ECONOMIC STRATEGIES FOR FINANCIAL INCLUSION

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***Abstract**: Financial inclusion means that individuals and businesses have access to beneficial and inexpensive financial products that meet their needs (Dr.C.Rangarajan). Financial inclusion has been recognized globally as a key driver for economic growth and poverty alleviation. A bank account is the first step towards financial inclusion that allows the customer to store, receive and make payments. In India, in 2014 Prime Minister Narendra Modi announced the "Pradhan Mantri Jan Dhan Yojana" with the intention to combat black money and bring the unbanked population under the financial fold. Since then the Indian population having access to a bank account has rosen to 81%. . In addition to this, Aadhar linking to mobile phones, sim cards, and financial services accounts has helped improved delivery of Government schemes and benefits. In order to accelerate the level of financial inclusion in the country the National Strategy for Financial Inclusion has been prepared under the guidance of FIAC (Financial Inclusion Advisory Committee) and is based on the details given by the Government, Securities Exchange Board of India and Pension Fund Regulatory Development Authority. Along with the existing initiatives like Kisan Credit Scheme, MSME schemes for free flow of credit, several new initiatives have been adopted like revamping of the Lead Bank scheme, preparation of financial inclusion plans, national strategy for financial inclusion, penetration of banking services through usage of information technology, skill up gradation of the Business correspondents, setting up of national center of financial education are few prominent ones to be named. Through this article, the researcher aims to highlight the various initiatives adopted for economic growth and the progress made until date.*

***Key words:** Financial Inclusion, PMJDY, NSFI, Economic growth*

1. **INTRODUCTION:** India is the home to 133.92 crores population and has around 740 districts. They are served by 47,443 branches dominated by public sector banks. Majority of the people are excluded from easy access to finance. The growth was mainly confined to urban and areas and major cities. Hence an inclusive financial system has become a necessity for our country. In the Indian sub continent the concept of financial inclusion was first introduced by the RBI with its annual policy statement. The main intention was to touch every corner of the country without ignoring any remote area. Since 2005, repeated efforts have been taken up by the RBI and the Government of India like Self Help Group- Bank Linkage programme, electronic benefit transfer, promotion of no frills accounts, year 2008 marked a change with its first footprint in the banking industry because a "Committee on Financial Inclusion" under the aegis of Dr.C.Rangarajan, Deputy Governor of RBI was appointed to study the various issues concerned with financial inclusion in the country. It began to attract the attention of the stakeholders when banks realized the significance of connecting to the masses for better economic growth. During 2014, the number of masses under the Indian financial fold was a meager 53% when globally it was 62%. The adoption of the Pradhan Mantri Jan Dhan Yojana in India pushed many people to come under the financial fold and currently the trend ranges up to 80% (Global Findex Report, 2017). As on February 2019 around 34.43 crores accounts have been opened under this scheme. This also indicates that some more people do not have access to a bank account (Brookings India Report, 2019).

Financial inclusion has become the focal point for all the Government policies. Yet the challenges have become fearsome. RBI has made continuous efforts to increase the penetration of financial services in the country, with continuous adequate flow of credit to the productive sectors in the economy. Financial services must be made available at an affordable cost to all individuals and businesses, irrespective of net worth and size. This makes financial inclusion focus on offering solutions to the constraints that have kept people away from participation in the financial sector. These masses may not have the awareness of financial services or they may not have the access for such services. They may not be able to meet the minimum requirement for obtaining a loan or any other service from the bank. They may also not have proper documents for identity verification or income verification. Previous banking reports emphasized on minimizing regulations regarding account creation processes for the economically weaker sections of the society. Financial inclusion aims to eliminate the barriers and provide economically viable services to the poor people. It is increasingly considered as the key driver for economic growth and poverty mitigation. An indepth study on the financial habits, needs and behavior of underprivileged household has yielded information on how they manage their finances. This helps in innovative product design and solutions of financial instruments that are most suitable for their needs. Financial institutions need to have a business strategy in a thriving digital world. Innovation helps these strategy rendered effective when it adopts disruptive technologies , such as artificial intelligence, advanced analytics , robotics and enables new services and capabilities.

In this regard, the RBI has prepared the National Strategy for Financial Inclusion (NSFI) under the support of Financial Inclusion Advisory Committee (FIAC) to ensure access to financial services to the citizens of the country in a true, fair and transparent manner. The primary motto is to include the financially excluded class to have an access to financial services of different financial institutions. Further in this direction, the National Centre for Financial Education (NCFE) has been set up in 2013 to focus on promotion of financial education in the masses. This is one the strategies for financial inclusion. Of late, India is one of the strong conducive nations in terms of financial inclusion in terms of allowing non banks also to issue e-money, proportionate customer due diligence and effective customer protection.

1.1 Meaning of Financial Inclusion: Financial Inclusion is defined as admission to banking services by individuals of a country. Guidelines directed towards reasonable distribution of wealth and sustainable development would be incomplete without realizing the goal of a financially saturated country. Financial inclusion is the provision of affordable, accessible and relevant financial products to individuals and businesses that had not previously been able to access these products (Ernst and Young Report, 2017)

1.1.1 Need for financial inclusion: Financial inclusion enhances the country's financial system comprehensively. It supports the availability of economic resources. It toughens the concept of savings both in the urban and rural areas. This improves the progress of the economy in a consistent manner. Even to this day there are many people who do not have proper access to savings to save the money in a continuous mode. The vision for financial inclusion is that 90% of the underserved sections would become a part of the served sections by 2021. This can be achieved only when there is concerted effort from the banks and coordinated group of stakeholders.

1.1.2 Financial Inclusion Schemes initiated in the past by Government of India: The Indian Government has introduced several schemes for financial inclusion to the underprivileged sections of the society. Some of the important schemes launched until date are Pradhan Mandtri Jan Dhan Yojana (PMJDY) , Atal Pension Yojana, Pradhan Mantri Mudra Yojana, Sukanya Samrudhi yojana, Varishta Pension Bhima Yojana and so on.

Progress of financial inclusion

Table 1: Table showing the financial inclusion as on March 2019

Parameter of financial inclusion	End of March 2010	End of March 2018	Mar-19
Number of Bank branches in villages	33,378	50,805	52,489
Number of Business Correspondents (BCs)	34,174	515,317	541,129
Number of other forms of banking touch points	142	3,425	3,537
Total number of banking touch points	67,694	569,547	597,155
Number of BSBDA* (in millions)	73	536	574

Deposits in BSBDA (Amount in Rs. billions)	55	1121	1410

Source: www.rbi.org.in

1.1.3 Important Issues in Financial Inclusion: Multiple problems galore the financial inclusion in the country. Here the researcher has opted to discuss only few important problems which are affecting financial inclusion in the country.

Table 2: Table showing the issues faced during Financial Inclusion

Sl. No	**Issues**	**Institutions responsible**
1.	Business Correspondents (BC): BC is not adequately compensated as they cater to low income groups. They should be compensated as they need to consider financial inclusion as a good business opportunity. This depends on the support they receive from the branches. For effective operations and customer grievance redressal small brick and mortar branches must be opened at a reasonable branches	**Banks**
2	Innovative products: Tailor made products with flexible credit disbursement arrangements must be created for the poor to bring them out from the clutches of the money lenders.	**Banks**
3	Basic Savings Bank Deposit(BSBD) accounts: Majority of them are dormant and economic activity only can boost their maintenance	**Banks/RRB/Co-operative Banks**
4	Remittance facility-Easy and cheap remittance facility for migrant population is of utmost importance	**Banks**
5	Inadequate coverage of Migrants: Migrants are facing difficulties in opening of the accounts. Hence banks need to make suitable arrangements for taking care of the migrant population	**RBI & Banks**

6	Human face of banking: To deal with the poor rural masses, frontline officers and business correspondents need to be trained on the human side of banking	**Banks**
7	Core Banking Solutions(CBS): In order to handle the growing amount of work due to financial inclusion banks need to keep the CBS platform updated	**Banks/RRB**
8	Infrastructure development: Today Indian banking has adopted technology for conduct of business. Intermittent power supply , digital and physical connectivity is a prerequisite to carry on this efficiently. But , according to a recent Forbes report even to this day around 18452 of the rural areas have not seen the face of electricity	**Central and State Government**

Source: www.rbi.org.in

2. Review of Literature

- Rajashekaran (2018) in his article titled "Including the excluded: The scenario of financial inclusion in India" has discussed that majority of the people are still working in the unorganized sectors and are out of the financial fold. These poor people do not approach the formal financial institutions for their financial needs but go to the zamindars /money lenders for emergency financial requirements. The study concentrates on the major initiatives for financial inclusion and is collected from secondary sources. The major initiatives taken up under financial inclusion includes Aadhar, Direct benefit transfer, financial literacy programmes, expansion of the ATM network are a important ones taken up in the country. Further the various barriers for financial inclusion have also been discussed in the article.
- Badar Alam Iqbal, Shaista Sami (2017) in their article titled "Role of banks in financial inclusion in India" has tried to examine the impact of financial inclusion in the growth of the economy in the past few years. The various factors affecting access to financial services like place of living, absence of legal identity and gender biasness, limited knowledge of financial services, level of income and bank charges, rigid terms and conditions have been discussed in

depth. Secondary data has been used to collect the data. From the regression analysis it was found that there is a strong relationship between economic growth and financial inclusion.

- Ananth.S and T. Sabri Oncu (2013) in their article "Challenges to Financial inclusion in India: The Case of Andhra Pradesh" have observed that multiple level efforts have been taken up people under the financial fold. The pressure is more on the public sector banks when compared to their private counterparts. Particularly, Andhra Pradesh has been opted for the study. The importance of micro finance institutions have been discussed indepth. Further the various problems faced by the poor are lack of documents, lack of awareness and so on. Innovative strategies like Business correspondent (BC) strategy of the bank combined with the Self Help Group (SHG) has the potential to build a alternative framework in rural India. Technology has replaced many informal sources particularly in migrant workers of Warangal, Karimnagar, Mahabubanagar and Kurnool.
- Neha Sharma and Dr .Vijay Singh (2016) in their article titled "Awareness of Households towards Financial services: A step towards inclusive financing" have opined that awareness of financial services is the first step towards financial inclusion. Data has been collected through a structured questionnaire from 100 respondents along with secondary data from websites of ministry of finance, phd theses, and journals. Demographic variables have been taken mainly for the study. T-test and one way Anova has been used to analyze the data. The results revealed that educational qualification, occupation and income of the selected households are important determinants for the awareness levels of financial instruments.
- Sagar Pati (2015) in his master dissertation titled " A study on financial inclusion: Perspective from occupational segments in Rourkela" has opined that financial inclusion promotes culture of saving and enables efficient payment mechanism to strengthen the resource base of the financial institution which benefits for the economy. Various measures are taken by the RBI, Government of India and the banks for financial inclusion plan. Several approaches such as product based approach-No Frills Account, Kisan Credit Cards, General Purpose Credit cards, savings account with overdraft facility, Self Help Group, simplified KYC norms, mobile banking, Aadhar enabled payment services to name a few. 200 respondents from occupational

segments of different households were opted from Rourkela for the study. The data was collected from a structured questionnaire. Linear regression was used to analyze the data . The findings revealed that there exists a direct relationship between financial inclusion and poverty setting in a multi factor setting.

2.1 Objectives of the study

- To know the various barriers that hinder the growth of financial inclusion
- To disclose the latest initiatives taken by the RBI and Government of India to overcome the barriers of financial inclusion.

2.2 Research Methodology- This study is completely based on secondary data collected from the Government reports, RBI, other financial institutions reports, journals and web resources

3. Economic strategies taken up to drive Financial Inclusion in India : In this regard, RBI is making an effort to bring more people under the financial fold on a persistent basis to help realise the economic and social objectives. In this direction, the latest initiatives taken by the RBI are as follows:

- Revamping of Lead Bank Scheme (LBS)- A committee of Executive Directors of the RBI has been constituted to study the effectiveness of the Lead Bank Scheme and suggest improvements to be undertaken. Based on the committee recommendations, guidelines were issued to Lead Banks and Lead District managers along with certain action points. The action points pertaining to alignment of corporate business targets for branches, blocks, states with standardized data under the Annual Credit Plan will come under the Lead Bank Scheme. One lead bank has been given the responsibility to meet the credit needs of the district
- Financial Inclusion Plans (FIP)- Banks are advised to prepare board approved Financial Inclusion Plans (FIP). These plans capture banks achievements such as bank outlets, savings bank deposit accounts, overdraft facilities, Kisan credit card and general credit card accounts and information technology based business correspondent accounts

- National Strategy for Financial inclusion: In order to methodically hasten up the process of financial inclusion the national strategy for financial inclusion has been framed under the advice of the Financial Inclusion Advisory Committee. The recommendations for the committee includes the suggestions and inputs from the Government of India and other financial regulators
- Penetration of Banking services- Information technology has made it possible to reached the unbanked with banking services at an affordable cost. Lead banks were given the advise to open branches in Unbanked Rural centres with a population of above 5000. In case the population is less than 2000 and is unbanked it has advised to open a core banking solution outlet or a part time banking outlet in such villages.
- Skill upgradation of Business Correspondents-It has become necessary to build the capacity and improve the skills of business correspondents for delivery of financial services efficiently. This program was taken up to create a professional workforce to cater to the needs of the masses beyond the traditional financial products. During the first level of the programme , faculty members from the training centers and the officers of the regional offices of the RBI were sensitized at the College of Agricultural Banking, Pune. These members in turn train the branch managers who can educate the business correspondents attached to their branches.
- Setting up of National Centre for Financial Education (NCFE)- The National Centre for financial education has been established under the Companies Act, 2013 . NCFE has continued its focus on promotion of financial education across the country through campaigns across the country in the form of seminars, workshops, conferences, training and so on. Centers on Financial Literacy has been framed and implemented on a pilot basis. Through these centres a survey conducted has revealed that the practical usage of digital financial services and its grievance redressal mechanism awareness has to be created amongst the customers. The focus of the Government is more towards educating people rather than just policies.
- Financial Literacy Week has been carried out with the theme of ‘farmers’. To create awareness in the farming community posters, leaflets/audio visuals were prepared. Further in this regard, a centralized mass media campaign in Doordarshan and All India Radio has been carried on to create awareness amongst the farmers

- During 2019-20 the RBI has taken the following steps for better credit delivery and financial inclusion viz.,

a) The Centre for financial learning project are to be extended to 20 tribal block in Rajasthan, Jharkhand, and Madhya Pradesh for a span of 2 years

b) Expert Committee (under the chairmanship of Shri.U.K.Sinha) of MSME Credit recommendations to be examined for implementation

c) An internal working group has been constituted under the aegis of Shri.M.K.Jain, Deputy Governor to review agricultural credit

Conclusion: Banking on the poor is a viable option as the Government can find a huge mass at the bottom of the pyramid. If this enormous unmet potential lying in the rural area is tapped then it is a win win situation for both the masses as well as the institutions. Usage of technology plays a pivotal role in leveraging the banking services to the rural areas to lower the cost of operating the account. Financial literacy and credit counseling programs creates critical mass for financial inclusion viable. Despite remarkable improvement, deficiencies in the financial inclusion data reveals serious problems in the formulation of strategies and increases the time required to produce a country's specific formulation of standards. This may cause implementation problems also in such countries.

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