AN INCLUSIVE FINANCIAL SYSTEM AND ECONOMIC DEVELOPMENT

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Abstract— *Financial inclusion may be defined 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- by Dr. C. Rangarajan The benefits of Finance are not along significant for individuals but for economics as well. Financial inclusion is linked to a country's economic and social development, and plays a role in reducing extreme poverty. In India, the Reserve Bank of India RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and "General Credit Cards" for low deposit and credit. Today there is no dearth of technology and its transformational role cannot be over-emphasized. Financial inclusion is a key determinant of sustainable and inclusive growth. It can unlock the vast hidden potential of savings, consumption and investment propensities of the poorer sections of our society. It provides credit to meet contingent expenses and undertake income-generating activities. Although India has made remarkable progress in terms of extension of banking services since nationalization of banks in 1969, the position regarding access to formal banking system is far inadequate in terms of scales of extension required. For the Indian growth story to become sustainable, encompassing financial inclusion is a must. It is also important that each of the stakeholders in the growth process understand the immense value of inclusive growth process understand the immense value of inclusive growth. For the private sector too there are immense opportunities to be reached at the "bottom" of the pyramid. There are several areas where private sector can play a role. The important areas include – design of physical products such as the various devices and instruments; innovation in design of software to run these devices in safe and secure manner; design of financial products and services that are relevant to the poor. Recent research indicates that financial inclusion is not only positively correlated with growth and employment, but it is generally believed to causally infact growth and development.*

KeyWords— Financial Awareness; Entrepreneurial Credit; No-frills Accounts; Transformational; Business Correspondence; Economic Resilience

1. INTRODUCTION

Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of any economy. In other words, financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low services is the sine qua non (Something absolutely indispensable or essential) of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help in reducing the growth of informal sources of credit (Such as money lenders), which are often found to be exploitative. Thus, an all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

The scope of financial inclusion can be expanded in two ways: Through state-driven intervention by way of statutory enactments (for instance the US example, the Community Reinvestment Act and making it a statutory right to have bank account in france) and through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society.

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion. In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills , to all Internationally, the perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion.

At one extreme, it is possible to identify the 'super-included', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.The importance of an inclusive financial system is widely recognized in the policy circle and recently financial inclusion has become a policy priority in many countries. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. Legislative measures have been initiated in some countries. In India, the Reserve Bank of India (RBI) has initiated several measures to achieve greater financial inclusion, such as facilitating 'no-frills' accounts and "General Credit Cards" for low deposit and credit. Alternate financial institutions such as micro-finance institutions and Self-Help Groups have also been promoted in some countries in order to rach financial services to the excluded.

Financial inclusion refers to the strategy adopted to make banking activities and its benefits reach the unbanked areas. It is a drive to bring the unprivileged people at par with the mainstream. The Government, in Union Budget 2010-11 suggested that fresh banking licenses should be issued to private players and NBFCs. This would also be a forward move towards attainment of the goal. RBI has also agreed to the government's proposal. Furthermore, RBI has decided to set up model villages all over India. These villages would be having a population not less than 2000. Every resident of such villages would be financially lierate. With constant and sincere efforts, the RBI plans to achieve complete financial inclusion by 2012.

2. THREE MAJOR ASPECTS OF FINANCIAL INCLUSION

- Make people to Access financial markets
- Make people to Access credit markets
- Make people to Learn financial matters (Financial Education)

Financial Inclusion Includes

- Accessing Of Financial products and services
- Saving facility
- Credit and debit cards access
- Electronic fund transfer
- All Kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services
- Insurance (Medical insurance)
- Financial advice
- Pension for old age and investment schemes
- Access to financial markets
- Micro credit during emergency
- Entrepreneurial credit

Financially Excluded People Comprise

- Marginal farmers
- Landless labourers
- Oral lessees
- Self employed and unorganized sector enterprises
- Urban slum dwellers
- Migrants
- Ethnic minorities and socially excluded groups
- Senior citizens
- Women

3. FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES

Legal identity: Lack of legal identity like voter id, driving license, birth certificates, employment identity card etc

Limited literacy: Particularly financial literacy and lack of basic education prevent people to have access form financial services.

Level of income: Level of income decides to have financial access. Low income people generally have the attitude of thinking that banks are only for rich.

Terms and Conditions: While getting loans or at the time of opening accounts banks places many conditions, so the uneducated and poor people find it very difficult to access financial services.

Complicated procedures: Due to lack of financial literacy and basic education, it is very difficult for those people who lack both to read terms and conditions and account filling forms.

Psychological and cultural barriers: Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

Place of living: As the name suggests that commercial banks operate only in commercially profitable areas and they set up branches and main offices only in that areas. People, who lived in under developed areas, find it very diffiuclt to go to areas in which banks are generally reside.

4. Financial Inclusion in India

The Reserve Bank of India 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, thath, too, form a pilot project in UT of Pondicherry, by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provide banking facilities. In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit.

In the Mid Terms Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving, greater financial inclusion, to make available a basic banking 'no-frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transaction in such accounts would be restricted and made known to customer in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such no frills account so as to ensure greater financial inclusion. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governamental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services.

These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or UTs like puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.

5. Need of Financial Services to Rural India

Only 30% of the bank branches operate in the rural areas that house 72.2% of the country's population. Further, rural India accounts for just 9% of total deposits, 7% of total credit, 10% of life insurance and 0.6% of non-life business. There is therefore an urgent need to fast-track financial inclusion. Various technological and financial services and initiatives need to be dovetailed for this.

The major barriers for poor to access appropriate financial services are lack of education, low and irregular income, mandatory requirements of documentation and product design factor. Promoting technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses could provide an answer to the above barriers. Today there is no dearth of technology and its transformational role cannot be over-emphasized. Scalable financial inclusion cannot happen without stable and reliable information and Communication Technology and appropriate outreach of banks.

Indian economy at present is going through a phase of recovery with high GDP growth. Commercial banks and PSBs in particular have performed quite well in terms of high credit growth, deposit mobilization and profitability apart from meeting their socio economic commitments. Financial services is vital for economic resilience and Indian Banks must grow in size to be able to offer services on par with global players and must have appropriate systems in place to manage growth. As the global banking landscape has been changing fast, the time is to come, not very far away from now, when Indian Banks would reign among the top global brands. This growth aspiration must drive bank's future plans and actions with financial stability, resilience, vision and social commitments.

6. Efforts Towards Financial Inclusion

Recognizing the importance of financial inclusion in the growth process, both the Government and the Reserve Bank have made important interventions. Last year, the Reserve Bank totally freed location of ATMs from prior authorization. The RBI took a further big step by freeing branch opening in towns and villages with population below 50,000. This was done in recognition of the fact that brick and mortar branch is not necessarily essential for extending the outreach of banking services. The phenomenal success of ATM has made the banking sector develop more innovative delivery channels to build on cost and services efficiencies such as tele-banking, call centres, Internet banking etc. However, the above could not have been possible without another important intervention, i.e., the Centralized Core

Banking Solution (CBS) which has revolutionized the banking sector. So far, around 80 per cent of public sector bank branches have adopted CBS.

It is also relevant ere to acknowledge the potential of the Unique identification number (UID) that Nandan Nilekani and his team are working on. The technology initiatives by banks and the efforts of the RBI have made the banking system in India comparable with the best in the world. The people in general, including those in the corporate sector are able to reap the benefits of this on a day-to-day basis. One of the significant benefit of this is that the wage payments under the largest poverty alleviation program of the government of India, MNREGA can be made in a safe, sure and swift manner through banks. This has opened up new possibilities and has given financial inclusion a new meaning.

7. Steps to be Taken

It is such win-win strategies that will be incomplete if we do not protect the consumer who is in a vulnerable condition due to poverty and marginalization. Risk mitigation strategies, building trust and developing confidence, and raising awareness will be central to the task of financial inclusion. The Government should be committed to providing an enabling environment to make this happen whether it is for the banks or the private sector.

Even as FMCGs have penetrated rural markets in a major way and there are over 600 mobile subscribers around the country, only 40% of the population still has holds bank accounts. So, financial inclusion remains a study in contrast to the advancements that have taken place in many business sector. The situation calls for a shift in the mindset of the large segment of society toward accessing banking services, especially in rural India. The priority sector lending that is mandated on banks has somehow not delivered the expected results in terms of financial inclusion. The big change would come about with the adoption of tailor made solutions, such as, use of regional languages \ in banking transactions.

Panchayats across the country being connected with broadband services, technology can be better used to further financial inclusion in the rural areas. At the same time, due attention is required to ensure that the banking services are safe, secure and affordable. Importantly, the benefits need to be visible to the larger populace.

The effort for financial inclusion should go beyond creating no-frills accounts that largely remain " dead accounts" and instead link up the financial inclusion initiative with the economic activities of the stakeholders.

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