Financial Inclusion in India: Opportunities and Challenges

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Abstract: Financial inclusion is increasingly being recognised world over as a key driver of economic growth and poverty alleviation. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investment in human capital. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all.Financial inclusion means the participation of poor people in accessing financial products and services such as savings, pension, credit, payment account etc.The economic growth and welfare of a nation depends upon accessibility of people to financial services. An all-inclusive financial system is essential because it enhances efficiency and welfare by providing scope for secure and safe saving practices and by facilitating a wide range of efficient financial services.The present study will focus on the progress, challenges and opportunities of financial inclusion in India.

Keywords: Financial Inclusion, Financial Services, Banking Sector, Financial Inclusion Plan (FIP), Financial Literacy

1. INTRODUCTION

Financial inclusion is increasingly being recognised world over as a key driver of economic growth and poverty alleviation. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investment in human capital. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all.To achieve the above objectives in a co-ordinated and time-bound manner, formulation of a National Strategy for Financial Inclusion (NSFI) is essential. Globally, the adoption of the National Financial Inclusion Strategy (NFIS) has been accelerated significantly in the past decade.Financial inclusion means the participation of poor people in accessing financial products and services such as savings, pension, credit, payment account etc. “financial inclusion refers to universal access to wide range of financial services such as insurance and equity products.”, (planning commission 2009). Starting from 2005, the Reserve Bank of India (RBI) and the Government have been making efforts to increase financial inclusion. SHG bank linkage program, use of business correspondents, know your customer norms, electronic benefit transfer. Use of mobile banking, expansion of bank branches and ATMs, financial literacy have played significant role in increasing financial inclusion. Improvement in Information Technology helps banks in reducing their cost and to increase customer reachability. As per the census 2011, 85895 bank branches were opened in public sector banks as on 2015, 125857 bank branches in scheduled commercial banks. With the help of information technology banks offer various solutions like mobile banking, e-wallets and virtual cards.

2. LITERATURE REVIEW

Varun K.V and Sabik K. studies the opportunities and challenges of financial inclusion in India and the initiatives and guidelines for financial inclusion. The banks need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner.According to S. Mahendra Dev financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprise and other vulnerable groups. Financial institutions should look at inclusion both as a business opportunity and social responsibility. The role of self-help groups movement and microfinance institutions is important to improve financial inclusion.Gradamsetty Sai Arun, describes as inclusive growthis necessary to pull millions of Indians out of poverty. The study discusses and analyses various initiatives by the government, RBI, banks and role played by ICT. Poonam Archana Chaudhary studies financial inclusion through banking services which includes savings and loans, number of accounts, number of offices, KCC and ATMs etc. Three determinants have been taken to show district wise decadal financial inclusiveness for the year 2006and 2016.Dr. A. S. Ramasastrireveals in his study that, in the past decade, disruptive technologies have shrunk the world leading to location agnostic production and consumption of services. This has transformed the banking industry to a great extent, altering the way the business is conducted. Banks have created digital infrastructure to offer various solutions like mobile banking, e-wallets, virtual cards for successfully fulfilling the changing needs of the modern-day customer. Wholesale banking is also catching on this trend designing and

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delivering the right mix of products and services to corporate customers, harnessing digital technologies.Angella Faith Lapukeni This paper looks at an overview of financial inclusion globally and in Africa discuss the impact of ICT on reaching individuals who were otherwise financially excluded, mainly through mobile payments. Trend analysis shows a faster growth in mobile telephone subscription than financial inclusion through mobile financial services. This paper also discusses the opportunity costs of possible ICT both at microeconomics and macroeconomic level and concludes with possible recommendations for policy in leveraging ICT for increase financial inclusion.

3. RESEARCH OBJECTIVE

1. To understand the opportunities and challenges of financial inclusion in India.
2. To study the initiatives taken by Reserve Bank of India (RBI) for growth of financial inclusion in India.

4. RESEARCH METHODOLOGY

The study is based on secondary data. Data and information have been collected with the help of magazines, websites, journals, RBI bulletins , reports by Government of India, Ministry of Finance, NABARD reports, and other sources.

5. FINANCIAL INCLUSION

Financial inclusion leads to economic and social development of economy. It helps in reduction in income equalities, helpful in implementing various schemes provided by the government to the underprivileged people like social security schemes (old age pension etc.). Financial inclusion helps in increasing growth of economy, reduction in poverty. By financial inclusion subsidies provided by govt. are directly distributed by crediting bank account of targeted beneficiary than indirect distribution of subsidies. Access to financial services not only opens doors for families, collectively it develops entire communities and can help in drive economy. Financial inclusion is about to adopt the ability and tools to manage and save their money and strengthen people communities with the skills and knowledge to make the right financial decision.Involving in financial services and products gives people an opportunity to start and grow business through microfinancing schemes. Financial inclusion makes people being able to invest in the education for betterment of their children, to handle uncertainties that require unexpected payment or financial shocks. It promotes investment within communities, provide jobs and equality in community and within families. Financial Inclusion is helpful in reducing the loopholes in public subsidies and schemes as they can be transferred directly into the beneficiary’s accounts.

6. OPPORTUNITIES OF FINANCIAL INCLUSION IN INDIA

- Financial inclusion will not only provide safe savings but also offer many allied services like insurance coverage, entrepreneurial loans, payment and settlement facilities etc.
- With an increase in business opportunities, national income of our country will also increase, which in turn results in increased GDP.
- Financial access will also attract global market players in our country that will result in increasing business and employment opportunities.
- with the help of KYC norms and UID financial inclusion process speeds up the banking process which reduces the cash and non-cash costs to both banks and customers.
- By fostering financial inclusion and encouraging saving habits can also provide provides funds for searching more productive sources of employment by providing access to easy finance and banking services to even in rural areas.
- With the help of financial inclusion concept, by saving small amounts over time, poor people can arrange funding for the lump investment needed in businesses like for purchasing equipment’s or buying goods at a wholesale price.
- Electronic benefit transfer (EBT): With the help of EBT and information and communication technologies, banks can transfer social benefits electronically to the bank account of the beneficiary and can deliver government benefits at the doorstep of beneficiaries, thus reducing dependence on cash and lowering transaction costs.
- For achieving commercially sustainable universal access, banking systems will be updated to new technologies like EBT to ensure the availability of financial services to all sections at reduced cost and enhanced benefits like makes banking convenient which ensures being able to transact near where they live and work and ensuring trust among the peoples that they are putting their money with such organizations that seem to care for them and who they feel are going to be there for them when they need them the most.
- Financial inclusion provides opportunities to the banking sector to cut across various strata of society, regions, gender, and income and encourage the public to embrace banking habit. Reserve Bank of India has intervened for the success of financial inclusion by introducing various enactments, financial literacy drives, leveraging technology etc.

- Financial inclusion will help the poor in meeting various needs with the help of a wide range of financial services which are readily available and affordable also. Financial services will provide tools which will help in providing easy financing facilities in many fields like microenterprises' investments in new production technologies, helping in farmers' purchasing productivity-enhancing inputs such as fertilizers, laborers' search for better job opportunities, or children's education and to mitigating people's exposure to large Lifecycle events or unpredictable risks.

Thus, financial inclusion offers plenty of opportunities for growth and development in India.

7. CHALLENGES IN ACHIEVING FINANCIAL INCLUSION

Financial services are used only by a section of the population, the excluded sections are rural, poor areas where it is difficult to provide these financial services which is mainly relying on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. The main challenge of financial inclusion is to include the rural and poor people in the coverage area.

- Financial Illiteracy is also one of the challenges in the area of financial inclusion. Lack of basic education prevents the people to have an access from financial services.
- Poor living even in urban areas does not fully utilize the financial services as they find them costly and unaffordable which deter the poor from accessing them.
- Another challenge in the area of financial inclusion is that access to formal financial services requires various documents of proof regarding persons' identity, income, birth certificates, etc. But poor peoplegenerally lack these documents and thus are devoid of these services.
- Poor and rural sections may sometimes subscribe these financial services initially but may not use them as active as others due to high distance between the bank and residence, poor infrastructure etc.
- Low income level is another challenging area in the process of financial inclusion because they think banks provides services only to rich class.
- Due to difficulty in understanding formal languages, various documents and many formalities in banking procedure people are not comfortable in using financial services.
- Many people who live in remote localities find it difficult to reach the areas where banks are generally situated.
- Many people, who lack basic knowledge and education, do not know the importance of financial products like insurance, finance, bank accounts, cheque facilities etc is also the challenge in the implementation of financial inclusion.
- Many financial institutions not able to justify on commercial grounds the establishment of broad-based infrastructure to serve poor households so they sometimes pull back to their physical presence in rural or poor areas and also place some restrictions to discourage the custom of poor people (e.g. high minimum account balances). As a result, they also pass the access cost on to customers, who had to travel to distant branches and face long queuing time. As a result, many poor people reject financial institutions that serve the middle and upper classes.

8. RBI INITIATIVES

1. **Financial Inclusion Plans (FIPs)** In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs). These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts.

2. **National Strategy for Financial Inclusion.** In order to systematically accelerate the level of financial inclusion in the country in a sustainable manner, the National Strategy for Financial Inclusion has been prepared under the aegis of the FIAC and is based on the inputs and suggestions from the Government of India and other financial sector regulators

3. **Penetration of Banking Services:** The Reserve Bank has taken several steps to provide banking facilities in the unbanked villages in the country. The use of information technology (IT) and intermediaries has made it possible to increase outreach, scale and depth of banking services at an affordable cost.

4. **'Train the Trainers' Programme for Capacity Building of Business Correspondents** To build the capacity and skills of Business Correspondents (BCs), for effectively delivering financial services at the grass-root level, a two-tier 'train the trainers' programme, 'Skill Upgradation for Performance of Resources – BCs' (SUPER-B) was designed by the Department.

5. **Setting up of National Centre for Financial Education (NCFE):** The NCFE has been set up under Section 8 of

the Companies Act, 2013 as per the directions of the Financial Stability and Development Council – Sub Committee (FSDC-SC) by RBI, SEBI, IRDAI and PFRDA. The NCFE continued its focus on promoting financial education across India for all sections of the population under the aegis of the National Strategy for Financial Education for creating financial awareness and empowerment through financial education campaigns across the country in the form of seminars, workshops, conclaves, trainings, programmes, campaigns, etc.

6. **Financial literacy Camps.** Financial literacy is crucial for imparting efficacy to the financial inclusion initiatives of the Reserve Bank. In this direction, a number of new initiatives were undertaken.

Financial Inclusion Plan: A Progress report

Particulars	End-March 2010	End- March 2018	End-March 2019*
Banking Outlets in Villages - Branches	33,378	50,805	52,489
Banking Outlets in Villages > 2000-BCs	8,390	100,802	130,687
Banking Outlets in Villages < 2000- BCs	25,784	414,515	410,442
Total Banking Outlets in Villages – BCs	34,174	515,317	541,129
Banking Outlets in Villages- Other Modes	142	3,425	3,537
Banking outlets in villages - total	67,694	569,547	597,155
Urban locations covered through BCs$	447	142,959	447,170
BSBDA - through branches (No. in Million)	60	247	255
BSBDA - through branches (Amt. in ₹ Billion 44	731	878	
BSBDA - Through BCs (No. in Million)	13	289	319
BSBDA - Through BCs (Amt. in ₹ Billion)	11	391	532
BSBDA - Total (No. in Million)	73	536	574
BSBDA - Total (Amt. in ₹ Billion)	55	1,121	1,410
OD facility availed in BSBDAs (No. in million)	0.2	6	6
OD facility availed in BSBDAs (Amt. in ₹ Billion 0.1	4	4	
KCC - Total (No. in Million)	24	46	49
KCC - Total (Amt. in ₹ Billion)	1,240	6,096	6,680
GCC - Total (No. in Million)	1	12	12
GCC - Total (Amt. in ₹ Billion)	35	1,498	1,745
ICT-A/Cs-BC-Total transactions (Number in million)#	27	1,489	2,094
ICT-A/Cs-BC-Total Transaction (Amount in ₹ billion)#	7	4	5.884
*: Provisional. $: Out of 447,170 outlets, It is reported that 388,868 outlets provide limited services like only remittances or sourcing of loans, etc. #: Transactions during the financial year. Source: As reported by banks			

Source: RBI Report

9. CONCLUSION

The concept of financial inclusion has gained substantial importance in the Indian context. For achieving the financial inclusion people need to have basic financial literacy, financial skills, product knowledge and understanding. Bank nationalization was the first step towards financial inclusion in India. Regional rural banks are created to take the banking and financial services to the rural people.Rapid increase is seen in the progress of banking technologies. Bringing the financial inclusion to rural population can be easily achieved if done with the help of ICT (Information and Communication Technology), creating digital infrastructure to offer various solutions like mobile banking, e-wallets, virtual cards.RBI and

Govt. of India are taking various initiatives to penetrate banking services in rural areas.

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