e-ISJN: A4372-3114
p-ISJN: A4372-3115

ISSN: 2321-7782 (Online)
ISSN: 2347-1778 (Print)
Impact Factor: 7.327

Volume 6, Issue 2, February 2018

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available online at: www.ijarcsms.com

Special Issue: National Conference on Management, Economics & Social Science (NCMESS 2018)

Organized by: Department of Business Administration, ST. JOSEPH'S COLLEGE (AUTONOMOUS), Tiruchirappalli - 620002, India

Financial inclusion – Is it incorporated the downtrodden? A concrete refinement from banking sector and its products-An descriptive view

Georgia L. Thinakaran[1]
Asst. Professors,
School of management studies
St.Joseph's college, Trichirappalli, India

C. F. Octovia Antony Sessammal[2]
Asst. Professors,
School of management studies
St.Joseph's college, Trichirappalli, India

I. Introduction

India, with 1,220,200,000 (1.22 billion) people is the second most populous country in the world. Among 72.2% of the population lives in some 6, 38,000 villages and the rest 27.8% lives in 5,480 towns and urban agglomerations.

Census report 2011[1]

From the above statistics we raise the question is that whether all these people, irrespective to rural dwellers or urban dwellers have included in the financial sector? Or have they enjoyed the benefits given by formal financial parties? Or without any hesitation do they access the financial services? For all these questions, the single answer is NO. Yes, the formal, organized financial system does not cover the vulnerable, poor, and low income group. The reason behind is that, the financial system does not focus their approaches directly to these people. In the country there is inadequate legal and financial structure. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Due to this they excluded the disadvantaged people in their inclusion. This paper tries to explain this concept very clearly.

II. Objectives

The main focuses of this study are

1. To understand the concept of financial inclusion.
2. To know the role of RBI and banking sector in reduction of financial exclusion.

III. Methodology

The present study is designed as a descriptive one. The necessary secondary data has collected from the sources like, Journals, Subject-specific books, Magazines, Newspapers and web sites and Studies undertaken by various research institutions.

Recollection of past research

Subha, Rao (2010)[2] remarks that the statistics do not convey the true extent of Financial Exclusion. Even where bank accounts are claimed to have been opened, verification has shown that these accounts are dormant. Few conduct any banking transactions and even fewer receive any credit. Chakraborthy, K.C. (2010)[3] finds that FI is sometimes treated as synonymous with rural poverty. Concerns of urban poverty also need to be factored in and the needs of various groups as rickshaw- pullers, construction workers, migrant workers etc, must be factored in and products and services crafted as per their needs by the banking system to address urban FI. Suniti Nagpurkar (2010)[4] conducted an empirical study in the city of Mumbai, among the urban poor, both migrants and non-migrants, to understand the banking exposure and banking outcomes among these sections of population. The study reports the difficulty in dealing with the bank staff and acknowledges that the banks on their part do not seem to be making an all out efforts to reach out to the urban poor. Chattopadhay (2011)[5] has developed the financial inclusion index for the major states in India and for all the districts in West Bengal. Karmakar, et al (2011)[6]has constructed the financial inclusion for rural areas of the major twenty states in India. In order to assess the performance of the public sector banks, the Finance Minister of India has introduced Financial Inclusion Index, based on two criteria, namely, the number of additional branches covered and the number of new no frill account opened (Government of India, 2011)[7] Ramapal and Rupayanpal (2012)[8] in their study find that increase of the proportion of households using formal financial services in a state need not necessarily reduce the inequality in FI across income groups or foster FI among the poor households in that state.

IV. Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. The main objective of financial inclusion is to extent the financial activities and operations of the financial structure to the low income and uneducated group people.

Why there is exclusion in the inclusion?

Nearly forty years after nationalization of banks, 60 per cent of the country's population does not have bank accounts and nearly 90 per cent do not get loans from banks. India has currently the second-highest number of financially excluded households in the world. The financially excluded sections largely consist of Marginal farmers, Migrants, Landless labourers, Self employed, people working in unorganized sectors, Urban slum dwellers, minorities and socially excluded groups, poor background Senior citizens, Women in the low stratum income. The following are factors which determining the failure of financial inclusion.

- **Submission of Legal proof:** Voter’s id, driving license, birth certificates, Ration card employment identity card etc are the core requirements for any financial activity. We don’t expect all the people having all the things.
- **Low literacy rate:** on the whole financial literacy and lack of basic education prevent people to have access from financial services. Even the educated person may fail to fill their cheque leaf.
- **Sum of income:** The amount of income decides the level of financial access. People from low income have the attitude of that banks are only for high income group.
- **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.
- **Too many formalities:** 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.
- **Dwelling place:** 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 difficult to go to areas in which banks are generally resided.

- **Lack of awareness:** Finally, people who lack basic education do not know the importance of the financial products like Insurance, Finance, Bank Accounts, cheque facility etc.

Benefits of Financial Inclusion

- ❖ It offers potential for increasing banking business by bringing more and more customers to bank; moreover it boosts the growth of Banking Business.
- ❖ This helps the weaker sections to channelize their incomes into buying productive resources or assets. It seeks to improve the standard of living of vast majority of poor persons.
- ❖ It enhances the number of Bankable customers.
- ❖ It promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.
- ❖ It can bridge the Urban-Rural divide.
- ❖ It mobilizes savings that promote economic growth through productive investment.
- ❖ In the situations of economic crisis, the rural economy can be a support system to stabilize the financial system. Hence, it helps in ensuring a sustainable financial system.

V. Market Size of Indian Banking Sector

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level 5 in the Faster Payments Innovation Index (FPII). In August 2017, Global rating agency Moody's announced that its outlook for the Indian banking system was stable. In November 2017, Global rating agency Moody's upgraded four Indian banks from Baa3 to Baa2.The Indian banking system consists of 27 public sector banks, 26 private sector banks, 46 foreign banks, 56 regional rural banks, 1,574 urban cooperative banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control more than 70 per cent of the banking system assets, thereby leaving a comparatively smaller share for its private peers. Banks are also encouraging their customers to manage their finances using mobile phones. The unorganised retail sector in India has huge untapped potential for adopting digital mode of payments, as 63 per cent of the retailers are interested in using digital payments like mobile and card payments, as per a report by Centre for Digital Financial Inclusion (CDFI).

Growth in Banking Sector Deposits: During FY06–17, deposits grew at a CAGR of 12.03 per cent and reached 1.54 trillion by FY171.Strong growth in savings amid rising disposable income levels are the major factors influencing deposit growth. Access to banking system has also improved over the years due to persistent government efforts to promote banking-technology and promote expansion in unbanked and non-metropolitan regions. At the same time India's banking sector has remained stable despite global upheavals, thereby retaining public confidence over the years. Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY), have also increased. As on November 9, 2016, US$ 6,971.68 million were deposited, while 255.1 million accounts were opened. ICRA estimates that credit growth in India's banking sector would be at 7-8 per cent in FY 2017-18.

S.No	Important Indicators	Sep 2017	June 2017
1.	All Scheduled Commercial Banks Of which Regional Rural Banks	148 56	144 56
2.	No of reporting office Rural	49,016	48,768
	Semi-urban	38,120	38,230
	Urban	25,067	25,131
	Metropolitan	26,842	27,111
	TOTAL	**139,045**	**139,240**
3.	Financial Inculsion Credit-deposit ratio (Per cent)	73	-
	Number of new bank branches opened	4830	-30.9
	Number of banking outlets in villages (Total)	598093	2.0

Source: https://www.ibef.org/industry/banking-india.

RBI initiatives via banking products: Providing universal access to banking services and improving the forms of credit delivery, especially for the weaker sections of the population, form the basis of the Reserve Bank's financial inclusion agenda. With a view to achieving sustainable and scalable financial inclusion, multiple strategies are being used such as appropriate relaxations in guidelines, provision of new products and other supporting measures. RBI's Compulsory Requirement of Opening Branches in Un-banked Villages, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked rural centers is one of the best solution for financial inclusion. The following are the major schemes introduced by the RBI.

Relaxed know your customer (KYC) requirements: Recognizing that the KYC requirements and related documentation may potentially become a hindrance in encouraging sections of the population in opening bank accounts, KYC for opening bank accounts was simplified to the extent possible. Consequently, small accounts could be opened with self-certification in the presence of bank officials. Further, Aadhaar, the unique identification number allotted by the Unique Identification Authority of India (UIDAI), Government of India was allowed to be used as one of the eligible documents for meeting KYC requirement for opening a bank account

Business correspondent Model: Under this model financial Institutes appoint commission agents who provide financial Services such as identification of borrowers, the collection of small value credit, a collection of interest, recovery of principal, the sale of micro insurance, pension schemes and products, mutual funds, other payment instruments, creating awareness about saving and other products and advice on managing money and debt counseling at the doorstep of the public at remote areas where they are unable to open branches which result in large customer base at low cost. Therefore this model is also known as the cost-efficient model.

Swabhiman Campaign: Swabhiman which means "self-respect" and this campaign was introduced in 2004 on the recommendations of C. Rangrajan Committee, aims at giving more self-respect and confidence to people by making them aware of the financial sector of their country and banking services. It is especially focused on including people from Rural into Banking Services and linking them in the financial sector of India in a proper and organized way. Under this public is made aware of the benefits of financial services especially in rural areas.

No Frill account: The central bank had introduced 'no-frills' accounts in 2005 to provide basic banking facilities to poor and promote financial inclusion. The accounts could be maintained without or with very low minimum balance

Basic Saving Bank Deposit (BSBD): RBI advised all banks to open Basic Saving Bank Deposit (BSBD) accounts with minimum 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

Jan dhan Account: This account holder is compulsorily issued RUPAY debit card and many more services. It also provided premium free life insurance till the time accounts opened on 26 Jan 2015. It has life insurance of Rs 30000 and accidental insurance covers Rs 1 lakhs. Also, provide overdraft facility up to 5000 Rs per month without any Rate of Interest.

And security but with few conditions which are Account age should be operated at least 6 months, Account holder should visit ATM branches at least once in 90 days and Income should be up to 1 lakh per year in rural areas and up to 1.5 lakhs year for urban areas. Up to December 6, 2017, 307 million accounts have been opened with a balance of 698 billion.

Payment banks: These banks will only accept deposit from public and will not lend loans; these payment banks will provide payment services and deposit products to its target customers which will be small businesses and low-income households. Till date 11 licenses have been granted out of which four banks are functional which are – Paytm, Airtel, Indian postal payment bank, Phino payment.

Electronic Benefits Transfer: To bung the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This "human-less" transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government's cost of transfer and monitoring.

Mobile Payment Forum of India: MPFI has been set up with the joint initiative of the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad and Rural Technology Business Incubator (RTBI), IIT Madras in 2006 with a mission to enable mobile payments and mobile financial services by everyone in digital India through secure, efficient and low cost transactions. Mobile payments, also known as m-payments, can be an alternative to cash, checks, credit cards and debit cards, and can make possible new opportunities for commerce convenience like transferring of the funds ,Money transfer , Ticketing (IRCTC, bus, taxi, air etc) and Payments like insurance premiums, credit cards or utility bills Other transactions like mobile top ups, merchant payments .According to RBI reports, in January 2011, there were 724,682 m-banking transactions amounting to Rs.62.77 crore. In August 2017 alone, there were over 90 million financial transactions using IMPS and UPI. As many as 500 million transactions were done on IMPS in FY 2016-17.These massive growth numbers are but a small indication of the tremendous potential for mobile payments in the Indian economy[9].

Unified Payment Interface: UPI is a single window mobile payment system launched by the National Payments Corporation of India (NPCI). The system is designed to provide a simple, secure and convenient "single interface" to enable sending and receiving of money using smart phones through a "single identifier" which can be a virtual address like an email ID, mobile number or Aadhaar number (like the Social Security Number). It eliminates the need to enter bank details or other sensitive information each time a customer initiates a transaction[10].

Financial Literacy Centres: FLC were started by commercial banks at the request of RBI to give awareness and education to the public to access financial products. Here, RBI's policy is that financial inclusion should go along with financial literacy.

Stand up India – launched to extend bank loans between Rs 10 lakhs to Rs 1 crore for Greenfield enterprises set up by the SC, ST & women entrepreneurs and to provide them handholding support. By Mid-August 2017 38,477 people were given loan up to Rs 8,277 crores out of which 31000 were woman and given loan up to Rs 6,895 crores.

Venture capital Scheme: The Government of India has launched this 'Venture Capital Fund for Scheduled Castes' with initial capital of Rs. 200 crore. IFCI Ltd. will act as Sponsor, Settler and Asset Management Company (AMC) / Nodal Agency to operate the scheme. The IFCI Ltd. would contribute Rs.50 crore which would comprise Rs.5.00 crore as sponsor and Rs. 45 crore as investor. The rate of interest has been reduced from 10% to 8 %.The objective of this is to promote entrepreneurship among India's scheduled caste population by identifying the ones who are oriented towards innovation and growth technologies. The initiative also intends to increase financial inclusion for the entrepreneurs and to motivate them for further growth of SC communities.

Kisan Credit Cards: The Kisan Credit Card scheme was launched to provide adequate, timely and cost effective institutional credit from the banking system to the farmers for their cultivation needs. Farmers can not only purchase inputs but also can withdraw cash from this credit card for their input needs. Farmers eligible for production credit of Rs. 5000 or more are eligible for issue of Kisan Credit Card.

Liberalized branch license scheme: the RBI has launched this step in December 2009. Here, 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 subject to reporting. In north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers with the same liberalized procedure. Similarly, banks were asked open at least 25 per cent of the total number of branches in unbanked rural centers.

RuPay debit cards: RuPay is an Indian domestic **card** scheme conceived and launched by the National Payments Corporation of India (NPCI) in 2012. It was created to fulfill the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India.

Prudential Regulatory Policy: The regulatory policies of the Reserve Bank are aimed at orderly development and conduct of banking operations, fostering overall financial stability and protecting depositors' interests. Given the bank-dominated financial system in India, the Reserve Bank is also striving to develop a more competitive, efficient and heterogeneous banking structure that can meet varied customer needs in an efficient manner.

Insurance & Pension schemes – In order to provide social security system for all citizens and especially to the poor and under-privileged people, the present government launched the following schemes:

Pradhan Mantri Suraksha Bima Yojna (PMSBY) covers the persons within the age slab of 18 to 70 years and a risk coverage of Rs 2 lakhs is provided at an affordable premium of Rs 12 per annum only. As per the date 12th April, 2017, around 10 crore people were enrolled under PMSBY

Pradhan Mantri Jeevan Jyoti Bima Yojna (PMJJBY) covers the persons within an age slab of 18 to 50 years having a bank account. The life cover of Rs 2 lakhs is provided to the insured payable in case of death of the insured due to any reason. As on 12th April 2017 3.10 crore person were enrolled under PMJJBY.

Atal Pension Yojna – A scheme launched in 2015 is open to all bank account holders in the age group of 18 to 40 years and they can choose different contributions based on the pension amount. Under this scheme monthly pension is guaranteed to the subscriber and after him to his spouse and after their death, pension corpus as accumulated till the age of 60 years is returned to the nominee of subscriber. Central Government also contributes 50% of the contribution subject to a maximum of Rs 1000 per annum. As on 31st March 2017 a total of 46.80 lakh subscribers have been enrolled from Atal Pension yojana with a total pension worth of Rs1713.214cr.

Varishita Pension Bima Yojana: All those who subscribe to the VPBY from 15th August 2014 to 14th August 2015 will receive an assured guaranteed return of 9% under the Policy.

Pradhan Mantri Mudra Yojna: This Scheme launched in April, 2015 to provide formal access of financial facilities to Non Corporate Small Business Sector. The basic objective of the scheme is to promote & ensure bank finance to unfunded segment of the Indian economy. In the Mudra Scheme since beginning till 13th August 2017, total 8crore 70 lakh loan where distributed out of which 6 crores 56 lakh were given to woman. In this scheme 3 lakh 75 thousand crores were sanctioned.

VI. CONCLUSION

The government is committed to its target of increasing the inclusion of every household in the financial system so that the masses can get all the legitimate benefits arising out of the growth of the country and in turn, the funds mobilized from the people not earlier in the formal channel could also be brought in the formal channel thereby giving the economy of the country an extra thrust to lead the path of growth. For that, Designing suitable innovative products to cater to the requirements of poor villagers at affordable rates is essential .Banks should enhance their ATM network in rural and un-banked areas to serve poor villagers. To deal with poor villagers, banks need to initiate training programmes to cutting edge staff and managers as well as BCs on the human side of banking. Banks should initiate steps to increase the credit absorption capacity in rural areas by promoting employment and other opportunities. Financial inclusion efforts should necessarily be done in colloquial languages and banking formalities should be easygoing and relaxed. White label ATM[11] should be improved .If the government tries to follow the above measures and the people support the same India will definitely shine in the fourth coming days.

References

1. http://censusindia.gov.in
2. Rao, S. (2010). Governors welcome address, RBI Bulletin, February.
3. Chakraborthy, K. C. (2010). Inclusive Growth: Role of Financial Sector, RBI Bulletin, vol. LXIV, no.12, December, pp 2425-2432.
4. Nagpurkar, S. (2010). Financial Inclusion In the City of Mumbai - A Study of Urban Poor: Migrants and Non-Migrants, Indian Journal of Social Development, vol.10, no.2, December, pp 663-674.
5. Chattopadhay, S. K. 2011),'Financial Inclusion in India: A Case-study of West Bengal, RBI Working Paper Series (DEPR): 8/2011, Available at: http://www.rbidocs.rbi.org.in
6. Karmakar K.G., Banerjee, G.D., & Mohapatra, N.P. (2011). 'Towards Financial Inclusion in India', New Delhi, Sage Publications India Pvt. Ltd.
7. Government of India (2011).Provisional Population Totals,' Paper 1 of 2011 India Series1, Table 2(2), Ministry of Home Affairs, Available at:http//www.censusindia.gov.in
8. Ramapal & Rupayanpal. (2012). Income Related Inequality in Financial Inclusion and Role of banks: Evidence on Financial Exclusion in India, WP-2012-013, Indira Gandhi Institute of Development Research, Mumbai, June 2012. www.igdr.ac.in
9. http://www.financialexpress.com/industry/mobile-payment-forum-of-india-plan-to-come-out-with-user-friendly-features/910755/
10. Investopedia https://www.investopedia.com/terms/u/unified-payment-interface-upi.asp#ixzz57JlWqoF5
11. https://www.gktoday.in/gk/white-label-atm/
12. www.indian express.com
13. http://financialservices.gov.in/new-initiatives/schemes
14. https://www.bestcurrentaffairs.com/list-schemes-launched-financial-inclusion.