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## **FINANCIAL INCLUSION- FINANCIAL SERVICES FOR EVERYONE**

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### **Abstract:**

This paper explain the meaning of Financial Inclusion, benefits of financial inclusion, challenges faced in India in the way of the financial inclusion and various measures for the success of the financial inclusion. Financial Inclusion means providing finance to every section of the society with reduced cost. The main objective of the financial inclusion is to provide access to the financial services with no discrimination for this large number of bank branches must be opened, people must be educated towards the financial services, technology must be improved. RBI had taken various measures for this purpose such as opening of no frill account, uses of regional language, simplifying KYC norms etc. Financial inclusion provide various benefits to the poor section of the society such as knowledge about financial services, identity to the poor, improving standard of living, economic equality etc. But in India various challenges are faced in the way of the financial inclusion such as lack of financial education, seasonal income of the poor, physical distance of the banks branches, complicated procedure to avail financial services etc. Hence, Government, RBI and Industry have to take various measures to provide the benefits of financial inclusion to the weaker section of the society.



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**Key Words:** Financial Inclusion, KYC, BC

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### **Introduction:**

Finance is very essential for every economic activity. Without adequate finance no activity can be undertaken. Finance is also required by the every section of the society. But from the beginning of the civilization, only the financial needs of the upper section of the society were catered. Access to finance by the poor and weaker groups is very difficult. This is due to the various reasons such as lack of banking facilities for this section, unawareness about the schemes available for them, lack of a regular or substantial income etc. Moreover, banks also give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit. Hence, the need for financial inclusion is felt by the Government of India, the policy makers and Reserve bank of India.

### **Financial Inclusion Meaning:**

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the clutches of local money lenders.

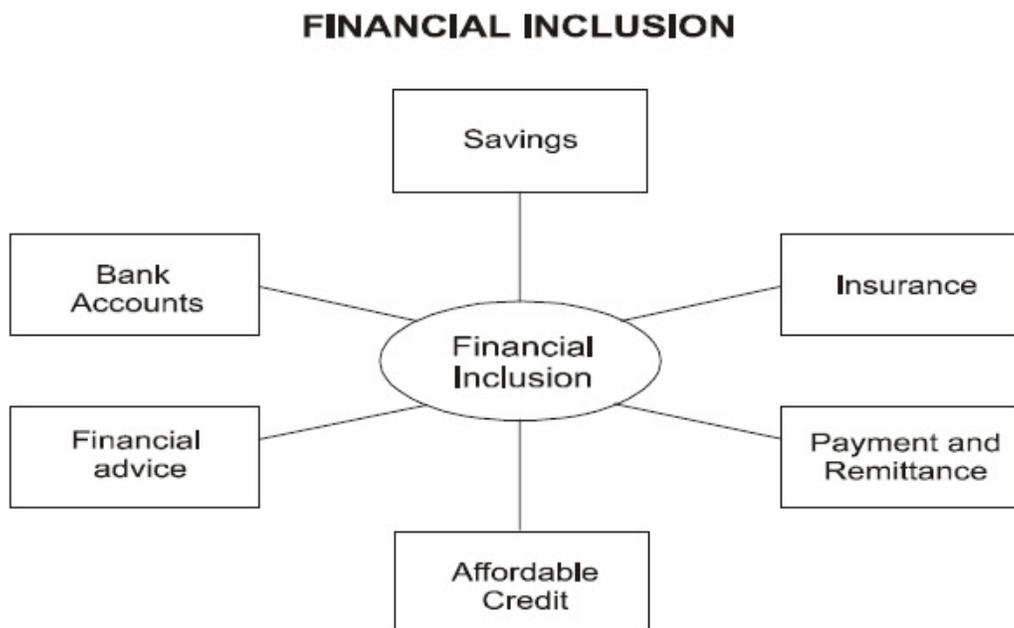


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### Financial Inclusion Defined:

Rangarajan's committee (2008) on financial inclusion defines it as: *"Financial inclusion may be defined as 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."*

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*Sources: Report of the Rangrajan Committee on Financial Inclusion*

### Objectives of Financial Inclusion



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1. Extending formal banking system among less privileged in urban and rural India.
2. Saving them from unorganized money markets and moneylenders.
3. Equipping them with the confidence to make informed financial decisions.

### **Measures Taken by RBI for Financial Inclusion**

1. **No-Frill accounts:** In November 2005, RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. Normally, the savings account requires people to maintain a minimum balance and most banks now even offer various facilities with the same. No-frills account requires no balance and is without any other facilities leading to lower costs both for the bank and the individual.
2. **Usage of Regional language:** The Banks were required to provide all the material related to opening accounts, disclosures etc in the regional languages.
3. **Simplify KYC Norms:** In order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural difficulties, the KYC procedure for opening accounts has been simplified for those persons who intend to keep balances not exceeding rupees Rs 50,000/- and the total credit is not expected to exceed rupees Rs.1,00,000/- in a year.
4. **Easier Credit facilities:** Banks have been asked 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 revolving credit entitling the holder to withdraw up to the limit sanctioned. The limit for the purpose can be set Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. The Interest rate on the facility is completely deregulated.
5. **Other rural intermediaries:** Banks were permitted in January 2006, to use other rural organisations like Nongovernmental organizations, self-help groups, micro-finance institutions etc for furthering the cause of financial inclusion.



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**6. Using Information Technology:** A few Pilot projects have been initiated to test how technology can be used to increase financial inclusion. Usha Thorat in her speech (June 19, 2007) pointed to a few measures:

- A. Smart cards for opening bank accounts with biometric identification.
- B. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.
- C. Some State Governments are routing social security payments as also payments under the **National Rural Employment Guarantee Scheme (NREGS)** through such smart cards. The same delivery channel can be used to provide other financial services like low cost remittances and insurance.
- D. The use of IT also enables banks to handle the enormous increase in the volume of transactions for millions of households for processing, credit scoring, credit record and follow up.

**7. Financial Education:** RBI has taken number of measures to increase financial literacy in the country. It has set up a multilingual website in 13 languages explaining about banking, money etc. It has started putting up comic strips to explain various difficult subjects like importance of saving, RBI's functions etc. These comics explain myriad and complex concepts in an entertaining manner.

### **Industry's Initiatives towards Financial Inclusion**

1. Relaxation of Know Your Customer (KYC) guideline for No-Frill accounts.
2. Introduction of Business Correspondent (BC) Model for service delivery in remote areas
3. Adoption of Information & Communication Technology (ICT) based model for enhancing outreach.
4. Integration of Electronic Benefit Transfer (EBT) for disbursement of Govt. Grants.



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5. Reorganization of Aadhar Number under KYC norms.

### **Benefits of Financial Inclusion**

Financial inclusion presents number of benefits to low income households and small and Micro enterprises in the country. Important among them are as under:

1. **It Reduce Physical Distance:** For vast number of remote and inaccessible areas, the physical distance is acting as deterrent to reach the financial institutions and access varied financial services. Due to the financial inclusion strategies various financial institutions are opened in the remote areas.
2. **It Provide Identity to Poor:** Also the Know your Customer (KYC) norms of the financial institutions provide valuable identity and address proof to the section of population who otherwise looking for some kind of identities.
3. **It Provide Financial Information to Poor :** The central problem faced by the excluded population are the lack of access to the formal system, lack of perception about the functioning of the financial system, lack of information about the diverse products and services and lack of selection of the appropriate instrument and services which is most suited for them. Financial Inclusion provide all the financial information to the neglected part of the society.
4. **It Provide Help to Manage Their Resource:** Financial inclusion helps low-income families who have small, unpredictable, and often seasonal incomes to manage their resources well. Under financial inclusion various small saving schemes are introduced for poor people.
5. **Improve Quality of Life:** Now poor families use financial services to gain access to education, health care, and other necessities that improve their quality of life.
6. **Help to Face Financial Uncertainties:** Low-income families who are subjected too much vulnerability can protect against these vulnerabilities through savings, credit, insurance, remittances provide sustainable and low-cost coping strategies.



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7. **Bring Equality in the Society:** Finally financial services develop independence and build economic equality by giving people the ability to actively participate in their communities and countries.

### **Challenges to Financial Inclusion in India**

1. **Lack of financial literacy:** In India there is a lack of financial literacy among the poor people. Due to which the financial inclusion programmes can't achieve their targets.
2. **Lack of Banking Facilities in Some Villages:** Even though there are many villages in the country without bank branches. Without adequate Banking facilities the success of financial inclusion is impossible.
3. **Lack of Advance Technology:** Advanced Technology is prerequisite for the grand success of the financial inclusion programme. But in India the Banking technology is not much advance as a result of this the per transaction cost with the bank is increased.
4. **Lack of Adequate Infrastructure:** There is a lack of adequate infrastructure in India. Due to this the objective of financial inclusion can not be achieved successfully.
5. **Low Income:** Low level of income of the Indian people is an another great problem in the path of the financial inclusion.
6. **Cumbersome Documentation Procedure:** In India the documentation procedure for financial transactions is very difficult. It is not possible for a layman to understand and follow up this procedure. Due to this reason the path of full financial inclusion is very difficult.

### **Suggestions towards Financial Inclusion**



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In order to provide banking facilities to the small man the following are the suggestive measures:

1. A hugely expanded bank branch and cooperative network
2. A greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities;
3. Lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population, etc;
4. Interest rate ceilings;
5. Significant government subsidies channeled through the banks and cooperatives, as well as through related government programmes;
6. A dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.

### **Conclusion:**

Importance of financial inclusion is increased, because the benefits of the financial services are not provided to all the people of the society. Inclusive growth is very essential for the development of the country. Various studies examined that there is a close relationship between financial inclusion and development. But due to the various constraints the inclusive growth is prohibited such as lack of financial literacy, poverty, lack of advanced technology etc. There is a huge need to adopt various strategies for the financial inclusion such as adaptation of advanced technology, opening up the bank branched in rural areas, introduction of new saving schemes for low income people etc.

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