International Journal of Humanities and Social Science Research
ISSN: 2455-2070; Impact Factor: RJIF 5.22
www.socialsciencejournal.in
Volume 3; Issue 3; March 2017; Page No. 90-94

Financial inclusiveness in rural sector

[1] Venkatalaxmi P, [2] Dr. K Ramachandra

[1] Research Scholar in Commerce, Rayalaseema University, Kurnool, Andhra Pradesh, India
[2] Research Guide, PG Co-Ordinator, Maharani Womens Arts, Commerce and Management College, Sheshadri road, Bangalore, Karnataka, India

Abstract

Low income and Poverty in rural sector remain a stubborn challenge in India for the rapid economic expansion in previous decades. Financial inclusion is often considered as an important and essential element that makes growth inclusiveness towards access of finance which enable economic growth in different modes such as investment decisions, participate in productive activities, and to face with unexpected short-term shocks. To attract these low income and poverty towards financial inclusion, the government policymakers design and implement some programs that will broaden access to financial services, leading to reduction of poverty incidence and income equality. This paper highlights the existing literature on financial inclusion by focusing on developing Indian economy. The research also looks into the impact of financial inclusion, along with other control variables, on poverty and income inequality in their financial management. Our findings suggest that the provisions for young and old-age populations, mainly in rural area e.g., No frill account, DBT, PMJDY etc, thereby contributing to poverty reduction and lower income inequality.

Keywords: finance inclusions, financial exclusiveness, Indian economy

Introduction

Access to finance has been recognized among policy makers as a magic bullet of economic development especially if it is inclusive. Inclusive finance is access to a range of quality financial services to the excluded people with low income and limited property collateral. This assessment has tried to assess inclusiveness of financial services in PRIME operation areas in banking sector. In India we have 130 corers population i.e 100% out 130 crore population, only 40% of 130 crore population are having bank accounts. 60% of the total population do not have any bank account either in Foreign bank, public sector bank, private sector bank, co-operative societies, Rural Regional Bank.

Fig 1

When this people are not having bank account, the banking industry will be very less or may be very poor. When that is the situation, the capital formation becomes very difficult to the financial institution. So it is very important to mobilize the savings of that rural sector. But the rural people are majority of them are excluded from the banking activities. 60% of the people do not have bank account because of so many factors are contributing. Illiteracy accessibility a money lender is easy to transact with the money lender the people are easy to transact in villages the people easily go to money lender. They will borrow, pledge pawn etc to rise loan also money lender is accessible they are not used to banks. Now if 60% is left out from banking process what will happen to the economy? Savings are not channelized there are chances of wastage and losses and they are kept away from the Indian economic development growth process individual development happen? Rural development will not happen, they are away and therefore are excluded population 40% is included population 60% is called excluded population from the banking industry. And those excluded population should compulsorily include in economic development of India. The consensus is that finance promotes economic growth but the magnitude of impact differs. Financial inclusion is intended to connect people to banks with consequential benefits. Ensuring that the financial system plays its due role in promoting inclusive growth is one of the biggest challenges facing the emerging economies. We therefore advocate that financial development creates enabling conditions for growth when access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognised as a pre-condition for accelerating growth and reducing income disparities and poverty. Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks.

Affordable cost to the vast sections of the disadvantaged and low income groups". Usha Thorat (2006) has defined the term as "Provision of affordable financial services viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded". A committee on Financial Inclusion was formed under the chairmanship of C. Rangarajan and that committee defined the term 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".

This paper focus on the significance of Financial Inclusion towards the context of a developing economy country like India wherein large population of rural area are away from many financial services which are very much essential for overall their family development and economic growth of a country.

Most of the rural population in India are unbanked and financially excluded population. The people are still not much interested towards banking sectors because of many reasons. Nevertheless there is also a significant amount of urban population of India who face the same situation even with easy access to banks.

Statement of the problem

For the growth of economy it is very important to include all sector people in banking activities. But most of the rural sector are financially excluded themselves. To achieve greater financial inclusion, financial services should reach the poor and low income people. Towards this banks and other financial institution are playing a vital role in filling up this gap. This research helps us to know the financial inclusion position with different policies made by the government.

Review of Literature

Some of the literature in relation to the financial inclusion are here. T. O. Jayasree, (2016) highlighted in their research work that financial inclusion is an important tool to achieve inclusive growth. The study also focus that inclusive growth 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. M. Mamatha (2015) [1] in her 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. Paramjeet Kaur. (2014) [2] in their research focused on the rural population in India that the needs social improvement and attention to financial inclusiveness. To improve the finanacial inclusiveness the government made policies in the public interest after Prime Minister of India announced the launch of Pradhan Mantri Jan DhanYojana, a scheme to bank the poor. The spirit of pushing economic development is the main agenda by making a mandate to have aadhar.

Objectives of the study

1. To identify the reasons for financial exclusion;
2. To give an overview of financial Inclusive for economic growth in India
3. To evaluate the role of banks in promoting financial inclusion.
4. To analyze the current status of financial inclusion in Indian economy
5. To assess the Banking Service facilities for financially excluded people; and
6. To conclude the remarks

Research Methodology

The present study is descriptive in nature. The study exclusively depends on secondary data. The data used for the study has been collected from RBI bulletin, Ministry of Finance, RBI annual reports, banking progress in India and from various reputed journals, magazines, newspapers, e-journals, etc.

Approach's of financial inclusion in India

To achieve this financial inclusion, the banks have taken various measures. Along with that GOI and RBI are also taken initiative to be a part of financial inclusion plan in India. Some of the recent approaches adopted in financial inclusion are focused below.

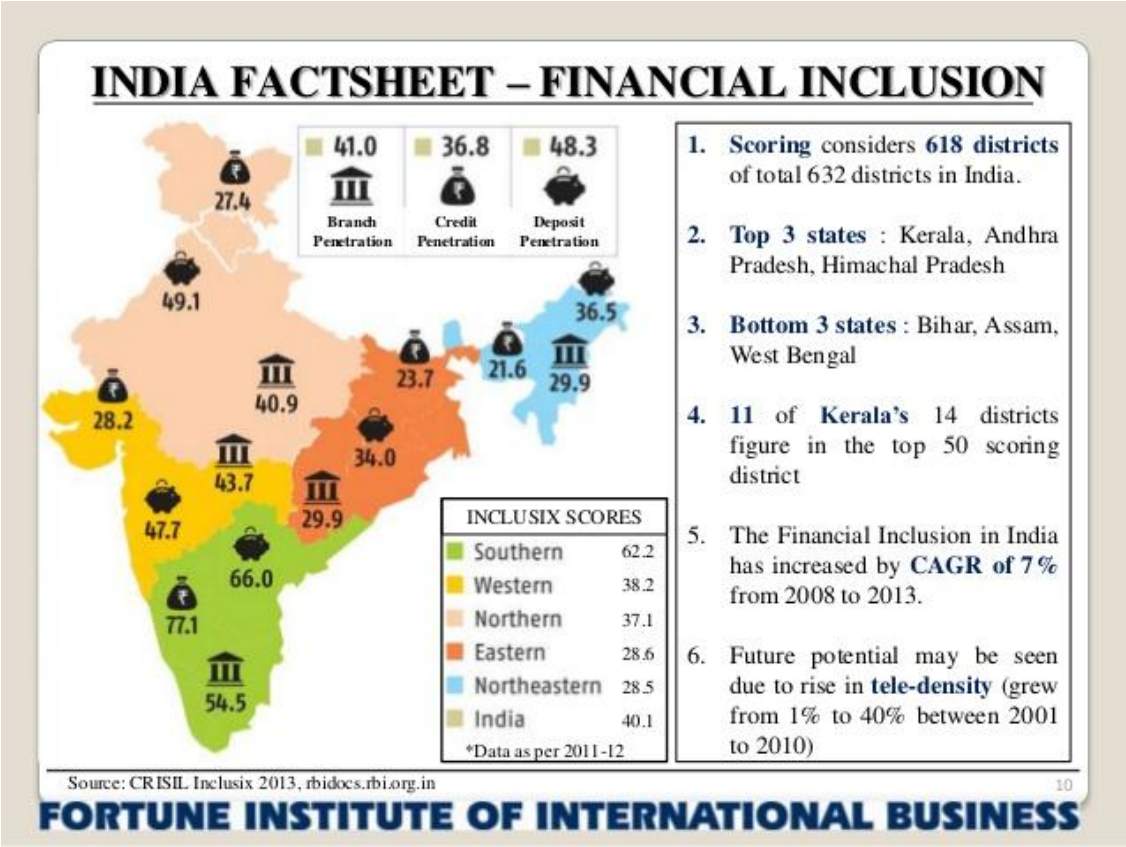

Fig 2

Introduction of 'No Frill accounts'

RBI introduced No frill account in November 2005 with the intention of providing basic banking services so that some were it attract financially excluded people towards inclusiveness. No-Frills Account refers to zero balance or very minimum balance. In 2012, the banks under guidelines of RBI came-up with a better version of the no-frill accounts where the people can open their account with Basic Savings Bank Deposit Accounts (BSBDAs) along with the other facilities like cheque book, debit card, internet banking, overdraft limits at minimum 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.

Know Your Customer (KYC)

The Know Your Customer (KYC) requirements for opening bank accounts have been relaxed and simplified for accounts with balances not exceeding Rs. 50,000/- and aggregate credits in the accounts not exceeding Rs.one lakh a year. In December, 2010 the Prevention of Money Laundering Rules have been amended and KYC norms have been revised to allow the letter carrying the UIDAI number as well as the job card issued by NREGA as 'officially valid documents' for opening small accounts. RBI has issued the notification to all Banks for opening of "Small Accounts" in January, 2011

Pradhan Mantri Jan-Dhan Yojana (PMJDY)

PMJDJ is mainly towards the poor sectors addressing the concerns related to a more concrete and substantial engagement with the poor as part of a strategy to be undertaken in the mission of financial inclusion. The major objective of opening savings bank accounts for all households is supplemented by (a) life insurance (b) credit card; and (c) accident and (d) overdraft facility; and other facilities, which gives guarantee of providing the kind of safety to the family based upon a diverse set of financial products that has been sought by development practitioners in support of poor households.

Direct Benefit Transfer (DBT)

The direct benefit transfer created a valuable identification through Aadhaar Card which help in creating link for delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. Government aimed to link all social security payments through the banking network by using the Aadhaar. In order to ensure smooth roll out of the Government"s Direct Benefit Transfer (DBT) initiative, banks have been advised to open accounts of all eligible individuals in camp mode with the support of local Government authorities, seed the existing and new accounts with Aadhaar numbers and put in place an effective mechanism to monitor and review the progress in implementation of DBT

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.

Mobile Banking

One of the most tremendous developments in terms of innovation in order to enrich 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.

India's progress on financial inclusion [6]

42.8 India's financial inclusion score on a scale of 100

703 million total savings bank accounts in India. The number rose 12.6% in 2012 alone, and shows more people are becoming a part of the formal financial system

1 in 7 Indians has access to bank credit

2% of India's bank branches are in the bottom 50 districts in terms of CRISIL Inclusix score

40% The increase in bank savings accounts since 2009

1 in 2 Indians has bank savings account

11.1% growth in agricultural credit accounts in 2012 over 2011

183 million loan accounts in India, which is a fourth of the total savings accounts

58% South's share of new credit accounts opened

5.6% Growth in bank branches in 2012

587 The number of districts out of the total 638 that have betterd their CRISIL Inclusix score in 2012 over 2011, and 34/35 states and Union Territories have done the same. Showing the overall improvement is widespread

7.9 Bank branches per lakh of population. The bottom 50 districts have just 3.5 in comparison

Along with the above policies the RBI and GOI have taken initiatives towards financial inclusion. They are,

a. With the intention of providing banking services for more than 6 lakh villages and to make it compulsory for the banks to open 25 per cent of branches in rural areas the special resolution has been passed as the RBI will easily grant the license to the banks.
b. The mobile banking services as been added as a part of financial inclusion drive to target 7.5crore bank accounts by 2018
c. All the banks are advised to open Basic Saving Bank Deposit (BSBD) accounts with very least common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.
d. The two-phase financial inclusion programme has been constructed by the government wherein an overdraft facility of Rs. 5,000 would be provided to 15crore people by August, 2018
e. The banks are also encouraged to offer a general-purpose credit card (GCC) facility at their rural and semi-urban branches. The credit to the cardholder will be up to Rs. 25,000

Inclusiveness in the Indian financial system

Census 2011 shows that out of approxmatly 25 crore households in the country, only about 14 crore households had access to banking services. Further, of the 17 crore rural households only about 9 crore households were utilising the banking services. But that is only one aspect of the financial exclusion story. The World Bank Findex Survey (2012) points out that only about 35% of Indian adults had access to a formal bank account and a meager 8% borrowed formally in the last 12 months. If we were to broaden the canvas and examine the exclusion in the other financial segments of insurance and securities market, the situation would be far worse.

Table 1: Financial Inclusion Indicators for 2011

	Brazil	Russia	India	China	South Africa	United States
Account at a formal financial institution, older adults (%, age 25+) 62	62.0	51.9	38.0	63.3	59.1	90.7
Loan from a financial institution in the past year, older adults (%, age 25+) 8	8.1	8.5	8.8	7.9	11.8	21.6

Source: World Bank (Global Findex)

Major Policy towards Financial Inclusion and Inclusive Growth

The Reserve Bank of India leads the credit flow under the following Government Sponsored Schemes implemented by various Ministries of the Government of India RBI issues guidelines / instructions to banks periodically on proper Implementation of Centrally Sponsored Schemes and collates bank Wise/State wise data on achievements made by the banks on these Schemes on the basis of returns submitted by them, few major schemes are:

1. Self-Employment Scheme for Rehabilitation of Manual Scavangers (SRMS) implemented by the Ministry of Social Justice and Empowerment, GOI through Public Sector Banks
2. National Rural Livelihood Mission (NRLM): formerly Swarna jayanti Gram Swarozagar Yojana (SGSY) implemented by the Ministry of Rural Development, GOI through Scheduled Commercial Banks, Regional Rural Banks, Co-operative Banks.
3. National Urban Livelihood Mission (NULM) formerly Swarna Jayanti Shahari Rozgar Yojna (SJSRY) implemented by the Ministry of Housing and Urban Poverty Alleviation, GOI through Scheduled Commercial Banks(excluding RRBs).

Financial Exclusion

In 1999, first time the term financial exclusion have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999). A person is considered financial excluded when the person is either not able to access some or all services offered by financial institutions in the country or does not make use of these services.

Financial exclusion can make poor people easily go to money lender. They will borrow, pledge pawn etc to rise loan also money lender is accessible they are not used to banks. It seeds poverty and hinders overall development of a country economy. It not only built the “Rich-Poor divide”, but also give birth to “Social criminals”.

There are a variety of reasons for financial exclusion. They are,

a) Financial illiteracy;
b) Low incomes
c) Lack of banking facility in the locality
d) Unsuitable products;
e) Comfortable feeling with landlord
f) Lack of awareness and initial inhibitions in approaching a formal institution
g) Lack of Access
h) Technological Barriers

In India only 40% is included population 60% is called excluded population from the banking industry. And in this 40% also only 55 per cent of the population have deposit accounts and 9 percent have credit accounts with banks. India has the highest number of households (145 million) excluded from Banking. There was only one bank branch per 14,000 people. 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495. Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.

Plan of Financial Inclusion

Table 2: Summary of all Banks including RRBs towards plan of Financial inclusion

	2011	2012	2013	2014	Progress 2011-2014
Banking outlets-Total	1,16,208	1,81,753	2,68,454	3,83,804	2,67,596
BSBDAs Total (No. in millions)	104.7	138.5	182.1	243.0	138.3
KCC (in millions	27.11	30.24	33.79	39.9	12.79
GCC(in millions)	1.70	2.11	3.63	7.4	5.7

Source: Annual Report of RBI (Different Years)

The above table shows the progress made by banks under the 3-year on major parameters is highlighted.

- The number of banking services has increase to 3,83,804. Out of these, 2,68,454 banking services were opened during 2013. This points out that bank connectivity has improved.
- More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the last year considering the total number of BSBDAs to 243 million.
- Numbers of Kisan Credit Cards outstanding have incresed from 27.11 million in 2011 to 39.9 million in 2014.
- Banks are advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2014, banks had 7.4 million GCC accounts. Numbers of General Credit Cards facilities have increased from 1.70 million in 2011 to 7.4 million in 2014.

Suggestions on financial inclusion

- Public awareness should be created in rural area.
- Bank should encourage households to open account by reaching the doorstep of excluded households.
- Financial literacy should be given to children and the rural people towards the importance of banking services in their daily life.
- Mass media should be effectively used for educating the poor households for participating in the programmes.
- There should be fast processing for better service in banks.
- RBI should organize camps in remote and urban slums for spreading financial literacy to excluded households

Conclusions

Nearly 70% of people in India live in villages. The majority of people living in rural areas remain excluded from the financial institutions even after 64 years of independence. If this 70% is left out from the economy then the financial companies will not delving deep into rural areas. To bring a large segment of the society under the umbrella of financial inclusion, banks have set up their branches in remote corners of the country. The rules and regulations have been simplified. 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. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion.

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