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# A Empirical Study on Various Factors Relating to Development of Financial Inclusion in India

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**Abstract:**
The word Financial Inclusion could be described as being the opposite of financial exclusion. However, financial inclusion is more of a process rather than a phenomenon. It is a process by which financial services are made accessible to all sections of the population. It is a conscious attempt to bring the un-banked people into banking. "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" (The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan, 2008)) Financial Inclusion does not merely mean access to credit for the poor, but also other financial services such as Insurance.

Financial Inclusion allows the state to have an easier access to its citizens, with an inclusive population, for e.g.: the government could reduce the transaction cost of payments like pensions, or unemployment benefits. It could prove to be a boon in a situation like a natural disaster, a financially included population means the government will have much less headaches in ensuring that all the people get the benefits. It allows for more transparency leading to curtailing corruption and bureaucratic barriers in reaching out to the poor and weaker sections. An intelligent banking population could go a long way by effectively securing themselves a safer future.

**Keywords:**
Microfinance Institutions, Financial Inclusion, Reserve Bank of India

## The objective of Financial Inclusion

- The access to various mainstream financial services e.g. saving bank account, credit, insurance, payments and remittance and financial and credit advisory services.
- The main objective is to provide the benefit of vast formal financial market,& protect them from exploitation of informal credit market, so that they can be brought into the mainstream.

## I. FIRST PHASE DEVELOPMENTS (1969-1981)

In 1969, the banks were nationalised in order to spread bank's branch network in order to develop strong banking system which can mobilise resources/deposits and channel them into productive/needy sections of society and also government wanted to use it as an important agent of change. So, the planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met satisfactorily.

Before 1990, several initiatives were undertaken for enhancing the use of the banking system for sustainable and equitable growth. These included
I. Nationalization of private sector banks,
II. Introduction of priority sector lending norms,
III. The Lead Bank Scheme,
IV. Branch licensing norms with focus on rural/semi-urban branches,
V. Interest rate ceilings for credit to the weaker sections and
VI. Creation of specialised financial institutions to cater to the requirement of the agriculture and the rural sectors having bulk of the poor population.

## II. SECOND PHASE – ANNUAL POLICY (2005-2006)

As the central bank of the country, the Reserve bank of India has taken steps to ensure financial inclusion in the country. It has tried to make banking more attractive to citizens by allowing for easier transactions with banks. In 2004 RBI appointed an internal group to look into ways to improve Financial Inclusion in the country. With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In the Mid Term Review of the Policy (2005-06), It is observed that there were legitimate concerns in regard to the banking practices that tended to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganised sector. It also indicated that the Reserve Bank would

1. Implement policies to encourage banks which provide extensive services, while dis-incentivising those which were not responsive to the banking needs of the community, including the underprivileged;

2. The nature, scope and cost of services would be monitored to assess whether there was any denial, implicit or explicit, of basic banking services to the common person; and

3. Banks urged to review their existing practices to align them with the objective of financial inclusion.

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 transactions in such accounts would be restricted and made known to customers 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. RBI came out with a report in 2005 (Khan Committee) and subsequently RBI issued a circular in 2006 allowing the use of intermediaries for providing banking and financial services. Through such policies the RBI has tried to improve Financial Inclusion. Financial Inclusion offers immense potential not only for banks but for other businesses. Through an integrated approach the businesses, the NGOs, the government agencies as well as the banks can be partners in growth. RBI has realized that a push is needed to kick start the financial inclusion process. Some of the steps taken by RBI include the directive to banks to offer No-frills account, easier KYC norms, offering GCC cards to the poor, better customer services, promoting the use of IT and intermediaries, and asking SLBCs and UTLBCs to start a campaign to promote financial inclusion on a pilot basis.

## III. THIRD PHASE - RANGRAJAN COMMITEE

The Government of India (Chairman Dr. C. Rangarajan) constituted the Committee on Financial Inclusion on June 26, 2006 to prepare a strategy of financial inclusion. The Committee submitted its final Report on January 4, 2008.

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The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low-income groups at an affordable cost9. Financial inclusion, therefore, according to the Committee, should include access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities. The Report observed that in India 51.4 per cent of farmer households are financially excluded from both formal/informal sources and 73 per cent of farmer households do not access formal sources of credit. Exclusion is most acute in Central, Eastern and North-eastern regions with 64 per cent of all financially excluded farmer households. According to the Report, the overall strategy for building an inclusive financial sector should be based on :

- ✓ Effecting improvements within the existing formal credit delivery mechanism;
- ✓ Suggesting measures for improving credit absorption capacity especially amongst marginal and sub-marginal farmers and poor non-cultivator households;
- ✓ Evolving new models for effective outreach; and
- ✓ Leveraging on technology-based solutions.

Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and the remaining by 2015. This would require semi-urban and rural branches of commercial banks and RRBs to cover a minimum of 250 new cultivator and non-cultivator households per branch per annum. The Report of the Committee on Financial Inclusion Committee has also recommended that the Government should constitute a National Mission on Financial Inclusion (NaMFI) comprising representatives of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives. The major recommendations relating to commercial banks included target for providing access to credit to at least 250 excluded rural households per annum in each rural/semi urban branches; targeted branch expansion in identified districts in the next three years; provision of customised savings, credit and insurance products; incentivising human resources for providing inclusive financial services and simplification of procedures for agricultural loans. The major recommendations relating to RRBs are extending their services to unbanked areas and increasing their credit-deposit ratios; no further merger of RRBs; widening of network and expanding coverage in a time bound manner; separate credit plans for excluded regions to be drawn up by RRBs and strengthening of their boards. In the case of co-operative banks, the major recommendations were early implementation of Vaidyanathan Committee Revival Package; use of PACS and other primary co-operatives as BCs and co-operatives to adopt group approach for financing excluded groups. Other important recommendations of the Committee are encouraging SHGs in excluded regions; legal status for SHGs; measures for urban micro-finance and separate category of MFIs.

## HOW GOVERNMENT AND RBI CAN BUILD ON EXISTING BANKING STRUCTURE TO PROVIDE FINANCIAL SERVICES TO ALL

Banking system is like a team, which constitutes from various entities which are different in nature, form, structure and its working but together they makes system in which they efficiently work for a common motive.

## SHG BANK LINKAGE PROGRAM

The SHG-Bank Linkage program can be regarded as the most powerful initiative since independence for providing financial services to the poor in a sustainable manner.

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The program has been growing rapidly YOY basis. Currently, 10 million SHG's are working across the country with a credit base of Rs. 100000 Crore. But this is not enough to reach the entire mass. This number needs to be increased substantially. However, the spread of the SHG- Bank linkage program in different regions has been uneven with southern states accounting for the major chunk of credit linkage. Many states with high incidence of poverty have shown poor performance under the program. NABARD has identified 13 states with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme need to be given a fresh impetus. NGOs have played a commendable role in promoting SHGs and linking them with banks. As of now, SHGs are operating as thrift and credit groups. They may evolve to a higher level of commercial enterprise in future. Hence, it becomes critical to examine the prospect of providing a simplified legal status to the SHG

## MICRO FINANCE INSTITUTIONS (MFIs)

From the late 1980s, the emergence of the Grameen Bank in Bangladesh drew attention to the role of micro- credit as a source of finance for micro-entrepreneurs. Lack of access to credit was seen as a binding constraint on the economic activities of the poor. Microfinance Institutions (MFIs) are those, which provide thrift, credit, and other financial services and products of very small amounts mainly to the poor in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards. Lately, the potential of MFIs as promising institutions to meet the demands of the poor has been realized. The closer proximity with the people at grassroots level and the mix of offering right products at right price based on the actual needs of the masses makes their role very important in deepening financial inclusion. However, there is exigency to upscale their outreach. In India, out of some 400 million poor workers, less than 20 per cent have been linked with financial services provided by MFIs.

### Steps needed to promote MFIs

1. One of the ways of expanding the successful operation of microfinance institutions in the informal sector is through strengthened linkages with their formal sector counterparts.

2. Efforts are needed to make MFIs an integral part of mainstream banking and to bring down the rates of interest on microcredit to ensure the micro finance movement gets further impetus.

3. A mutual beneficial partnership should be established between MFIs and Banks contingent on comparative strength of each sector. For example, informal sector microfinance institutions have comparative advantage in terms of small transaction cost achieved through adaptability and flexibility of operations.

## COOPERATIVE CREDIT INSTITUTIONS:

Rural credit cooperatives in India were originally envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. It has served as an effective institution for increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable sections.
Despite the phenomenal outreach and volume of operations, the health of a very large proportion of these credit cooperatives has deteriorated significantly. Various problems faced by these institutions are:

- Low resource base
- High dependence on external source of funding
- Excessive government control
- Huge accumulated losses and imbalances
- Poor business diversification
- Low recovery

Taking all these facts in mind, there is an urgent need to address the structural deficiencies of these institutions in order to make them play an effective role in meeting the financial inclusion goal.

**METHODOLOGY**

**OBJECTIVES:**

- ✓ To study the steps taken by the government for the development of financial inclusion
- ✓ To study the financial services as part of financial inclusion.

**PROBLEM STATEMENT:**

The principle cause behind this study is to know how the financial inclusion is being developed and the impacts after its implementation in the selected location.

**Purpose and need of study**

The purpose of study was to know about the steps taken by government for the development of financial inclusion and the financial services as part of the financial inclusion.

**Scope of present study**

The present study is conducted in the area of Vaddeswaram, Guntur district.

**RESEARCH DESIGN:**

**DATA COLLECTION:**

The Data are classified into two types:

1. Primary data
2. Secondary data

**Primary data**

The primary data are those which are originally collected for the first time by the researcher in view of objectives. The data are in raw form. This requires refinement through statistical methods in order to arrive at conclusions. Primary data can be mainly collected with 4 types of methods. They are as follows:

- ➢ Observation method
- ➢ Interview method
- ➢ Questioner method
- ➢ Schedules method

In the present study the questionnaire method has been used.

**Secondary data**

Secondary data means data that are already available i.e. they refer to data which have already been collected by someone else and which have already been passed through the statistical process.

**BANKING HABITS**

**Q. Do you have bank account?**

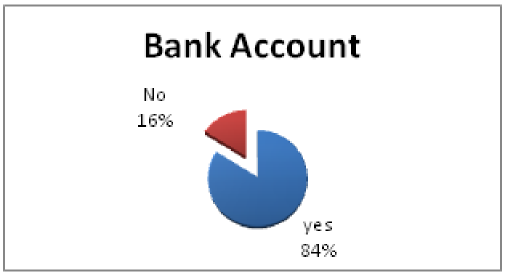
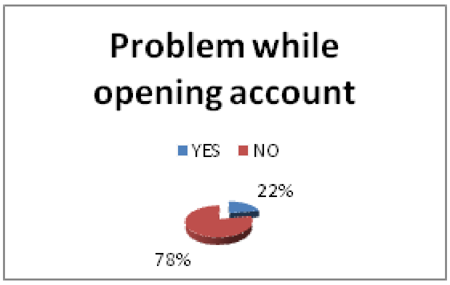



**Figure 12: Do you have bank Account**

**Interpretation:**

Out of the 50 sampled, 42(84%) responded that they were having bank account and the remaining 8(16%) were not availing bank account.

**Q. Did you face any problem while opening account?**




**Interpretation:**

Out of the 50 sampled 39(78%) did not face any problem while opening the account and the remaining 22% faced problems while opening the account.

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### Q. How far is the bank branch from your residence?

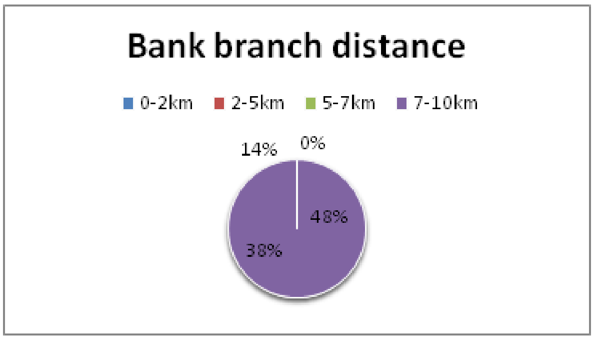


**Figure : Distance of Bank Branch**

### Interpretation

24(48%) responded that the distance of bank branch was 0-2Km.Similarly 17(38%) responded that the bank branch was 2-5Km and 7(14%) as 5-7Km from their residence.

### Q.What is the services /product you avail along with your bank account?

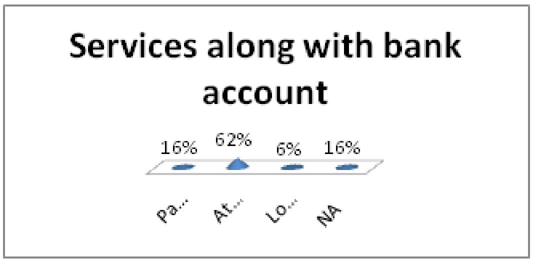


**Figure: Product and Services Availed**

### Interpretation:

Out of 50 respondents, 31(62%) were availing Atm/debit card .Similarly 8(16%) were availing payment and remittances,3(6%) as loans and advances and 8(16%) were not applicable.

### Q. For what purposes you use your account

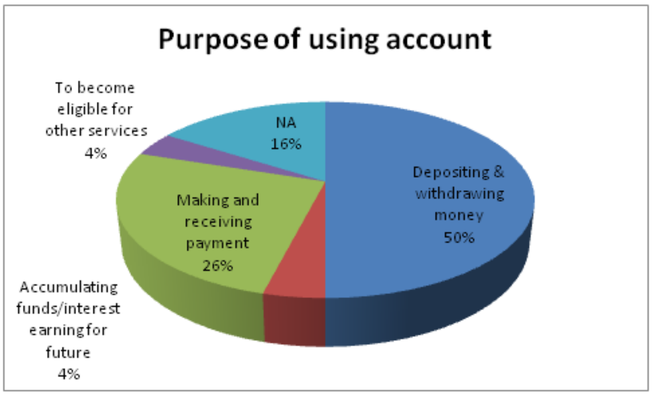


**Figure: Usage of bank account**

### Interpretation:

The majority of sample population,25(50%) uses bank account for managing their cash flow as they get their salary or earning in beginning of month but expenditure is over the month, 13(26%) uses bank account for making and receiving payment ,2(4%) uses bank account as means of becoming eligible for other financial services,2(4%) uses bank account for accumulating funds and the remaining 16% are not applicable.

## CONCLUSION:

The steps taken by government for the development of Financial Inclusion has been successful to a significant level and the government should take extra efforts for further development based on the suggestions provided by the people. These include the services like customer care/may i help you counters, credit counselling centres and No frill accounts. This helps in developing the financial inclusion.

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**About Author:**

**Dr. G. Suneetha** has rich teaching experience over 16 years and also has good exposure in industry related activities and placements. Research Guide at Rayalaseema University and Research Scholar working at RU for PhD and published 10 research papers in national and international journals and also writer for various text book and also attended various national and international conferences and seminars.