
ROLE OF FINANCIAL INCLUSION FOR INCLUSIVE GROWTH

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ABSTRACT

The term “Financial Inclusion” means the transfer of banking services at a reasonable cost to the huge sections of deprived and low income group. “Inclusive Growth” by its definition implies an impartial distribution of resources with profits gained to every sections of the society. Financial inclusion and inclusive growth are the two sides of a coin. Both are interrelated and interdependent. For growth to be inclusive, all people should be come under access to financial services. Financial Inclusion means providing financial services to the vulnerable section of the society at an affordable cost. It aims at promoting banking habits by the deprived or poor strata of the society by providing them accessibility to the financial services. Since 2005 several initiatives has been taken by RBI and government for financial inclusion and Inclusive growth but still there are miles to go for achieving hundred percent inclusion. This paper is an attempt to discuss the overview of financial inclusion in India along with the role of banking sector in extending the scope of financial inclusion to the unreached low income segments of the society.

Key Words: Financial Inclusion, Inclusive Growth, Financial Services.

1. INTRODUCTION

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. Thus, there is an urgent need today to provide financial services to all households that are excluded from formal financial services. Here, it must be remembered that the financial sector is probably the only sector that has the ability to act as a facilitator and multiplier for overall economic growth and stability. A well spread out financial system engenders economic activity by mobilizing savings into the formal financial system, providing an avenue to urban workers to remit money to their families in villages besides weaning them away from the clutches of usurious moneylenders. This is even as it connects all parts of the country to the market economy and mitigates risks by ensuring that the poor have access to a variety of social security products, like micro-savings, micro-credit, micro-insurance, and micro-pension products.

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. It is recognized by all that in the long run, the financial services sector must have the ability to service the entire real sector of the economy. This shall increase its efficiency, vibrancy, effectiveness and productivity of the real economy. The objective of the financial deepening process is to ensure the creation of adequate social security nets that shall provide citizens with a choice of financial products, including pension, insurance and saving instruments. It will also enable the household sector to convert physical assets into financial assets, which can be leveraged for productive activities spurring economic activity. 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.

But what are the challenges that the nation faces in ensuring inclusive and equitable growth. Consider this: today only 38 per cent (32,000 branches) of the bank branches of scheduled

commercial banks are in the rural areas and only 40 per cent of the country's population has bank accounts. More importantly, rural India accounts for just 9 per cent of total deposits, 7 per cent of total credit, 10 per cent of life insurance and 0.6 per cent of non-life insurance business. It is well-recognized today that the lack of formal banking facilities has led to non-banking channels as the only available source of credit for large sections of the rural population as well as the urban poor. This has resulted in very high costs of credit delivery to the poor.

2. LITERATURE REVIEW

Financial Inclusion is an innovative concept. It is an equalizer that enables all Indians to contribute to economic growth and gain from it. It can be viewed as easy access to formal financial services and their usage by all members of the economy. Robust financial services boost economic growth by mobilizing savings for productive use, allocating capital funds easily and managing risk. Access to financial survives built social inclusion and empowerment. **Christine Lagarde, Managing Director IMF, (2014)** in her address to the International forum for Financial Inclusion has explained the merits of financial inclusion being deeply rooted in empowerment. "Access to credit provides the linkage between economic opportunity and economic outcome. By empowering individuals, especially the vulnerable section of the society, to cultivate economic opportunities, financial inclusion can be strong agent of inclusive growth." In developing country like ours, Banks play an important role in mobilizing savings and allocating it to meet the credit needs of people. More studies have attempted to analyze the role of commercial banks in financial inclusion for sustainable development through various development programmes and policies. An attempt in this section has been made to review some important research studies.

Finance Minister Pranab Mukherjee (2010) said financial inclusion was a key determinant of sustainable and inclusive growth which could bring out exceptional untapped potential of savings consumption and investment propensities of the poorer sections of society.

Dr. K.C. Chakarvarthry, Deputy Governor RBI, at the Financial Inclusion Conclave held by CNBC TV 18 (2013) explained the approach of RBI towards Financial Inclusion. The defining features of the approach includes the adoption of bank led model for FI but have permitted non

bank entities to partner banks in its drive. RBI has encouraged banks to leverage technology while keeping the cost of providing financial services to the minimum. The Central Bank has been advised to adopt innovative business models and delivery channels to expand their efforts. There is a need on the part of banks to develop new products and deliver models customized to the unique needs of financially excluded population both in rural and urban areas.

Mandira Sarna (2008) in a paper on Financial Inclusion and development has come up with a view that socio economic factors like income inequality, literacy and urbanization are important factors that have an effect on Financial Inclusion. Further physical infrastructure for connectivity and information are also significantly associated with Financial Inclusion. She suggests that the issue of financial Inclusion is a development priority policy in India and has evaluated it using index of financial Inclusion.

George Muthoot, CEO of Muthoot Finance (2014) came up with empirical findings that financial inclusion remains a distant dream for a majority of Indians. Even after 20 years of banking sector privatization, today only 35% of the Indian population has formal bank accounts compared to an average of 41% in developing economies. In a country where nearly 70% of the population lives in villages, a significant segment of about 6,50,000 villages do not have a single bank branch.

Ansari.S.A (2007) in a study reveals that reaching the poorest and whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest.

3. OBJECTIVES OF THE STUDY

-  To understand the role played by Financial Inclusion on inclusive growth in India.
-  To evaluate the role and services extended by banks in India towards Financial Inclusion.
-  To assess the challenges involved in incorporating 'Financial Inclusion'.

4. ROLE OF FINANCIAL INCLUSION IN INCLUSIVE GROWTH

India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is important and is one of the biggest challenges for India. The challenge is to take the levels of growth to all section of the society and to all parts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms in education, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

However for attaining the objectives of inclusive growth there is a need for resources, and for resource generation and Mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources.

The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its sphere people with low incomes. Nationalization of banks in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. Rationale for creating Regional Rural Banks was also to take the banking services to poor people. No-frills account encourages the savings habit of the masses. It helps bring a large section of the underprivileged people into the banking net. It encourages bringing un-banked customers into financial mainstream.

5. IMPORTANCE OF FINANCIAL INCLUSION

-  It is a necessary condition for sustaining equitable growth.
-  It creates a platform for inculcating the habit to save money.
-  Provides formal credit avenues.
-  Plug gaps and leaks in public subsidies and welfare programs.

6. ROLE OF BANKING SECTOR IN FINANCIAL INCLUSION

Financial inclusion is a major agenda for the RBI. Without financial inclusion, banks cannot reach the unbanked. It is also a major step towards increasing savings and achieving balanced growth. In rural areas, where accessibility is a problem, banks are using the micro finance network and business correspondents and facilitators to bring more people under the ambit of banking services. The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key players of India's financial system.

Financial inclusion is now a common objective for many central banks. The banking sector takes a lead role in promoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The banks have reached even to the remote corners of the country.

The RBI set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K. C. Chakraborty, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities.

7. MEASURES ADOPTED BY BANKS TOWARDS FINANCIAL INCLUSION

- ✚ Kisan Credit Card (KCC) Scheme was launched in 1998-99 to provide insurance cover to the farmers.
- ✚ In November 2005, the RBI asked banks to start no frill accounts to bring unbanked people in to the system.
- ✚ As on 31st March 2009, there were 3.3 crore 'No Frill Accounts' opened by banks in India.
- ✚ Also General Purpose Credit Card scheme was started to ensure easier credit facility to the people without surplus.
- ✚ KYC Norms were simplified to give easy identification with the banking system.

- ✚ Credit innovations like micro finance credit were introduced to lend credit to large number of needy population.
- ✚ Self Help Group (SHG) Bank linkage programme was developed to provide requisite loan to the SHGs.
- ✚ Banks were started using Information Technology in a large way that is secure, amenable to audit and eventually inter operable.
- ✚ ATM Expansion Scheme was liberalized and Electronic Benefit Transfer (EBT) through Banks was introduced.
- ✚ In order to penetrate into rural areas schemes like Liberalized Branch Expansion, Business Correspondent (BC) Model, Expansion of Banks in the North-East and Financial Literacy and Credit Counseling were initiated.

8. CHALLENGES TO FINANCIAL INCLUSION

The complex financial services market offers consumers a vast array of products and service providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. There is urgent need for financial education to make an informed choice from diverse options available to consumers and also refrain from financially destructive transactions. Unfortunately the level of financial literacy is very low in India. The robust financial inclusion model requires comprehensive participation of all stakeholders which is currently lacking in the country. The pricing of financial assets and services is delicate in rural areas and it should ensure the poor are able to afford them at these prices. Lack of financial literacy among the urban poor and lack of marketing of financial instruments to the urban poor has lead to limited awareness of financial portfolios. Sometimes there is a self exclusion by the poor from the formal system as they are heavily depended on the informal credit sources which cater according to their convenience.

9. SUGGESTIONS

1. Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Post offices also can be an ideal channel to pursue the future long term goals of agency banking especially in rural India.
2. Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications.
3. Partnership with dedicated NGOs and MFIs can yield favorable results.
4. Keeping in view the dynamics of the changing economy, there is a strong need to restructure the financial system particularly the rural financial system.
5. NABARD has to play a pro-active role by partnering with the rural credit institutions in the field and identify new initiatives that will contribute to effectively improving the extent of financial inclusion involving SHGs, MFIs, etc.
6. It should be the endeavor of all the financial institutions to adopt financial inclusion as a corporate social responsibility and chalk out strategies in tune with the national policy on financial inclusion.

10. CONCLUSION

Financial inclusion is one of the methods through which Inclusive Growth can be achieved in India, especially where large sections are unable or incompetent to participate in the existing financial system. An inclusive financial system mobilizes more resources for productive purposes leading to higher economic growth, better opportunities and reduction of poverty. Keeping this in mind government, RBI, banks and other financial institutions are making policy interventions to accommodate the vulnerable into the financial system. The Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas and they remain excluded from the purview of the financial institutions even after independence. Reaching out to the unreached segment of population and providing basic

financial services is the need of the hour. In order 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. Despite the laudable achievements in the field of rural banking, issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers from non institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before. For achieving the current policy stance of “inclusive growth” the focus on financial inclusion is not only essential but a prerequisite.

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