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Understanding Financial Inclusion in India: Conceptual Framework and Implementation Initiatives

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Abstract:
Financial Inclusion is most important plan in the central government, RBI and NABARD. The general banking concepts to various targets groups, including school and college's going children's, women, ruraland urban poor people, SHGs groups, defence personal, senior citizens, weaker sections and low-incomegroups in the increasing rural and urban areas bank facilities through financial inclusion. The governmentpolicy is very important role in Financial Inclusion.

Keywords: Financial Inclusion, Information Technology, No Frill Account, Index of financial inclusion, Electronic clearing services.

1. Introduction:

The Reserve Bank of India was set up a Commission (Khan Commission) in 2004 to look into Financial Inclusion. It is implemented by the Reserve Bank of India and Central Government Since 2005. Financial Inclusion is the inclusion of Vast Sections of disadvantaged and low income groups under banking servicesat an affordable cost. Government of India constituted a committee to enhance financial inclusion in Indiaon 22th June 2006. The Committee presented its report in January 2008. Committee on financial inclusionhas initiated a mission called National Rural financial inclusion plan. It has set targets to increase financialinclusion in the country across regions and across institutions (Bank, Rural Regional Bank etc.) A Committee on Financial Inclusion (2008).Under the Chairmanship of Mr. C. Rangarajan was setup to suggest measures to increase financial inclusion (hence called the Rangarajan Committee on financial inclusion).

The reserve bank has been giving adequate attention and has stepped in whenever it felt that the banking community as a whole has missed out or not given the desired attention to certain areas. This is the reason why the reserve bank is placing a lot of emphasis on financial inclusion at present has been confined to ensuring a bare minimum access to a saving bank account without frills with a limited overdraft facility to all. The reserve bank has framed guidelines 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 ina transparent manner. Efforts are being made so that all banks give wide publicity to the facility of such no frills account to ensure greater financial inclusion. Banks and financial institutions have to take a leadhere for achieving our objective of reaching out to people.

2. Financial Inclusion- Concept:

The financial exclusion is measured in terms of minimal access to banking services. Financial inclusion means providing access to banking through appropriate financial products and services at an affordable cost to vulnerable sections of the society. The financial services can be identified as basic banking servicessuch as deposits accounts, loans and access to payment and remittance facilities. The financial inclusion rest on three pillars viz. access, affordability and actual utilization of financial services.
The Rangarajan's Committee has defined the term 'Financial Inclusion' 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".
No universally accepted definition of financial inclusion is available in general: "Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups".

3. History of Financial Inclusion in India:

All India rural credit committee report recommended creation of state sponsored bank to promote rural penetration. The establishment of state bank of India in 1955, based on these recommendations, Nationalization of 14 commercial banks in 1969 and another 6 in 1980, The establishment of NABARD in 1982, adoption of multi-agency approach involving commercial, co-operative and regional rural banks, Massive branch expansion program to cover length and breadth of the country during 1970 to 1980, fixingtargets for priority sector lending covering agriculture, SSI, other priority sector and weaker sections. Theimplementation of service area approach for lending and subsequently liberalization of the service area concept, administrative interest rates, implementation of government sponsored programs etc. The first SHGs linkage program was launched in 1992, which gathered momentum from 1999 onwards.

4. Committees to prepare strategy / plans:

The RBI had set up a committee on financial inclusion to prepare a strategy of 'financial inclusion', for implementation under the chairmanship of Dr. C. Rangarajan, chairman of the Economic advisory council to the prime minister…. the terms of reference of the committee included.

- To study the pattern exclusion from access to financial services disadvantaged by region, genderand occupational structure.
- To identify the barriers confronted by vulnerable group in accessing credit and financial servicesincluding supply demand and institutional constraints.
- To review the international experience in implementing policies for financial inclusion andexamine their relevance / applicability in India.

The committee has since submitted its report and the main recommendations are given in the annexure.
RBI had also set up yet another committee in January 2006 with a view to achieving greater financial inclusion and provision of financial services in the North Eastern Sector (NER) under the chairmanship of Smt. Usha Thorat, deputy governor.

5. RBI Initiatives:

5.1) Opening of "No frill" accounts:

A basic bank account is an important means of dealing with financial exclusion and is a gateway to wider mainstream service this account is designed to meet the banking requirements of people for whom standard deposit account would otherwise be non-accessible. In November 2005, all banks were advised to make available a basic banking "no- frill" account with low or nil minimum balances and charges to expand the outreach of such accounts to vast sections of the population. All banks were advised to give wide publicityto the facility of such 'no frill' account including on other websites indicating the facilities and charges ina transparent manner. Several banks have since introduced such 'no frill' account with and without valueadded features. The banks have at the end of March 2010 opened 5, 06, 00,000 such accounts.

5.2) Issue of general purpose credit card:

To extend hassle free credit to bank customers in rural areas, the guidelines on general credit card (GCC) scheme were simplified to enable the customers' access credit on simplified terms and conditions, without insistence on security, purpose or end use of funds. Banks have been asked to introduce a general-purpose credit card facility up to Rs.25000 at their rural and semi urban branches. The credit facility is in the natural of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flow, the limits are sanctioned without insistence on security or purpose. The interest rate on the facility is comparatively deregulated.

5.3) Printed material in regional language:

Proper and effective communication with potential customers is an important factor in propagationfinancial inclusion. If the bank does not communication with the customer in the language known to him,he may not be in a position to avail of banking facilities. This sector is highly relevant in a country like India where there are many languages. In order to ensure that the banking facilities percolate to the vast section of the population. RBI advised banks in December 2005 to make available all printed material used by retail customers including account opening form, pay in slips, and pass books etc. in triangular form i.e. in English, Hindi, and the concerned regional language.

5.4) Simplification of KYC norms:

The order to ensure that the persons belonging to low-income group do not encounter difficulties in opening accounts. The know your customer (KYC) procedures for opening accounts has been simplified for those persons with balances not exceeding Rs.5000 and credit in the accounts not exceeding Rs.1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been followed.

5.5) One time settlement scheme:

A simple mechanism for one time settlement of loans with principle amount up to Rs.25000 which has become doubtful and loss assets as on September 30, 2005 was suggested for adoption. In case of loans granted under government sponsored schemes, banks were advised to frame separate guidelines followinga state specific approach to be evolved by the state level bankers committee (SLBC). Banks have been specifically advised that borrowers with loans settled under one time settlement scheme will be eligible tore-access the formal financial system for fresh credit.

5.6) Use of business facilitators and correspondents:

To ensure greater financial inclusion and for increasing the outreach of the banking sector, RBI decided in January 2006 to allow banks to use the services of NGOs / SHGs Micro finance institutions and other civil service organizations as intermediaries in providing banking services through the use of business facilitator and correspondent mode. Under this model banks can use the services of NGOs / farmers clubs, co-operative, community-based organizations, IT enabled rural outlets of corporate entities,post offices, insurance agents, well-functioning Panchayats, village knowledge centers, agricultural clinics
/Agricultural business centers, Krishi Vigyan Kendras and KVIC/ KVIB units depending upon the comfortlevel of the bank.

The services to be rendered are identification of borrowers; collection and preliminary processing ofloan applications including verification of primary information /data; creating awareness about saving andother products and education and advice on managing money and debt counseling; processing and submission of application to the banks; promotion and nurturing Self-help group/Joint liability groups; post sanction monitoring; follow up for recovery.

5.7) Credit counseling centers:

In the light of the recommendation of the two working groups to suggest measures for assisting distressed farmers (Chairman Shri S. S. Johl)and examine the procedures and process for agricultural loans (chairmanShri C. P. Swarnkar), Reserve Bank of India advised the convener banks of state / union territory level bankers to setup on pilot basis, in any one district a financial literacy cum credit counseling centre in the state / union territory under their jurisdiction.

Some of the banks in the country like Bank of India, ICICI Bank and Bank of Baroda have alreadytaken initiatives to open credit counseling centres in the country the councilors assist people on face basisas well as those contacting over telephone or by means letters. Customers facing credit problems arising out of multiple credit cards, personal loans, housing loans and loans from societies approach counseling centres for advice and guidance the councilor guide their customers and, on their behalf, take up with thebanks concerned for rescheduling of loans.

5.8) **Customer friendly products:**

The requirements of rural customers are varied. It differs from area to area. The banks were advised to develop suitable products as per requirements of the people in the area with the use of technology.

5.9) **Suitable manpower:**

Deploy suitable manpower; committed specialized staff, which are familiar with the local condition and understand the problem of rural population and will be at home in the non-urban environment in which they have to operate.

5.10) Information technology (IT) initiatives:

The UCBs role of playing is very important in bank sector. The Reserve Bank has been encouraging the use of ICT solutions by banks for enhancing outreach with the help of their business correspondents.

Recognizing that IT-enabled services have the potential for improving financial inclusion, the reserve bank urged the banks in May 2007 to scale up their financial inclusion efforts by utilizing appropriate technology.

Banks have introduced many new products and system to take advantage of technology: some of which are highlighted below:

i) Use of ATMs:

Automated teller machines have come to occupy a key component of retail channel strategy adopted by the banks. To reduce the transaction cost some of the banks are sharing their ATMs among themselves and there is a need to extend shared network of ATMs further for the use of financially excluded people.

ii) Plastic money:

The payment card segment in India has registered huge growth in the past few years. Use of cards has become number one product in banking. A type of plastic money includes ATM card, debit card, credit card, debit cum ATM card, charge card, smart card, cobranded card etc.

iii)Electronic clearing services (ECS):

At present the banks are giving these facilities only in main centres. In rural areas normally the agricultural proceeds are paid through cheques by the marketing federations or FCI. The banks can extend these services at least to district headquarters and further to mandal/ Block level.

IV) Telebanking:

This delivery channel through telephone call make the information available which is not locationspecific and is ideal for the customer located even in remote areas.

v) Core banking:

The total branch automation now core banking solution is the buzzword. Today, bank's environment including several delivery channel including ATMs, POS, kiosks, internet banking, mobile banking, etc. The key challenge is to provide the bank customer with complete and consistent service irrespective of the channel chosen. Core banking solution will successfully provide any time anywhere banking to the customers at most competitive rates at all the branches including the branches in rural andsemi urban areas.

vi) Real time gross settlement (RTGS):

RTGS is a centralized payment system in which inter-bank payment instructions are processed and settled, transaction by transaction and continuously throughout the day as and when the instructions are received and finally accepted by the system. The RTGS uses INFINET and SSFMS platform.

vii) Electronic fund transfer (EFT):

The facility is to be extended to all the Centre's to enable the financially excluded people to get immediate transfer of funds in to their accounts.

viii) Mobile banking:

SMS base mobile banking is more suitable in Indian context. It can be deployed faster with less infrastructure costs. It has utility in micro payments, informal delivery and micro credit phenomena. It canpenetrate the market much faster and replace debit card / credit cards.

ix) Western union money transfer (WUMT):

This is transfer of funds from abroad to our country by using 10 digits passwords. This facility extended by the network of post offices is found to be most successful. The same can be extended to uncovered areas for the benefit of financially excluded people whose family members, relatives are working & settled abroad.

x) Establishment of rural kiosks / common service Centre:

To outreach IT enabled services to rural areas, the concept of common service Centre basically "Rural computer kiosks" is being explored. In this scheme first preference is given to self-help groups or educated youth to start "Rural Kiosks". The rural kiosks offers basket of government to citizen and business to customer services, which include acceptance of electricity bills, telephone bills, house taxes, update market information, birth certificates, land records, internet services etc. Government is planningto digital expansion of 100000 rural kiosks by 2008 through public private partnership. This will provideemployment to 100000 people directly and 2/3lakh additional jobs in rural areas with total outlay of Rs.5742 crs.

xi) E- purse:

E-purse holds electronic monitory value on a computer chip on a card; usually smart card. It recordsthe value of each transaction and the monitory value is deducted from the computer chip on the card. Theprepaid stored value card is referred as e-purse.

6 Government Initiatives:

The first was to establish a financial inclusion in a Central Government, RBI and NABARD in India.The general banking concepts to various target groups, including, school and college going children's, women, rural and urban poor peoples, defence personnel and senior citizens. The government policy is very important in financial inclusion.

The first was to establish a financial inclusion fund with NABARD for meeting the cost of developmental and promotions interventions. The second was to establish a financial inclusion technologyfund to meet the costs of technology adoption. The overall corpus for each fund was Rs.500 crore, with initial funding to be contributed by the Central Government, RBI, and NABARD.

i. Bharat Nirman has been launched to.

- Bring an additional 10 lakh hectors of land under assured irrigation.
- Connect all the villages with population over 1000 with a road.
- Construct 60 lakh additional houses for the poor.
- Provide drinking water and provide telephone connectivity to over 66000 villages. ii.The National Rural Employment Guarantee Scheme (NREGS) launched in 2006 is aimed at generating

wage employment through works that develop infrastructure base in areas affected by drought, deforestation and soil erosion.

iii.The National Rural Employment Health Mission (NRHM) is expected to provide good health care facilities to the rural poor so as to increase labour productivity and avoid man-day loss due to ill health.
iv.Sarva shiksha Abhiyan Programme is expected to increase rural literacy which in turn results in increased productivity.
v.Nation horticulture mission is expected to augment the horticulture production, which may indirectly lead to better agricultural storage /marketing facilities.
For India, inclusive growth becomes an important agenda in view of high growth numberin recent times and

the need for distribution of economic benefits to wider spectrum of people. Banks being major financial intermediaries in the growth process, it becomes imperative that they engage activelyin promoting sustainable strategies of inclusion growth.

7 Index of Financial Inclusion:

The term banking sector outreach or financial inclusion refers to the access to banking services and their use by household and firm. (Beck et al. 2006). To measure financial inclusion, several proxy indicators have been used in the literature table. Proxi (i) measures access to and use of bank accounts. Full access may be reached, if the number of accounts per adult is above 0.5 (peachy/ Roe 2006). The penetration of banks physical outlets (branches, ATMs) is measured by (ii) – (v). While higher geographic branch and ATM penetration indicate smaller distance and thus easier geographic access, higher demographic branch and ATM penetration indicate easir access because of fewer potential clients per outlet. The use of loans and deposit is measured by (Vi) – (ix). A higher demographic loan or deposit penetration indicates larger use, and higher loan or deposit –income ratios signal that these services may only be affordable to larger enterprises or wealthier individual. The is above loan income ratio 2 in rich countries, but above 8 in poor countries (Beck et al. 2006). Alternative measures of deposit penetration are the deposit- GDP ratio or the cash-deposit ratio. According to peachy and Roe (2006), an economy has reached full access, if the deposit- GDP ratio is 100 per cent or the cash –deposit ratio is below 20 percent. This measures the development of the financial system rather than deposit penetrations. For the indicators (ii) – (ix), a country may be considered approaching full access, if its outreach indicators lie above the mean value in developed countries.

Table 1: Indicators of banking sector outreach

Sr. No.	**Indicator**	**Measurement**
i	Bank Accounts per adult	Number of bank accounts per adult
ii	Geographic branch penetration	Number of branches per 1000 km^2
iii	Demographic branch penetration	Number of branches per 100000 people
iv	Geographic ATM penetration	Number of bank ATMs per 1000 km^2
v	Demographic ATM penetration	Number of bank ATMs per 100000 people
vi	Demographic loan penetration	Number of loans per 100000 people
vii	Loan – Income ratio	Average size of loan to GDP per capita
viii	Demographic deposit penetration	Number of deposits per 100000 people
ix	Deposits – income ratio (or deposit – GDP ratio)	Average size of deposits to GDP per capita (or total bank deposits to GDP)
X	Cash – deposits ratio	Cash in circulation to total bank deposits

Source: chattopadhyay S. K. – financial inclusion in India: A case study of west Bengal

Thus several indicators have been used to assess the extent of financial inclusion. However, the indicators discussed above, while used individually, provide only partial information on the inclusivenessof financial system of an economy. Using individual indicators can lead to misleading picture of the extentof financial inclusion in a economy. Therefore, any single indicators to adequately capture the extent of financial inclusion. In order to address this problem, we have developed an index of financial inclusion, which is able to capture information on several aspects in one single number. Such a measure is useful tocompare the levels of financial inclusion across economies and across states within countries at a particulartime period. It can be used to monitor the progress of policy initiatives for financial inclusion in a countryover a period of time.

Conclusion:

Financial inclusion to look after excluded ones setup in committee 2008, low-income group,weaker section, history in financial inclusion in India, Committee's plan, RBI Initiatives, information technology initiatives, index of financial inclusion etc. is a huge task. There is a vast business potential forbanks staff and customer is essential devices of alternative banking business should be so simple to suit the illiterates in the rural and urban areas. Awareness about alternative banking products should be createdamongst excluded groups.

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