FINANCIAL INCLUSION

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FOR RBI GRADE B, IBPS SO,NABARD GRADE A, SEBI

WHAT IS FINANCIAL INCLUSION

Financial Inclusion Definition

Financial inclusion is the process of ensuring access to financial products and services needed by vulnerable groups at an affordable cost in a transparent manner by institutional players.

- Financial inclusion is a method of offering banking and financial services to individuals.
- It aims to include everybody in society by giving them basic financial services regardless of their income or savings.
- It focuses on providing financial solutions to the economically underprivileged.
- The term is broadly used to describe the provision of savings and loan services to the poor in an inexpensive and easy-to-use form.
- It aims to ensure that the poor and marginalised make the best use of their money and attain financial education.

When was Financial Inclusion concept introduced in India?

The concept of financial inclusion was first introduced in India in 2005 by the Reserve Bank of India.

Objectives of Financial Inclusion

The objectives of financial inclusion are to provide the following:

- A basic no-frills banking account for making and receiving payments
- Saving products (including investment and pension)
- Simple credit products and overdrafts linked with no-frills accounts
- Remittance, or money transfer facilities
- Micro insurance (life) and non-micro insurance (life and non-life)
- Micro pension

Why is Financial Inclusion Important?

- Financial inclusion strengthens the availability of economic resources and builds the concept of savings among the poor.
- Financial inclusion is a major step towards inclusive growth. It helps in the overall economic development of the underprivileged population.

- In India, effective financial inclusion is needed for the uplift of the poor and disadvantaged people by providing them with the modified financial products and services.

Source: https://www.business-standard.com/about/what-is-financial-inclusion

Financial Inclusion in India

- In the Indian subcontinent, the concept of financial inclusion was first familiarised in the year 2005 by the Reserve Bank of India by releasing the Annual Policy Statement. Soon, the concept started to spread in every part of the nation. It was chiefly introduced to touch every corner of the country without ignoring any remote area. The concept addressed the absence of a formal financial system and banking system for catering to the monetary requirements of the poor people.

- In the year 2005, the Khan Committee Report was released which mainly discussed rural credit and microfinance. It spoke about how many people in the nation are missing out on the benefits of a professional and licensed banking system.

- The Khan Committee report laid an emphasis on providing access to essential financial services by helping them to open a bank account that does not come with any frills or complicated elements. All banks were asked to minimise regulations regarding account creation processes for the economically weaker sections of the society. Several banks were asked to work together towards 100% financial inclusion by taking part in campaigns started by the RBI.

- The Indian government also initiated the **'Pradhan Mantri Jan Dhan Yojna'** with the sole purpose of motivating and encouraging poor individuals to open bank accounts. This programme targeted at least 75 million individuals to open bank accounts by the year 2015.

Financial Inclusion Schemes in India

The Government of India has been introducing several exclusive schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society.

Let us take a list of the financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Atal Pension Yojana (APY)
- Pradhan Mantri Vaya Vandana Yojana (PMVVY)
- Stand Up India Scheme
- Pradhan Mantri Mudra Yojana (PMMY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Sukanya Samriddhi Yojana
- Jeevan Suraksha Bandhan Yojana
- Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)
- Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives
- Varishtha Pension Bima Yojana (VPBY)

Financial Inclusion Programmes Organised by the Reserve Bank of India (RBI)

The Reserve Bank of India works on exclusive programmes and plans in order to have financial inclusion in the nation effectively. It applies a bank-led strategy in order to attain financial inclusion smoothly.

The central bank of India also has firm regulations in place that need to be followed by every bank.

The RBI also is offering qualified assistance to every bank in the nation in order to attain its financial inclusion objectives.

Let us take a look at some of the programmes introduced by the RBI in order to achieve its goals:

- The RBI instructed every bank to have **Basic Saving Bank Deposits (BDSD)** accounts for the economically weaker sections of the society. These are no-frill accounts where account holders do not have to maintain any minimum balance or minimum deposit. These account holders can withdraw cash at any ATM or at the bank branch. They should also be given the opportunity to make use of electronic payment channels for receiving and transferring money to others.

- The RBI also asked banks to have simple **Know Your Client (KYC) regulations** for the less fortunate people of the society. There are many people in rural areas who are unable to open bank accounts due to strict KYC norms. Hence, the RBI wants banks to have simplified KYC requirements particularly if a low-income individual is interested in opening a bank account with an amount not above Rs.50,000. It also wants minimal KYC norms if the overall credit in the accounts does not go above Rs.1 lakh for 1 year. Recently, banks have been asked to accept Aadhaar Card as identity proof as well as address proof since most people belonging to low-income groups have made Aadhaar card in their names.

- Keeping in mind about the lack of bank branches in rural areas, the **RBI has asked all banking institutions to open more and more branches in villages across the nation** in order to provide good banking services to the villagers. There are many remote villages where there are no banks and also no good transportation services. It is very difficult for residents of these areas to commute to a far-off bank branch for availing banking services. Hence, with the compulsory rule of the RBI, banks are distributing the ratio of banks in villages and cities to have a balance.

Financial Inclusion with the Help of Financial Technology (Fintech)

- Financial technology (fintech) refers to the utilisation of advanced technology in the financial industry or the financial sector.
- Financial technology companies are enabling people in rural areas to apply for loans or open bank accounts by using mobile phones. Several people in Indian rural places have mobile phones and some of them have access to mobile internet and hence, they can make use of fintech services to get reliable financial services.
- A few of the latest fintech options that are used by individuals include crowdfunding, digital payment systems, peer-to-peer (P2P), electronic wallets, etc.

Financial Inclusion through Digital Payment Systems

- The Government of India has launched several electronic wallet systems through smartphone apps such as Bharat Interface for Money (BHIM), Aadhaar Pay, and lots more!
- Electronic wallets or e-wallets refer to wallets that can be used with the help of electronic means such as mobile phones. These wallets replace physical wallets.
- A user can make cashless payments through online as well as offline means. He or she will need to download the e-wallet app on their mobile phone and utilise it to make transactions. These e-wallets can be utilised for mobile recharges, utility bill payments, grocery stores, e-commerce portals, etc.

Financial Inclusion in India through Digitisation of Monetary Transactions

- The government of India intends to carry out crores of digital financial transactions for the present and upcoming years with the help of Unified Payment Interface (UPI), Unstructured Supplementary Service Data (USSD) banking methods, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT), Aadhaar Pay, debit cards, BHIM, and credit cards.

- Along with the government-owned payment apps, there are many private mobile electronic wallet (e-wallet) systems created by private companies and banks. Most of these apps allow bank fund transfers.

- One of the leading e-wallets in India is Paytm. It is available on Android, Blackberry, iOS, Ovi, Windows, etc. Some of the other prominent e-wallet apps include Freecharge, MobiKwik, Citrus Wallet, Oxigen Wallet, ItzCash, Axis Bank Lime, Jio Money, ICICI Pockets, HDFC PayZapp, SBI Buddy, mRupee, Vodafone M-Pesa, PayMate, PayUmoney, Juspay, Ezetap, Citi MasterPass, MomoeXpress, Ola Money, Mswipe, etc.

Financial Inclusion through Microfinance

Microfinance is a very effective way of offering funds to the economically underprivileged sections of the society. Microfinance refers to giving micro loans or micro credit to the less fortunate entrepreneurs and small-scale business enterprises.

This mode of financing has helped India extensively in achieving financial inclusion in a cost-effective manner. It has impacted the lives of the poorest people in the nation. It includes the provision of loans, savings instruments, and other financial instruments for the purpose of making more money and saving it proficiently for multiple purposes.

Financial Inclusion with the Help of Private Companies

- Private companies have also initiated programmes in order to contribute towards achieving financial inclusion in the nation. These private companies planned and implemented projects in order to make the low-income groups of people be engaged in developmental projects.
- Some of these programmes include Haryali Kisan Bazaar by DCM, EChoupal or E- Sagar by ITC, Project Shakti by Hindustan Unilever, and many more.
- Over the past few years, financial inclusion has become a very prominent public policy aspect in order to develop the economy in a sustainable manner. It plays a significant role in keeping institutions that provide finance in a very steady and firm condition. Banks can enjoy excellent stability when financial inclusion is attained.
- It also helps in minimising the distance between financial institutions and customers, and this, in turn, assists in maintaining a healthy relationship. With financial inclusion, every economic agent in the nation will have the ability to make use of formal financial services and move towards the overall development of the economy.

Special Financial Products Offered for Attaining Financial Inclusion

Keeping in mind that low-income people living in rural and urban areas have very limited access to financial products and services, scheduled commercial banks (SCBs) have been asked by the Reserve Bank of India to design and offer exclusive financial products to the economically weaker sections of the society. Many of them are only aware of basic financial services such as savings schemes, savings accounts, personal loans, crop loans, microfinance, etc. They do not know anything about credit cards or debit cards.

However, due to their lack of access to instant credit facilities, banks were instructed to issue cost-efficient credit cards to the low-income groups of the society. Some of the special financial products provided to them include:

- **General Credit Cards (GCC):** Banks were asked by the RBI to launch and offer General Credit Card facilities with an amount of up to Rs.25,000 at their branches located in semi-urban and rural areas.

- **Kissan Credit Cards (KCC):** The Reserve Bank of India also instructed banks to provide Kissan Credit Cards exclusively to small farmers who earn very low incomes and who have very limited funds due to which they cannot invest in proper farming tools, fertilisers, pesticides, crop seeds, tractors, land for farming, storage warehouses, etc. They are forced to rely on other wealthy landlords for getting land to sow crops. These Kissan Credit Cards are intended to help farmers make instant purchases whenever required. Many a time, farmers give up on purchasing things required for their occupation due to lack of funds.

- **ICT-Based Accounts via BCs:** The Reserve Bank also devised a plan to help banks to reach out to the unbanked individuals of the society by offering information and communications technology (ICT)-based bank accounts with the help of business correspondents (BCs). These accounts allow users to make withdrawals of cash, create deposits, and apply for loans and other forms of credit through electronic forms. This type of account makes banking inexpensive and simple.

- **Increase in ATMs:** The Reserve Bank of India also reported that many rural parts of the nation do not have enough automated teller machines (ATMs) and this is hampering many buying and selling operations of the people residing in those areas. In order to increase the availability of physical cash for these people, the number of ATMs increased massively.

Main challenges of Financial Inclusion?

The main challenges of Financial Inclusion are mentioned below:

- Bank services do not have enough support for scalability.
- The technology adoption is limited.
- The lack of the availability of documents for the purposes of banking activities.
- Almost minimal financial literacy.
- In the case of rural areas, telecom connectivity and infrastructure are poor.