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ROLE OF RBI AND FINANCIAL INCLUSION IN INDIA

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Abstract:

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: "to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage." Financial inclusion is increasingly being recognized as a key driver of economic growth and poverty alleviation the world over. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. Without adequate access to formal financial services, individuals and firms need to rely on their own limited resources or rely on costly informal sources of finance to meet their financial needs and pursue growth opportunities. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all. The paper focus on the role of RBI in financial inclusion in India. This study focuses on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements. The relevant data for this study has been collected with the help of from various Research journals, Articles, reports of RBI, reports of NABARD and online resources.

Keywords:

Financial, Inclusion, Financial Inclusion, RBI, Reserve Bank, Government of India.

Introduction:

He Government of India and the Reserve Bank of India havebeen making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades including - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to

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provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the hitherto financially excluded Indian population. Government of India and RBI have taken various steps to include vast segment of unbanked people in to mainstream banking such as Micro Finance- Self Help Group Model (1992), Kisan Credit Card (1998), No Frill Accounts (2004), Business Correspondents and Business Facilitators (2006, 2009) Swabhimaan (2011) financial inclusion model but the path of financial inclusion is continuous to be challenging. The United Nations (UN) had raised the basic question, "why so many bankable people in rural and urban areas are unbanked?" NSSO data revealed that 45.9 million farmer households in the country (51.4 per cent), out of a total of 89.3 million households do not access credit, either from institutional or non institutional sources. Various financial experts argue that bank account is the most basic step of bringing such people under financial mainstream. So the primary objective of financial inclusion should be to open bank accounts of unbanked people. These people have remained aloof from financial and banking mainstream and they don"t possess bank account, don"t have knowledge about financial and saving instruments and are unable to reap benefits on whatever large or small amount of money they have at their disposal. In simple language financial inclusion stands for including the people lying on the lowest strata of our social pyramid into the financial mainstream. By financial inclusion, we mean delivery of financial services, including banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups. The concept of financial inclusion is not new in India. The concept has been prevailing in India from past 44 years. Beginning with the nationalization of commercial banks in 1969 and 1980, another major step taken was the establishment of Regional Rural Banks in 1975 and banking sector reforms after 1991. As a result of these three major policy changes, the number of branches of commercial bank have increased from 8262 in June 1969 to 102343 in 2013 (Economic survey 2012-2013) and population per branches decline rapidly from 65000 to 13756 (RBI 2008). A large numbers of studies have been made so far on financial inclusion in India, yet some gaps still persist. There are still problems of access to finance; credit, poverty and indebtedness have not been adequately examined. Just to open an account in the bank is not the only solution of the problem. Financial literacy is required for the overall achievement of the objective of financial inclusion. The present study is an attempt to find out of regional disparity, indebtedness and status of financial inclusion in India. Financial inclusion is required to uplift the poor and disadvantaged people by providing them the customized financial products and services. This leads to inclusive growth encompassing

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the deprived and marginalized sections. This study intends to look at the changes occurred in conditions of India by considering the appropriate variables to test. Back in the 1980's, then Prime Minister Late Shri Rajiv Gandhi stated that of every one rupee spent on development only 15 paise reach the poor. Reserve Bank of India set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the Commission were incorporated into the mid-term review of the policy (2005-06) and urged banks to review their existing practices to align them with the objective of financial inclusion. In 2005, the Planning Commission found that for every rupee the government spends on the Targeted Public Distribution System only 27 paisa reaches the poor. However, the progress is far from satisfactory as evidenced by the World Bank Findex Survey (2012). According to the survey findings, only 35 percent of Indian adults had access to a formal bank account and 8 percent borrowed formally. Only 2 percent of adults used an account to receive money from a family member living in another area and 4 percent used an account to receive payment from the Government. The introduction of a universal and targeted public distribution system (PDS), the provision for employment in rural areas through the National Rural Employment Guarantee Scheme(NREGS), the implementation of the project to bring the population under a unique identification number (AADHAR) andthe Direct Benefit Transfer (DBT) Scheme in 2013 are the most recent measures by the government to realize inclusive growth targets. The present study attempts to assess the financial inclusion in India and analyses the trends and patterns of economic inequality across Indian states. The basic objective here is to understand the dynamics of growth in the country which is resulting in regional imbalances and propose measures for alleviating the problem. Efforts have been made to provide financial services, especially credit facilities, to the rural population since the 18th century. Taccavi loans were provided to the poor farmers in order to buy seeds and agricultural implements. The institutionalization of systems for financial inclusion in India began with the establishment of credit cooperatives following the enactment of the Cooperative Credit Societies Act in 1904. After Independence, these efforts were intensified, following the recommendations of the All India Rural Credit Survey Committee of 1954. The expansion of the traditional commercial banks to rural areas commenced with the nationalization of the Imperial Bank of India and its conversionto the State Bank of India in 1955. The nationalization of 14 major commercial banks in 1969 and another six commercial banks in 1980, along with the introduction of the Lead Bank Scheme in 1970, were steps that facilitated rapid expansion of the banking system into „hitherto unbanked areas.‟ Regional rural banks (RRBs) were established under the RRBs Act, 1976, to overcome the

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difficulties faced by commercial banks, like cultural barriers in dealing with rural people and the high costs involved in the setting up of rural branches. In Bangladesh, Micro Finance Institutions (MFIs), particular "Grameen Bank" is playing a very important role to enhance the financial inclusion. RRBs were envisaged as hybrid banks, incorporating the technical competence and professionalism of the commercial banking system with the local field-level knowledge and low- cost structure of the cooperative banking system. The issues of outreach and credit were fundamental and integral to the concept of RRBs. The creation of the National Bank for Agriculture and Rural Development (NABARD) in 1982 was specifically intended to extend credit and financial services to farmers and the rural population. The cooperatives, which had made sufficient in Poverty and exclusion, continue to dominate socio- economic and political discourse in India as they have done over the last six decades in the post independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor. It is widely known that there are pockets of poverty and financial exclusion in both urban and rural areas, particularly among slum-dwellers. As per the Census of India 2001, India had a slum population of 4.26 crore, which constituted 15 per cent of the total urban population. In the rural areas, the common reasons of financial exclusion include non-existence of bank branches in an area, physical distance of the bank from the people, fixed and limited timings of the banks, lack of awareness of advantages of having a bank account, and above all, low income that made it difficult to save. In the case of the urban poor, the reasons are different. There are lots of bank in the urban areas which are not very far away from the slums. Hence, the distance of the bank from the slums cannot be a factor for financial exclusion.

Objective

The objective of the study is primarily to study the causes and determinants of financial inclusion in India. Present study is taken up to achieve the following research objectives:

- To study the determinants of financial inclusion in India.
- To assess the regional inequality of financial inclusion in India.

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- To evaluate the initiatives taken by the Reserve Bank of India in financial inclusion.
- To study the issues and challenges of implementation of financial inclusion in India
- To find out the approaches adopted by banks, steps taken by the regulatory bodies and various government initiatives to achieve financial inclusion.
- To analyze the past years

It is important to analyze this progress against some disconcerting trends that were noticed in the run up to the structured Financial Inclusion initiatives that the banks launched since 2010 onwards. First, the number of banked centres in the country between 1991 and 2007 had actually come down (from 35236 to 34471). Second, the number of rural branches during the same period had also declined significantly (from 35206 to 30409). Against this backdrop, the progress made during 2010- 13 is certainly remarkable. In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh 3 year FinancialInclusion Plan for the period 2013-16. Banks have also been advised that the FIPs prepared by them are disaggregated and percolated down up to the branch level. The disaggregation of the plans is being done with a view to ensure involvement ofbank staff across the hierarchy, in the FI efforts and also to ensure uniformity in the reporting structure under the Financial Inclusion Plan. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive. Trends and patterns of economic inequality across Indian states are analyzed. Dynamics of growth in the country are discussed which is resulting in regional imbalances and propose measures for alleviating the problem. The inter-state inequality in bank branches, credit accounts, saving accounts and credit deposit ratio show a clear picture of regional inequality in India. Financial inclusion is a flagship programme of the Reserve Bank. Its objective is to bring people, hitherto excluded, under the ambit of formal financial institutions. To push towards universal financial inclusion, the Reserve Bank has taken several initiatives. These include advising banks on devising their Financial Inclusion Plan and constituting a Financial Inclusion Advisory Committee (FIAC). The Committee, under the Chairmanship of Dr. K.C. Chakrabarty, is helping banks to develop a viable and sustainable model of banking services that focuses on accessible and affordable financial services. To sensitize financially illiterate people, financial literacy programmes have been initiated by the Reserve Bank in collaboration with commercial banks. Opening multiple channels of credit delivery is expected to improve access to institutional credit for excluded people, which, in turn, may help bring them within the ambit of the growth process.

Financial inclusion policy comprises the following:

1. No Frills Accounts
2. Simplification of KYC norms
3. Use of Intermediaries
4. Introduction of General Credit Cards
5. Use of Technology
6. Use of Regional Language
7. One-time Settlement
8. Financial Education

Methodology:

Secondary data has been used for the purpose of the present study. The data is taken from journals and research papers, newspapers articles, websites and published reports.

Review of Literature

Select Studies RBI (2005) proposed financial inclusion based on the business facilitators/ business correspondent model, adapting the Brazilian success story in India. In 2005, efforts were made enabling banking services to reach the rural areas through credit facilities. While the banking network started expanding in the rural areas, there were still a majority of the population in rural areas without having access to banking services.

GOI (2008) examined financial inclusion as a delivery mechanism providing financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups.

Kamath (2008) attempted to understand the impact of Micro-Finance Institution (MFI) loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The Financial diary methodology was used to collect the data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of the households of Ramanagar area, Karnataka, India, and the Principle Component Analysis (PCA) methodology was used to analyze the data. CRISIL (2016) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the

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CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount.

Initiatives of RBI for Financial Inclusion

To help the underprivileged participating in the economic development and country"s inclusive growth, following initiatives were undertaken by the Reserve Bank of India over thelast four decades:

Initiatives taken during 1960s and1970s

Focus on increasing credit to the neglected economy and weaker sections of society. Development of the rural banking ecosystem including RRBs, rural and semiurban branches. Implementation of the social contract with banks. Lead Bank Scheme launched for rural lending.

Initiatives taken during 1980s and 1990s

Branch licensing policy to focus on expansion of commercial bank branches in rural areas. Establishment of National Bank for Agriculture and Rural Development (NABARD) to provide refinance to banks providing credit to agriculture. SHG-Bank Linkage Program launched by NABARD.

Initiatives taken during 2000s

The term 'Financial Inclusion' was introduced for the first time in RBI"s Annual Policy Statement for 2005- 06 and a policy namely "Financial Inclusion Policy" was framed. 100 percent financial inclusion drive launched. Restrictions on ATMs deployment removed.

The Reserve Bank has taken various steps to intensify the credit delivery mechanism and financial inclusion by changing the guidelines for priority sector lending and trying to bring excluded people from both rural and urban areas under the coverage of institutional finance. It is impossible to think about inclusive growth without access to formal finance at an affordable cost. In order to provide credit to the productive sector, which has the potential for employment generation, the Reserve Bank has taken a host of measures including revising the priority sector lending guidelines, which have been in existence since the 1970s. Apart from providing credit under this scheme, the Reserve Bank has adopted a policy of providing credit through multiple channels, viz. involving self-help groups (SHGs) and microfinance institutions (MFIs), expanding the scope of the business correspondence (BC) model,

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simplifying procedures and processes for micro and small enterprises (MSEs) and adopting information and communication technology (ICT) solutions for greater outreach and lower transaction costs. i) Opening of No-Frills accounts ii) Bouquet of Financial services iii) Engaging Business Correspondents iv) Use of Technology v) Relaxation of KYC Norms vi) Simplified Branch Authorization Opening of branches in unbanked rural centres viii) Roadmap for providing Banking Services in unbanked villages with population more than 2000 ix) Direct Benefit Transfer x) Financial Literacy xi) Financial Inclusion Plan of Banks xii) Robust Institutional Mechanism xiii) Road Ahead Extending the frontiers of the formal financial system.

RBI Strategies for Financial Inclusion

The strategies that need to be adopted for financial inclusion are as follows:

i) Policy measures ii) Making financial services simple, hassle-free and affordable iii) Creating a conducive climate for lending iv) Use of innovative products

Concept of Financial Exclusion:

Before we understand financial inclusion we should have knowledge about financial exclusion. The word of financial exclusion first time used in 1993 by Leyshon and thrift who were concerned about limited access on banking services as a result number of bank branches were closed. In1999, kempson and whyley defined financial exclusion in border sense which refers to those people who have excluded access to mainstream financial services and product till date numbers of analysts added their views to define financial exclusion. "Financial exclusion" describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly home insurance, education loan. The effects of financial exclusion can include exclusion from other mainstream services, such as pension or saving schemes, and can also lead to debt and/or cut off from essential utilities.

According to the European Commission, Financial exclusion is: „A process whereby people encounter difficulties accessing or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.‟

In India, The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as restricted access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into

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low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. So basically, financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

Financial Inclusion:

Concept and Definition of Financial Inclusion:

Financial inclusion is one of the most important aspects in the present scenario for inclusive growth and development of economies. The financial inclusion term was first time used by British lexicon when it was found that nearly 7.5 million persons did not have a bank account. But financial inclusion concept is not a new one in Indian economy. Bank Nationalisation in 1969, establishment of RRBs and introduction of SHG- bank linkage programs were initiatives taken by RBI to provide financial accessibility to the unbanked groups.

According to committee on Financial inclusion headed by Dr. C. Rangarajan defined financial inclusion 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."2* Financial inclusion does not stand for delivery of financial services for all at all cost. But it means that the delivery of financial services and products at affordable costs of excluded sections of population and low income groups. It plays a crucial role to remove away the poverty from the country. Financial inclusion is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, living and better income. It provides path for inclusive growth.

Financial inclusion can be described as the provision of affordable financial services, viz saving, credit, insurance services, access to payments and remittance facilities by the formal financial systems to those who are excluded. So, financial inclusion refers to access to vast range of financial product and services at affordable cost. It not only includes banking products but also other financial services such as loan, equity and insurance products.

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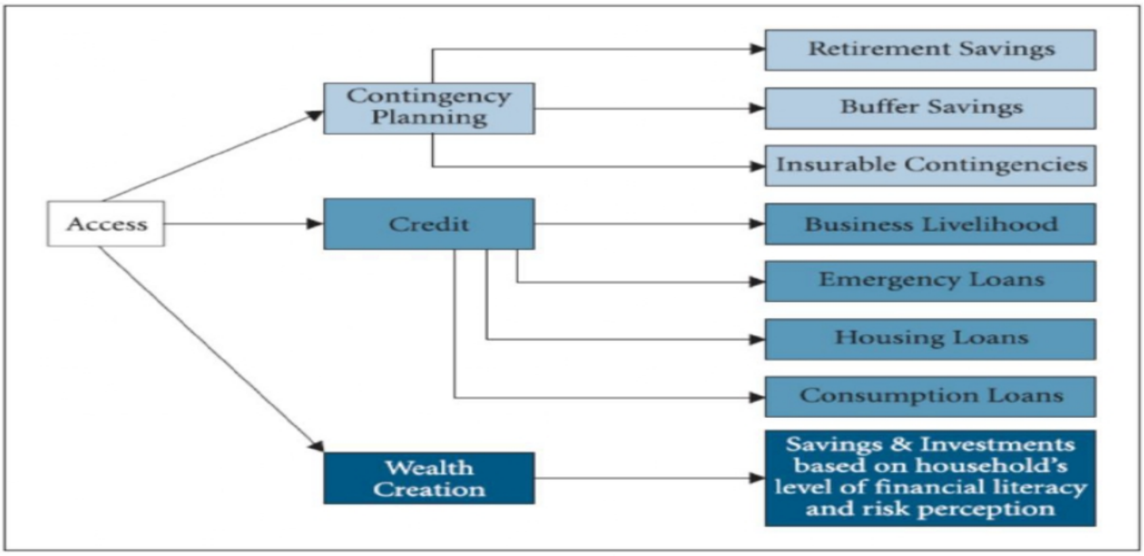

Source: A Hundred Small Steps a Report of the Committee on Financial sector reforms by **Raghuram G. Rajan**

Figure 1: Household Access to Financial Services

Households need access to finance for several purposes like creating buffer, retirement, saving to hedge against unpredictable situations and take products for insurable contingencies. Household also needs access to credit for livelihood creation, housing, consumption and their emergencies.

Various approaches to achieve financial inclusion:

In India, various measures taken by banks, GOI and RBI for financial inclusion plan. Figure 3 highlighted currently adopted financial inclusion approaches.

Figure 2: Financial Inclusion: Currently Adopted Approaches

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Status of Financial Inclusion in India

1. The policy makers in India have been aware of the implications of poverty for financial stability and have continually endeavoured to ensure that poverty is tackled in all its manifestations and that the benefits of economic growth reaches the poor and excluded sections of the society.

2. India began its financial inclusion journey as early as in 1956 with the nationalisation of Life Insurance companies. This was followed by nationalisation of banks in 1969 and 1980. The general insurance companies were nationalised in 1972. A review of the status of financial inclusion in India indicates that a host of initiatives have been undertaken over the years in the financial inclusion domain.

3. India has also been actively engaged with other countries and multilateral fora viz. Global Partnership for Financial Inclusion (GPFI) and Organization for Economic Co-operation and Development (OECD). India is one of the co-chairs along with Indonesia and United Kingdom in the GPFI Subgroup on Regulation and Standard Setting Bodies. India has been actively involved in preparation of relevant research and policy guides in Digitalisation, Regulation and Financial Inclusion that are published by GPFI from time to time. Further, the Reserve Bank of India is currently a member of four working groups viz. Standards, Implementation and Evaluation, Digital Financial Literacy, Financial Education for MSMEs and Core Competencies for Financial Literacy under the International Network for Financial Education (INFE), set up under OECD. Keeping in view the various developments in the global front, India has also initiated the process of preparing its National Strategy for Financial Inclusion (NSFI) in June 2017 under the aegis of Financial Inclusion Advisory Committee (FIAC). The document has been formulated, based on the feedback received from various stakeholders viz., Department of Financial Services (DFS), and Department of Economic Affairs (DEA), Ministry of Finance (MoF), Govt of India, RBI, SEBI, IRDAI, PFRDA, NABARD and NPCI.

Conclusion:

A discussion on financial inclusion policies would be incomplete if digital financial inclusion and the role of fin-tech is not meaningfully integrated in the policy discourse. While, India has largely benefited from the Jan Dhan-Aadhaar- Mobile trinity over the last few years, adequate measures are needed to strengthen the digital financial services' eco-system including increased awareness on usage of digital modes of transactions, increased access

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points/ acceptance infrastructure and a safe environment incorporating the principles of consent and privacy. It is expected that over the next few years, fin-tech may evolve from its present structure, calling for adequate understanding among regulators, financial service providers and most importantly the customers availing financial services through the digital mode. It is, therefore, important to first address the newly digitally included customers through adequate awareness and literacy.

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