banks to provide Kisan Credit Cards exclusively to small farmers who earn very low incomes and who have very limited funds due to which they cannot invest in proper farming tools, fertilisers, pesticides, crop seeds, tractors, land for farming, storage warehouses, etc. They are forced to rely on other wealthy landlords for getting land to sow crops. These Kisan Credit Cards are intended to help farmers make instant purchases whenever required. Many a time, farmers give up on purchasing things required for their occupation due to lack of funds.
- **ICT-Based Accounts via BCs:** The Reserve Bank also devised a plan to help banks to reach out to the unbanked individuals of the society by offering information and communications technology (ICT)-based bank accounts with the help of business correspondents (BCs). These accounts allow users to make withdrawals of cash, create deposits, and apply for loans and other forms of credit through electronic forms. This type of account makes banking inexpensive and simple.

- **Increase in ATMs:** The Reserve Bank of India also reported that many rural parts of the nation do not have enough automated teller machines (ATMs) and this is hampering many buying and selling operations of the people residing in those areas. In order to increase the availability of physical cash for these people, the number of ATMs increased massively.

Financial Inclusion in India through Digitisation of Monetary Transactions

The government of India intends to carry out crores of digital financial transactions for the present and upcoming years with the help of Unified Payment Interface (UPI), Unstructured Supplementary Service Data (USSD) banking methods, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT), Aadhaar Pay, debit cards, BHIM, and credit cards.

Moreover, the government wants to make it compulsory for fertiliser depots, block offices, petrol pumps, road transport offices, hospitals, colleges, universities, etc. to make arrangements for accepting payments for services and products through digital payment systems. It makes a lot of sense especially when customers are required to make high-value payments at these institutions or offices. The government intends to achieve this by issuing a mandate to the above-mentioned institutions.

Apart from introducing digital financial systems to the poor people, a few banks have released mobile banking vans or trucks to reach the interior parts or untouched parts of the country. In these parts, people do not have access to transport, communication, or financial services.

Along with the government-owned payment apps, there are many private mobile electronic wallet (e-wallet) systems created by private companies and banks. Most of these apps allow bank fund transfers. All these e-wallets enable users to make payments digitally in a convenient manner. One of the leading e-wallets in India is Paytm. It is available on Android, Blackberry, iOS, Ovi, Windows, etc. Some of the other prominent e-wallet apps include Freecharge, MobiKwik, Citrus Wallet, Oxigen Wallet, ItzCash, Axis Bank Lime, Jio Money, ICICI Pockets, HDFC PayZapp, SBI Buddy, mRupee, Vodafone M-Pesa, PayMate, PayUmoney, Juspay, Ezetap, Citi MasterPass, MomoeXpress, Ola Money, Mswipe, etc.

Goals of Financial Inclusion for Women Empowerment

Financial inclusion is very particular about including women in financial management activities of a household. Financial inclusion believes that women are more capable of handling finances efficiently when compared to men of a house. Hence, financial inclusion activities target women by helping them get started engaging in financial management. There are many houses where women are not permitted to be involved in managing money. They are controlled by the men of the house and are asked to take care of only the domestic chores.

Many conservative people in India believe that women are not capable of handling money. With the help of financial inclusion, the government, as well as non-governmental agencies, intend to get rid of this mentality. Financial inclusion is encouraging women to take up more employment opportunities and be financially independent. It also explains that women will not have to rely on men for money. They also do not have to wait for men's permission to do anything.

Financial inclusion intends to empower women belonging to low-income groups by increasing financial awareness among them. Women are also taught in simple ways to save their money for future purposes. They are provided with exposure to multiple affordable savings instruments. They are also taught about the various forms of credit available in the market. These forms of credit will help them start up a new small business venture or take up a training course to apply for a new occupation. This will also increase their monthly income.

Financial inclusion is also making many women get mobile phones for their own usage. In several parts of the nation, only men had their own mobile phones and women had to depend on these men. Over the past few years, women have started to own mobile phones and have started to use them for work purposes, business purposes, and financial requirements. Many of them have started to utilise digital modes of payment and other financial operations with the help of mobile phones. This has simplified and quickened their transactions.

The idea of financial inclusion is encouraging banks and other financial institutions to assist the unbanked sections of the society. Many of these institutions are also focussing on making women financially independent by providing special rates and exclusive discounts or other benefits. Many banks charge subsidised or discounted interest rates to women for their loan products. For savings accounts offered by certain banks and non-banking financial corporations, women depositors gain more interest on their deposits when compared to men.

CONCLUSION

There is a dire need to provide quality financial services in rural areas for economic growth as it will help rural households to fund the growth of their livelihoods. Government of India has taken heartfelt efforts in bringing the citizens of India under the ambit of banking services. But still some segment of the nation is lagging behind even though financial inclusion initiatives are in progressive stage. Rapidly developing technology has also played a vital role in bridging the financial divide of the nation. More number of people have started using ATMs, Immediate Payment Service (IMPS) and mobile banking. In a nutshell it can be said that India is at a fast pace towards achieving financial inclusion and this can be speeded up by collaborative efforts of Government, Reserve Bank of India (RBI) and Citizens of the country.

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