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CERTIFICATE OF PARTICIPATION

This is to certify that, Dr./Prof./Mr./Mrs. Dr. Vijay Annaso Mane

From

has participated/Presented the Research Paper on Financial Inclusion: Future and Problems in the National Conference held on 10th March 2018 at Night College of Arts and Commerce, Ichalkaranji.

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FINANCIAL INCLUSION: FUTURE AND PROBLEMS

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Abstract :

As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since2005,many concerted measures are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact to these did not yield satisfactory results. The availability of banking services to the entire population without any discrimination is the prime objectives of the public policy. The poor sections of the society are ignorant about the banking services, suitable products available for them from the banks. Banking can be lucrative only when financial products are made available to each and every one in the society. The idea of Financial Inclusion is to bring all poor sections of the society into the fold of the formal financial system. Many efforts have made by the Government earlier to promote financial inclusion. Still a number of Rural households are not covered by banking network i.e., nearly 40 per cent of rural residents do not have banking access. This paper throws light on the basic concept of Financial Inclusion, various issues and problems for banks.

Introduction :

The process of economic progress has started by initiatives taken by the Congress Government in the year 1991 onwards. Economic reforms consisted two distinct stands- Macroeconomic stabilization, and structural reforms. As part of the financial sector reforms Government has appointed a committee under the chairmanship of Mr. M. Narasimham, and this committee has submitted many recommendations such as right capitalization, merger of weak banks with strong banks, licensing of new private sector banks and establishment of Board of Financial Regulation supervision. In spite of all these reforms still we could see some causes of concern along with growth and development. Lower income groups, weaker sections of the society, etc. are still in the clutches of money lenders and indigenous bankers. They are not aware of how to protect their money and no access to banks also. 40 per cent of Indian lack access to simplest kind of formal financial services. The availability of banking service to the entire population without any discrimination is the prime objective of the public policy. The poor sections of the society are ignorant about the banking services, suitable products available for them from the banks. Baking can be lucrative only when financial products are made available to each and every one in the society. Therefore, the financial inclusion is a process by which poor people can be served with suitable product's in order to make them to have accessibility to banks.

Objective of the study:

1) To understand the concept of financial inclusion.
2) To know the strategies implemented by Reserve Bank of India to strengthen the financial inclusion.
3) To find out how financial inclusion can help inclusive growth.
4) To identify the problems to be faced by the country to strengthen the financial inclusion.

Research Methodology :

This research paper is based on only Secondary data. This data is being collected through various sources such as books, Magazines, journals, newspapers and websites.

Definition of Financial Inclusion:

According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. Financial Inclusion is defined as "the process of ensuring access to appropriate financial products and services needed by all sections of the society in general, and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players".

Financial Inclusion and Inclusive Growth:

Today, there is a national as well as global focus on inclusive growth. The Financial Stability and Development council (FSDC), headed by the Finance Minister, is Mandated to focus on financial inclusion and financial literacy. All financial sector regulators including the Reserve Bank of India are committed to the Mission. And, very publicly, so are banks and other financial sector entities. If we are advocating any kind of stability whether financial, economic, political or social and inclusive growth with stability, it is not possible to attain without achieving financial inclusion.Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Thus, financial inclusion is no longer a policy choice today but a policy compulsion. And, Banking is a key driver for financial inclusion/inclusive growth.

Role of Banks:

It is well recognized that there are supply side and demand side factors driving inclusive growth. Banks and other financial services players largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Access to financial products is constrained by several factors which include lack of awareness about the financial products, Unaffordable products, high transaction costs, and products which are not convenient, inflexible, not customized and of low quality. Apart from the supply side factors, demand side factors such as lower income and/or asset holding also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals and small and microenterprises usually rely on their personal saving or internal sources or take resources to informal sources to invest in health, education, housing and entrepreneurial activities to make use of growth opportunities. The mainstream financial institutions like banks have an important role to play in this effort, not as social obligation but as pure business proposition.

What it means to us?

Our broad objective is to take banking to all sections of the society, rural and urban which are excluded. Our attention was specifically attracted to provide banking services to all the 6 lakh villages and meet their financial needs through basic financial products like saving, credit, remittance and insurance for obvious reasons. Though, the focus initially was to cover villages with population above 2000 by March 2012, banks have since drawn up their broad approved financial inclusion plans to put in place a road map for extending banking services in all villages in an integrated manner over period of next 3 to 5 years.

STEPS TAKEN BY RBI TO SUPPORT THE FINANCIAL INCLUSION:

India has a long history of banking development. After Independence, the major focus of the Government and RBI was to develop a sound banking system which could support planned economic development through mobilization of resources and channel them into productive sectors. Thus, the Government's desire to use the banking system as an important agent of change was one of the important policies. RBI has also taken several measures to achieve greater financial inclusion in India. Some of these measures are as follows:

Simplified KYC Norms: In order to ensure that low income group (poor people) does not face difficulty in opening the bank account due to procedural hassles, the KYC (Know Your Customer) norms have been simplified. . In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

Financial Education: It was advised by RBI that Financial Literacy Centers (FLCs) and all the rural branches of SCBs should scale-up financial literacy efforts through conduct of Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of 'Financial Literacy' and 'Financial Access'.

Branches in Un-banked Villages: RBI has directed all banks to allocate at least 25% of the total number of branches to be opened in un-banked (Tier 5 and Tier 6) rural centers.

Easy Credit Facilities: RBI has asked banks to consider introducing General purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi urban branches. GCC is in the nature of rotating credit entitling the holder to withdraw up to the limit sanctioned. The interest rate on the facility is entirely deregulated.

Other Rural Intermediaries: Banks were permitted by RBI to use other rural organizations like non-government organizations, self-help groups, microfinance institutions etc. for furthering the cause of financial inclusion.

Simplified Branch Authorization Policy: To address the issue of uneven spread of bank branches, in 2009, domestic scheduled commercial banks were permitted to freely open branches in tier II to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. Even in North-Eastern States, domestic SCBs can open branches without having any permission from RBI.

Usage of Regional Language: The RBI asked banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.

Discussion Paper: The RBI has put out a discussion paper "Discussion Paper on Banking Structure in India – The Way Forward"in August 2013 for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

Basic Saving Bank Deposit: RBI has advised all banks to offer such accounts (no frills) 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 etc.

Watchdog: All banks had been advised to submit board approved three year Financial Inclusion Plan (FIP). These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans continuously.

Licensing of New Banks: Licensing of new banks was aimed at giving further lift to financial inclusion efforts. Innovative business models, aimed at furthering financial inclusion efforts, would be looked into strictly in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Subbarao).

Kisan Credit Card: The promotion and spreading of the KCC, an important means to reduce transaction costs, has also been given due importance. This scheme was introduced in 1998-99with over 30 million cards issued by 2003; however the use of the card was patchy with larger farmers reporting the higher usages. However, progress of financial inclusion clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs.

Financial Inclusion plans for Banks :

In our effort to achieve a sustained, planned and structured financial inclusion, in January 2010, all public and private sector banks were advise to put in place a Boardapproved three-year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011,2012 and 2013. These plans broadly include selfdetermined targets in respect of rural brick-and-mortar branches to be opened; BCs to be employed; coverage of unbanked villages with population above 2000 through branches/BCs/other models; no-frill accounts opened including through BC-ICT; KCC and GCC; and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank.

Future and Problems of Financial Inclusion:

1. One of the major problems under Financial Inclusion has been addressing the last mile connectivity problem for addressing this issue and for achieving the goals set, experts have recommended the Business Correspondent/Facilitator (BC/BF) Model.

2. Banks need to perfect their delivery and business model. A number of different models involving handheld devices with smart cards, mobiles, mini ATMs, etc. are being tried out and it is necessary that they are integrated with the back-end CBS system for scaling up.

3. In addition to this, the Reserve Bank has advised banks to focus more towards opening of Brick-&-Mortar branches in unbanked villages. These branches can be low-cost intermediary simple structure comprising of minimum infrastructure for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 kms. This will lead to efficiency in cash management, documentation and redressal of customer grievances.

4. Banks should strive to provide a minimum of four basic products and, in addition, design new products tailored to income stream of poor borrowers and according to their needs and interests. Banks must be able to offer the entire suite of financial products and services to the poor clients at an attractive pricing.

Conclusion : Financial inclusion is the road which India needs to travel towards becoming global players. An inclusive growth will act as a source of empowerment and allow people to participate more effectively in

the economic and social process. Banks that have global ambitions must meet local aspirations Fi access will also attract global market players to our country that will result in increasing employme business opportunities. As we have all recognized, technology is a great enabler and has to act as a la achieve the ultimate goal of providing financial services to the financially excluded.

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