FINANCIAL INCLUSION PROFILE IN INDIAN CONTEXT - A THEORETICAL FRAMEWORK

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Introduction

The emerging trends in financial inclusion have gained growing attention among developing countries Policymakers and central bankers from around the world. The Emerging economies enhanced interest towards economic growth with specific interest on the factors that lead to higher savings and investments, which have been viewed as important determinants of economic growth (Anita Gardeva and Elisabeth Rhyne., 2011).The present pattern for savings, and investment, has been developed with the objective to address the hypothetical and empirical issues and to steer the design of enhanced policies and improvisations of methodologies in practice. Although India has made improvement in financial inclusion in the past few years, but IMF Financial survey shows that "India lags behind with other emerging nations in financial inclusion by a significant margin" (Nair, 2012). Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast sections of disadvantaged and low-income groups. Unrestrained access to public goods and services is essential for an open, inclusive, and efficient society. Banking services are in the nature of public services. As such it is essential that availability of banking and payment services to the entire population without discrimination is adopted as one of the prime objectives of public policy. Therefore, all countries have widely acknowledged the fact that improving the access to financial services is a very effective strategy for development of rural areas. Hence, it is important that financial inclusion of the excluded households of rural areas is being accorded high priority by the governments in the developing countries.

Inclusive Growth

Inclusive growth is an approach to economic development that is anti-protectionist, fuelled by market-driven growth and facilitated by government. It is non-reactive. It does not just respond to immediate macro-economic concerns. It is a long-term strategy, extending across sectors and strata and focuses on productive employment rather than just income redistribution. Ultimately, inclusive growth empowers individuals so that they are better able to reap the benefits of globalisation and to withstand future economic shocks. It is therefore critical to poverty reduction as well as to sustainable economic growth (APEC, 2011). Inclusive Growth (IG) focuses on economic growth which is a necessary and crucial condition for poverty reduction. IG adopts a long term perspective and isconcerned with sustained growth World Bank, 2009. According to World Bank.

Need of the Inclusive Growth

While it is quite evident that inclusive growth is imperative for achieving the equity objective, what is, perhaps, not so obvious is, why inclusive growth is now considered essential even to sustain the growth momentum (UshaThorat, 2008). Inclusive growth has to uplift the disadvantaged communities to overcome incidence of poverty and make significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and in improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of the SC/ST and OBC population. Women and children constitute a group which accounts for 70% of the population and deserves special attention in terms of the reach of relevant schemes in many sectors. Minorities and other excluded groups also need special programmes to bring them into the mainstream (Christian Aid, 2012).

Major Roadblocks to Financial Inclusion

The interaction with the NGOs and the SHGs brought to light underpinning problems of financial inclusion, which are briefly stated as under:

- Poverty: being on a low income, especially out of work and on benefits.
- Ignorance: low levels of awareness and understanding of products caused by lack of appropriate marketing or low levels of financial literacy.
- Environment: lack of access to financial services caused by several factors, including geographic access to bank branches or remote banking facilities; affordability of products such as insurance, where premiums often price out those living in the most deprived and risky areas; suitability of products like current accounts, which offer an overdraft and an easy route to debt .
- Cultural and psychological barrierssuch as language, perceived / actual racism and suspicion or fear of financial institutions.

The lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers actually results in FinancialExclusion. This is a critical policy concern, because the options for operating a household budget, or a micro/small enterprise, without mainstream financial services can often be expensive. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas.

Benefits of Inclusive Financial Growth

- Growth with equity: In the path of super power we the Indians will need to achieve the growth of our country with equality. It is provided by inclusive finance.
- Get rid of poverty: To remove poverty from the Indian context all everybody will be given access to formal financial services. Because if they borrow loans for business or education or any other purpose they get the loan will pave way for their development.
- Financial Transactions Made Easy: Inclusive finance will provide banking related financial transactions in an easy and speedy way.
- Safe savings along with financial services : People will have safe savings along with other allied services like insurance cover, entrepreneurial loans, payment and settlement facility etc,
- Inflating National Income: Boosting up business opportunities will definitely increase GDP and which will be reflected in our national income growth.
- Becoming Global Player: Financial access will attract global market players to our country that will result in increasing employment and business opportunities.

Current Indian Scenario

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8,321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period. The new Branch Authorization Policy of Reserve Bank encourages banks to open branches inthese under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the Bank to achieve, inter alia, financial inclusion and other policy objectives. But the study of Distribution of Commercial Bank Branches-Region/State/Union Territory shows that, there are certain under-bankedstates such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengaland a large number of North-Eastern states such as Assam, Manipur and Nagaland, where theaverage population per branch office continues to be quite high compared to the nationalaverage of 16,000 people per bank branch. The study also shows that even after the implementation of the new Branch Authorization Policy of Reserve Bank, out of a total of 1,250 new branches that were opened during July 2004-June 2005 only 1.2 % branches were actually opened in the un-banked areas. During the same corresponding period during 2005-06, 933 new branches were authorized to operate and out of which only 0.21 % were opened in the un-banked areas. Another benchmark employed to assess the degree of reach of financial services to the population of the country, is the quantum of deposit accounts (current and savings) held as a ratio ofadult population. In the Indian context, taking into account the Census of 2001 (ignoring the incremental growth of population thereafter), the ratio of demand deposit accounts (data available as on March 31, 2004) to the total adult population was only 59% as is evident in Coverage of Banking Services

Conclusion

India has sufficient schemes, rules, and directives aimed at expanding banking coverage and ensuring service to the unbanked population particularly social groups. There is no end of schemes, plans, and regulations aimed at providing financial services and products to the poor people. For the unbanked it is a challenge to gain access to banks and the services they offer. The unending stream of new initiatives and orders in this regard clearly demonstrates that all these have failed to achieve their basic objective of financial inclusion. There is evidence in the world-wide study to index Financial Inclusion to assess the extent of penetration of banking services to the vulnerable social groups. The challenges of household cash management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial education can help SHG members prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt. The percentage of inclusion is relatively more among the households with SHG. It is particularly true in the case of landless and marginal farm size group. SHGs have not made any impact on the financial services like asset insurance, ATM and credit card services. These services have not reached rural areas in general and landless and marginal farm households in particular.Thus, the Financial Inclusion has become the buzzword and is on the top of national agenda, involving all the stakeholders in a comprehensive and concerted effort to achieve inclusive growth in our country, with RBI and the public sector banks playing a pivotal role in this.

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