

FINANCIAL INCLUSION FOR BANKS IN INDIA

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Abstract

The three major aspects of financial Inclusion are to make people access financial and credit markets and financial educations. Empirical evidence shows that economic growth follows financial inclusion. The benefits of financial inclusion are equitable growth, reduced poverty, inflating national income, easy and safe financial transactions and bundling of savings with financial services. Currently, India has the second highest number of financially excluded households in the world. The Reserve Bank of India set up Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated in the mid-term review of the policy (2005 -06). In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro – finance institutions and other civil society organizations as intermediaries or business facilitators (BF) for providing financial and banking services..

Introduction

The Government of India and Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objective of the country. Some of the major efforts made in the five decades include- nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, lead banks scheme, formation of self-help groups, permitting BCs to be appointed by banks to provide door step delivery of banking services, zero balance accounts etc.

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 is the process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players. As banking services are in the nature of a public good, it is essential that the availability of banking services to the entire population without dis-crimination is the prime objective of public policy. It is estimated by the Reserve Bank of India that about 40% of Indians lack access even to the simplest kind of formal financial services.

Expectations of poor people from the financial system is safety of deposits, low transaction costs, convenient operating time, minimum paper work, and quick and easy access to credit and other products, including remittances suitable to their income and consumption. Taking into account their seasonal inflow of income from agricultural operations, migration from one place to another, and seasonal and irregular work availability and income, the existing financial system needs to be designed to suit their requirements. The major barriers to serve the poor, apart from socioeconomic factors such as lack of regular income, poverty, illiteracy etc., are the lack of reach, higher cost of transactions and time taken in providing those services. The existing business models do not pass the test of scalability, convenience, reliability, flexibility and continuity.

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 also intends to have numerous institutions that offer affordable financial assistance so that there is sufficient competition so that clients have a lot of options to choose from. There are traditional banking options in the market. However, the number of institutions that offer inexpensive financial products and services is very minimal.
- 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.
- It aims to provide tailor-made and custom-made financial solutions to poor people as per their individual financial conditions, household needs, preferences, and income levels.

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, 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.

National Commitment

RBI has been taken multiple steps like nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., to increase access to the poorer segments of society. Bank branches in rural areas of the country have expanded from around 8,000 in 1969 to more than 89,000 in 2011. Nonetheless, there is a wide variation across states. For instance, the ratio for the state of Kerala is as high as 89% while North Eastern States is marked by a low coverage of 21%. To achieve the ultimate objective of reaching banking services to all the 6,00,000 villages, the delivery model needs to be devised carefully so as to move from a cost centric model to a revenue generation model.

In order to achieve greater financial Inclusion, RBI has initiated the following measures:

1. Opening of no-frills accounts with nil or low minimum balance coupled with low charges and small overdrafts in such accounts.
2. Relaxation on know-your customer (KYC) norms for small accounts was introduced in August 2005. Applicant can submit letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number. Engaging business correspondents (BCs) and business facilitators (BFs) as intermediaries for providing financial and banking services was permitted by RBI in January 2006. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.
3. Recognizing the use of technology possessing the potential to address the issues of outreach and credit delivery in remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics thus ensuring the security of transactions and enhancing confidence in the banking system.
4. Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT - based banking through BCs to transfer social security benefits electronically to the bank account of the beneficiary and deliver government benefits at the doorstep of the beneficiary without time-lag thus reducing lowering transaction costs and chances of misappropriation.
5. GCC: General Credit Card With a view to helping the poor with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility upto Rs. 25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.
6. Simplified branch authorization: To widen the spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. Further banks have been mandated in the April 2011 monetary policy statement to allocate atleast 25% of the total number of branches to be opened during a year to unbanked rural centers.

Suggestions:- The obligations under financial inclusion need to be well-defined as part of the licensing condition of all scheduled banks by the RBI.* The IBA may explore the possibility of a survey about the financial inclusion coverage to assess the constraints and for initiating appropriate policy measures.

It may be useful for banks to consider franchising and forging linkages with other segments of financial sector such as cooperatives, RRBs (Regional Rural Banks) microfinance institutions, NGOs, and local communities so as to extend the scope of financial inclusion with minimal intermediation cost. Banks should institute systems of reward and recognition for personnel initiating, innovating and successfully executing new products and services in the rural areas. Banks should give wide publicity to the facility of nofrills account. The unbanked citizens must wield the power to choose the BC and Bank to spur real competition amongst them.

'Simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi urban and rural populace. *Banks must effectively leverage ICT solutions with

superior cost efficiency and penetrate the rural markets efficiently to cross-sell products and services. Mobile banking has tremendous potential and will ensure uninterrupted service delivery, consumer data protection, customized products, dissemination of information on credit options, and multiple financial products in local languages. In view of some moral hazards identified in the BC model, tie-up with telecom companies for mobile banking can be the next big revenue generator and will prove to be instrumental in realizing branchless banking by enabling low cost and real time transactions over secure networks.

Conclusion:-

To sum up, banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. Banks should prepare comprehensive plans to cover all villages, through a mix of branchless banking and bricks and mortar branch banking. They should speed up enrolment of customer's and opening of UID-enabled bank accounts which enables routing of all social benefits to bank accounts electronically as also seamless cash transfer to the poor, as and when the government replaces the age-old system of subsidy and public distribution system with cash transfers. It is important that adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc., is available. All stakeholders will have to work together through sound and purposeful collaborations.

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