International Journal of Business Economics and Management Research
Vol. 9, Issue 9, September 2018 Impact Factor: 4.963 ISSN: (2229-4848)
www.skirec.org Email Id: skirec.org@gmail.com

Financial inclusion in India: Current Scenario of Banking Expansion

Dr Rajesh Kumar Srivastava
Associate Professor, Department of Economics
G D Binani PG College Mirzapur, U.P.
Email: 1961drs111@gmail.com

Introduction

Financial inclusion means providing basic banking services to low-income and disadvantaged groups at very low prices so that even poor families left out of the mainstream can get the benefits of banking facilities. And they too can be confident in taking financial decisions. According to the Rangarajan Committee, financial inclusion is the process of ensuring access to financial services so that vulnerable sections and low-income groups can obtain timely and adequate credit at affordable prices. Financial inclusion has evolved from the need to provide low-income people with financial services that can positively impact their personal financial health and development.

The main basis of the economic development of any country is the infrastructure of that country. If the infrastructure itself is weak, no matter how much effort is made, the system cannot be made strong. This is the reason that in order to strengthen the efforts made for development and progress in the economy of any country, such a path is followed by the policymakers through which the government includes the common man in the formal medium of the economy. Could In fact, this is the reason that under financial inclusion it is ensured that even the last person standing at the end can be associated with the benefits of economic growth, no one should be deprived of economic reforms. Under this, efforts are made to include every citizen of the country in the mainstream of the economy. This is done so that the poor man can be encouraged to save as well as make safe investments in various financial products.Financial inclusion includes marginalized sections living in rural and urban areas such as small and marginal farmers, small vendors etc., agricultural and industrial laborers, people engaged in unorganized sectors, unemployed women, children, old and physically challenged people.

Review of Literature

India has been researched by many scholars on important issues like financial inclusion. The term financial inclusion was first coined in 2005 by K.C. Chakraborty, who was then the chairman of the Indian Bank, and conducted the experiment.

GOI (2008) defines financial inclusion as the process of ensuring access to financial services timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. Meaning of financial inclusion is the delivery of financial services to low-income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is access of financial services for a better standard of living and income.

Roy (2012) studied financial inclusion in India. He found in his study that banks have established their branches in the remotest corners of the country. The study also describes that the banking industry has expanded its branches substantially during the last few decades.

Dr. V.K. Aggarwal (2015) in his study found that the progress of financial inclusion is slow due to several constraints like illiteracy, lack of advanced technology in remote areas. He suggested that the government should devise a new strategy to promote inclusive growth through financial inclusion.

Purvi Shah and Medha Dubhashi (2015) studied the role of financial inclusion for inclusive development. They found that only 41% of adults have a formal account.

Objectives of the study:

The present research paper has the following objectives.

- What is Financial Inclusion in India and who needs it at present?
- What is the goal of financial inclusion in India and what is the role of banks in achieving it?
- To analyze the recent progress of financial inclusion in India.

Research Methodology - The secondary type of data on financial inclusion has been used for the study of the present research paper. The data and information have been collected from online and offline sources like various research papers, magazines, websites etc.

Dimensions of Financial Inclusion: The level of financial inclusion in India can be measured based on three tangible and critical dimensions.These dimensions can be broadly discussed under the following heads:

I-Branch Penetration-Penetration of a bank branch is measured as the number of bank branches per one lakh population.This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

II. Credit Penetration: Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrowers loan accounts per one lakh population and number of agriculture advances per one lakh population.

III. Deposit Penetration: Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of a formal credit system can bean alysed.

The problem of financial exclusion

Under financial exclusion, people belonging to the lower and poor classes are included, who are deprived of basic financial services. Financial exclusion is a major challenge for developing countries like India where a small percentage of people remain out of reach due to a lack of financial literacy. And they are not able to avail of government services due to the unavailability of financial services in their area.

There are various types of financial exclusion which are as follows:

- **Savings exclusion**:lack of money for savings due to les sincome.
- **Credit exclusion:** Inability of people to avail credit facilities for meeting their personal or family needs.
- **Insurance exclusion**: lack of insurance facilities int he area or in ability to avail or access the insurance services.
- **Banking exclusion:**it means inability to access banking services.

Need for financial inclusion in India

Financial inclusion for the poor and marginalized is the need of the hour. In the absence of financial inclusion, unbanked people are forced to join the informal banking sector. Where the interest rates are also high and the quantum of the loan amount is also very less.Financial inclusion does not only result in an increase in the amount of available savings. One also gets the facility to create new business opportunities. A government-sponsored universal banking system results in increased economic empowerment in rural areas as compared to a more competitive banking environment.

following most important reasons:

- Creating a platform for inculcating the habit of saving money.
- Providing formal credit avenues for needed groups
- Plug gaps and leaks in public subsidies and welfare for the society
- Reducing the income inequalities in the rural and urban sectors of the country
- Boosting economic growth and development for all.
- To promote social security schemes for all:

Steps taken by RBI to support financial inclusion

The Reserve Bank of India lays great emphasis on financial inclusion to give the desired attention to the banks of the country. With a proactive role to play in enhancing financial inclusion, the RBI, in its Annual Policy Statement for the year 2005-2006, urged banks to review their existing practices of financial inclusion. The Reserve Bank of India has said that financial inclusion should not be limited to opening bank accounts only, it should include the provision of all financial services such as credit, remittance and overdraft facilities to the rural poor. Reserve Bank of India Governor D Subbarao said that there should be the continuous operation of accounts along with other benefits like availability of deposits, remittance facilities and overdrafts.

In this direction, the Reserve Bank of India launched the Financial Inclusion Campaign, which aims to achieve 100% financial inclusion in one district of each state. The government and the Reserve Bank of India are jointly taking steps to promote financial inclusion in the country. Some of which have proved effective-

1. **No Frills Account -** In November 2005, banks were advised to provide basic banking services including 'no-frills' accounts with 'low' or 'zero' balances and charges.No frills accounts are opened in banks with very little or zero amount so that everyone can access and take advantage of them.

2. **Know your customer**- Reserve Bank has simplified the procedures of 'know your customer' to remove the difficulties faced while opening 'no frills' accounts.This process was for those individuals who do not keep more than Rs.50,000 in accounts and who do not have documentary proof and identity proof, in such a situation the bank can introduce such account holder, whose KYC process is completed and whose 6 There should be sufficient transactions in the bank within the month.

3. **General Credit Card (GCC)** - Issued General Purpose Credit Card (GCC) with a view to providing easy access to credit to low-income groups in both semi-urban and rural areas to enable customers to avail credit on easy terms.

4. **Self Help Group (SHG)** - Self Help Group is a unit of the poor, for the poor, by the poor and run in a fully democratic manner. This is an important way of increasing financial inclusion. A large number of families are linked to bank loans through self-help groups.

5. **Kisan Credit Card (KCC)** – Kisan Credit Card scheme was started by the bank for farmers in rural and semi-urban areas. Kisan Credit Card is used to buy seeds and pesticides, to buy agricultural equipment and domestic use.

6. **Business Correspondent Model**- In 2006, the Reserve Bank permitted non-governmental organizations, microfinance institutions, retired bank employees, ex-servicemen, etc. to provide financial and banking services as business correspondents, through which financial inclusion has increased.

7. **Financial Literacy**- For the success of financial inclusion, there is a great need to bring financial literacy among the masses. Keeping this in mind, the Reserve Bank of India has started the Financial Literacy Project.

GOIsteps to support Financial Inclusion

1. **Pradhan Mantri Jan-Dhan Yojana (PMJDY)** – The government provided public access to banking services to all households in the country with at least one basic bank account for each household, financial literacy, access to credit, insurance and pension facility Pradhan Mantri Jan-Dhan Yojana (PMJDY) was launched in 2014 to ensure greater financial inclusion. Under this, any person who does not have any savings bank account can open an account without the requirement of any minimum balance and arrangements have been made to provide all kinds of financial facilities to him. In the first phase of this scheme, a target was set to cover these families by opening a bank account within one year. The actual achievement as on 26th January 2015 was 12.55 crores.

2. **Public safety through public money**- To create an all-encompassing social security system for all Indians, especially the poor and the underprivileged, the government launched three social security schemes in the insurance and pension sectors on 9 May 2015.

3. **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**- PMJJBY is available to all individuals in the age group of 18 to 50 years having a bank account who have given their consent to join the scheme and for auto-debit. There is a risk coverage of Rs 2 lakh in case of death of the life insured due to any reason under this plan.
4. **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**- Under this plan, the risk coverage for accidental death and total disability is Rs 2 lakh and the risk coverage for partial disability is Rs 1 lakh. An annual premium of Rs 20 is deducted from the account holder's bank account.
5. **Atal Pension Yojana (APY)** - Atal Pension Yojana was launched by the Prime Minister on 9th May 2015. APY is open to all savings bank/post office savings bank account holders in the age group of 18 to 40 years and the contribution varies depending on the pension amount selected. Subscribers will get a guaranteed minimum monthly pension of Rs.1000/- or Rs.2000/- or Rs.3000/- or Rs.4000/- or Rs.5000/- at the age of 60 years.
6. **Pradhan Mantri Mudra Yojana** - The scheme was launched on 8th April 2015. Loan up to Rs.50,000 under the sub-scheme 'Shishu' under the scheme; Loans from Rs.50,000 to Rs.5.0 lakh under the sub-scheme 'Kishore'; And under the sub-scheme 'Tarun', loans ranging from Rs 5.0 lakh to Rs 10.0 lakh are given. Whose goal is to increase the confidence of those young, educated or skilled workers who will now be able to fulfil their aspirations of becoming first-generation entrepreneurs.
7. **Stand-upIndia scheme** - The Government of India launched the Stand-up India scheme on 5 April 2016. Stand Up India Scheme to encourage entrepreneurship among women, SC and ST category ie a segment of the population that is facing extreme hardships due to inadequate and delayed access to credit as well as lack of mentorship/mentorship Is working to do.

Progress of financial inclusion at a glance

Parameter of financial inclusion	March 2010	March 2016	March 2017
Number of Bank branches in villages	33,378	51,830	50,860
Number of Business Correspondents (BCs)	34,174	531,229	543,472
Number of other forms of banking touch-points	142	3,248	3,761
Total number of banking touch points	67,694	586,307	598,093
Number of BSBDA (in millions)	73	469	533
Deposits in BSBDA (Amount in Rs. billions)	55	636	977

RBI Annual Report of RBI, 2016-17.

It is probably found that in the last 7-8 years, banks have expanded their presence, and banks are ready to take it further. For this, the bank is striving towards financial inclusion policies. A major focus has been given to making banking accessible to vulnerable groups. Mainstream institutions are planning to make basic products accessible to the masses with fairness and transparency. The progress in the implementation of financial inclusion is being measured to decide on the future policy framework. When banks started the formal journey of financial inclusion, at that time only 40% of people had savings accounts, and only a small fraction was getting credit from the banking system, but at present, about 62% of people have joined this stream.

India's first Financial Inclusion Index was launched in 2013 based on four important dimensions namely Branch Penetration, Deposit Penetration, Credit Penetration, and Insurance Penetration. CRISIL Inclusix 2013 measured the progress of financial inclusion at each level of 666 districts in the country. In the financial year 2015-16, the financial inclusion score at all India levels was 58 as compared to 50.1 in the financial year 2012. At least 600 million deposit accounts were opened between FY 2012-13 and FY 2015-16, double the number between 2010 and 2013. Of this, about one-third was due to PMJDY. There has also been a sharp increase in the number of people who have access to credit, which has increased to 31.7 million. This figure includes loans given by banks and microfinance institutions together in the two years leading up to FY 2015-16, which is the highest since FY 2012-13. In particular, microfinance institutions have made a significant contribution to economically weaker areas. The Digital India initiative, payments banks and small finance banks have helped improve access to formal financial services for economically disadvantaged and geographically remote areas.

Conclusion:

The future of financial inclusion in India looks bright for years to come. Good efforts will be made by the government as well as banks to promote economic growth and development, there is a possibility. There is a need to expand more rural bank branches and more ATM facilities in neglected states. Also, there is a great need for innovation in the finance sector and increasing financial literacy to make people aware of the role of financial services in their lives.Mobile banking can prove to be helpful in bringing people under the ambit of financial inclusion schemes. Apart from this, the government should win the confidence of the people in the banking system and ensure technical security and there is a need to make the country's banking system free from the threat of hacking or bank fraud. In the last few years, the government has been continuously striving for financial inclusion. About 310 million people have been brought under the formal banking system through the Pradhan Mantri Jan Dhan Yojana. Along with this many other measures have been adopted. As a result, the deprived and poor sections of the country are feeling safe by joining this system.

Reference list:

1. Aggarwal V.K, (2015) Financial inclusion in India - An overview, ACADEMICIA: An International Multidisciplinary Research Journal. Vol-5, Issue (1)
2. Chakrabarty, KC (2011), ‘Financial inclusion: A road India needs to travel’, Reserve Bank of India.
3. Chibba, Michael (2009), “Financial inclusion, poverty reduction and the Millennium Development Goals”, European Journal of Development Research, DOI: 10.1057/ejdr.2008.17
4. CRISIL (2013), “Inclusix Financial Inclusion Index”. https://rbi.org.in/scripts/ BS_SpeechesView.aspx?Id=976
5. NehaDangi,PawanKumar,CurrentSituationofFinancialInclusioninIndiaandItsFutureVisions,InternationalJournalofManagementandSocialSciencesResearch(IJMSSR)Volume-2,No.8, August2013.
6. Purvi Shah&Medha Dubhashi (2015)Review Paper on Financial Inclusion-The Means of Inclusive Growth

7. Rajan, Raghuram, Sustainable Growth in the Financial Sector, Sept. 2015, speech delivered at the 4th C K Prahalad Memorial Lecture.
8. Reddy, Y V, Reserve Bank of India – Annual Policy Statement for the Year 2005–06. https://www.rbi.org.in/scripts/BS_ViewMonetaryCreditPolicy.aspx?Id=221
9. Roy, S. K. (2012), "Financial inclusion in India: An overview", Asian Journal of Multidimensional Research, 1 (5).
10. Sachindra GR, Need for Financial Inclusion and challenges ahead-an Indian Perspective,IOSR-JournalofBusinessandManagement,Mar-April2013.