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INTRODUCTION
REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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FINANCIAL INCLUSION OPPORTUNITIES AND CHALLENGES FOR INDIA

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ABSTRACT

The banking industry in India has undergone dramatic changes. Previously the banks would target the rich customers. As a result, the have-nots or the bottom-line customers of the pyramid were ignored. They belonged to low-income group and had to take resort of moneylenders or informal lenders for taking advance/loan at exorbitant rate of interest. This situation cannot uplift the poor people and makes them destitute in the long run. For developing nations, the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if it's weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analysing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

KEYWORDS
financial inclusion, banking industry.

FINANCIAL INCLUSION

In majority of the developing countries, access to finance is now being perceived as a public good, which is as important and basic as access, say, to safe water or primary education. A question that arises is whether financial inclusion can be interpreted as a public good. A good is considered a public good if it meets the conditions non-excludability. I am sure you would agree that financial inclusion meets the two criteria. One of the important effects of financial inclusion is that the entire national financial system benefits by greater inclusion, especially when promoted in the wider context of economic inclusion. The concept of financial inclusion has a special significance for a growing economy like India as bringing the large segment of the productive sectors of the economy under formal financial network could unleash their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid (BoP) population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks. Deeper engagements of the BoP/under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks. Government also immensely benefits by way of efficient and leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged groups of population

NEED OF FINANCIAL INCLUSION

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including s avings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
3. Financial and institutional sustainability as a means of providing access to financial services over time
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

OBJECTIVES OF THE STUDY

1. To discuss about the conceptual aspect of "Financial Inclusion"
2. To highlight the reasons for providing access of formal financial services to the underprivileged sections of the society
3. To evaluate the role of banks towards "Financial Inclusion"
4. To explore the need and significance of financial inclusion for economic and social development of society.
5. To analyse the current status of financial inclusion in Indian economy.
6. To study the access of rural people to bank branches and the number of ATM opened in those areas.
7. To study the progress of State Cooperative Banks in financial inclusion plan.
8. RBI initiatives & guideline and Impact on Indian economy of financial inclusion
9. Scope & challenges of financial inclusion in India

METHODOLOGY

The entire gamut of discussion has been made on the basis of secondary sources. The different books, journals, newspapers and related websites have been consulted in this regard.

SERVICES EXTENDED THROUGH "FINANCIAL INCLUSION"

TABLE 1

1.	Service facility	2.	Overdraft facility
3.	Payment and remittance services	4.	Low cost financial services
5.	Cheque facility	6.	All kinds of commercial loan
7.	Electronic fund transfer	8.	Credit and Debit Cards access
9.	Access to financial markets	10.	Financial advice
11. Insurance (Medical insurance)		12.	Micro credit during emergency

FINANCIAL INCLUSION IN INDIA

The Reserve Bank of India (RBI) 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). In the rep ort RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The government of India recently announced "Pradha n Mantri Jan Dhan Yojna, a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015.

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

1. **Opening of no-frills accounts**: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.
2. **Relaxation on know-your-customer (KYC) norms**: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.
3. **Use of technology**: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.
4. **Adoption of EBT**: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.
5. **GCC**: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to ₹25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.
6. **Simplified branch authorization**: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.
7. **Opening of branches in unbanked rural centres**: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.
8. **Engaging business correspondents (BCs)**: In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.
9. **Pradhan Mantri Jan Dhan Yojana** is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. By September 2014, 3.02 crore accounts were opened, with around Rs. 1500 crore (US$240 million) were deposited under the scheme, which also has an option for opening new bank accounts with zero balance. SBI, India's largest bank had opened 11,300 camps for Jan Dh an Yojana over 30 lakhs accounts were opened so far, which include 21.16 lakh accounts in rural areas and 8.8 lakh accounts in urban areas. On the contrast, even taking to get her all the major private sector banks, have opened just 5.8 lakh accounts

SPECIAL BENEFITS UNDER PMJDY SCHEME

a. Interest on deposit.
b. Accidental insurance cove r of Rs. 1.00 lac
c. No minimum balance required.
d. Life insurance cover of Rs. 30,000/-
e. Easy Transfer of money across India
f. Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
g. After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
h. Access to Pension, insurance products.
i. Accidental Insurance Cover, RuPay Debit Card must be used at least once in 45 days.
j. Overdraft facility up to Rs. 5000/- is available in only one account per household, preferably lady of the household.

TABLE 2: PMJDY PROGRESS REPORT (Accounts Opened as on 20.1.2016) (INR Cr)

Bank Name	Rural	Urban	Total	No. of RuPay cards	Aadhaar Seeded	Balance in Accounts	% of Zero Balance Accounts
Public Sector bank	8.91	7.10	16.01	13.82	7.46	24180.79	31.78
Regional Rural bank	3.12	0.51	3.63	2.62	1.04	5286.66	26.24
Private banks	0.45	0.30	0.74	0.70	0.24	1170.83	39.80
Total	**12.47**	**7.91**	**20.38**	**17.14**	**8.74**	**30638.29**	**31.09**

Source: PMJDY Website

The share of non-operative or zero balance accounts has fallen to 31.8% from 76.8% earlier. The significant drop in zero balance accounts indicates both increased transfers of central and state government subventions (NREGA, LPG subsidies, etc.) via these accounts, as well a development of a savings habit.
Of the 20 crore accounts opened under the scheme, about 53 lakh have been offered the overdraft facility. But the overdraft was sanctioned for only around 27.5 lakh accounts, of which only around 12.3 lakh accounts availed this facility amounting to a disbursement of Rs. 166 crore.

TABLE 3: REPORT ON OVERDRAFT (SANCTIONED/ DISBURSED) UNDER PMJDY AS ON 15.01.2016

Total No. of Accounts Offered for OD	53,54,075
Total No. of Accounts OD Sanctioned	27,56,516
Total No. of Accounts OD Availed	12,32,997
Amount of Total OD Availed	**Rs. 166 Crores**

Source: PMJDY Website

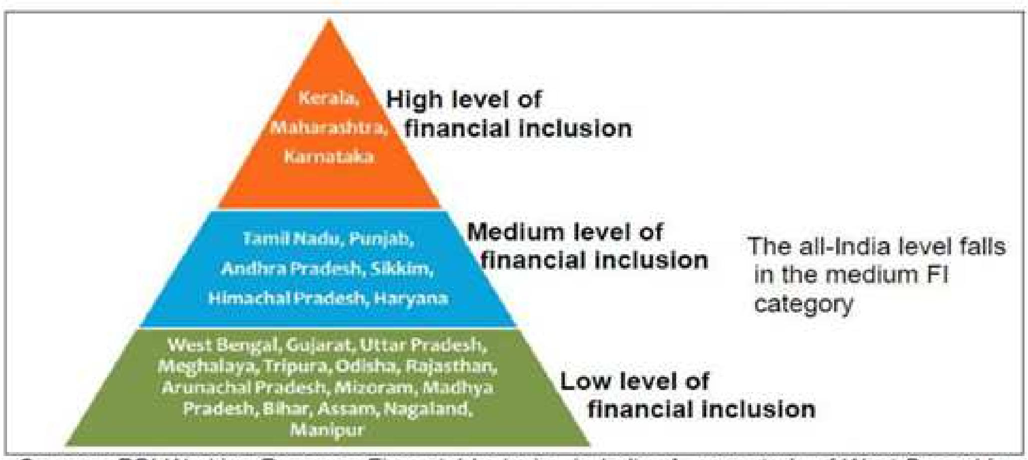
INDIA'S POSITION COMPARED WITH OTHER COUNTRIES

The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, credit and debit cards. The following table summarises India's performance in the area of financial inclusion as compared with other developing as well as developed countries

TABLE 4

Country	Geographic Penetration		Demographic Penetration	
	No. of Bank Branches per 1000 sq km	No. of ATMs per 1000 sq km	No. of branches per 100000 people	No. of ATMs per 100000 people
Korea	65.02	436.88	13.40	40.03
U.K	45.16	104.46	18.35	42.45
India	22.57	-	6.30	-
Indonesia	10.00	5.73	8.44	4.84
USA	9.81	38.43	30.86	120.94
Mexico	4.09	8.91	7.63	16.63
Brazil	3.05	3.72	14.59	17.82
China	1.83	5.25	1.33	3.80
Russia	0.19	0.53	2.24	6.28

Chart 1: State-wise index of financial inclusion



Source: *RBI Working Paper on Financial Inclusion in India: A case-study of West Bengal by Sadhan Kumar Chattopadhyay*

FINANCIAL INCLUSION - OPPORTUNITIES

1. With the help of financial inclusion concept, by saving small amounts over time, poor people can arrange funding for the lump investment needed in businesses like for purchasing equipments or buying goods at a wholesale price.
2. By fostering financial inclusion and encouraging saving habits can also provide provides funds for searching more productive sources of employment by providing access to easy finance and banking services to even in rural areas.
3. Electronic benefit transfer (EBT): With the help of EBT and information and communication technologies, banks can transfer social benefits electronically to the bank account of the beneficiary and can deliver government benefits at the doorstep of beneficiaries, thus reducing dependence on cash and lowering transaction costs.
4. For achieving commercially sustainable universal access, banking systems will be updated to new technologies like EBT to ensure the availability of financial services to all sections at a reduced cost and enhanced benefits like makes banking convenient which ensures being able to transact near where they live and work and ensuring trust among the peoples that they are putting their money with such organizations that seem to care for them and who they feel are going to be there for them when they need them the most.
5. Financial inclusion provides opportunities to the banking sector to cut across various strata's of society, regions, gender, and income and encourage the public to embrace banking habit. Reserve Bank of India has intervened for the success of financial inclusion by introducing various enactments, financial literacy drives, leveraging technology etc.

6. Financial inclusion paves a way for growth and development by ensuring timely and quick availability among the needy sectors.
7. Financial inclusion will provide not only safe savings, but also offer many other allied services like insurance cover, entrepreneurial loans, payments and settlement facilities etc.
8. With an increase in business opportunities, national income of our country will also increase, which in turn results in increased GDP.
9. With the help of KYC norms and UID financial inclusion process speeds up the banking process which reduces the cash and noncash costs to both banks and customers.
10. Financial access will also attract global market players in our country that will result in increasing business and employment opportunities.
11. Financial inclusion will help the poor in meeting various needs with the help of a wide range of financial services which are readily available and affordable also. Financial services will provide tools which will help in providing easy financing facilities in many fields like microenterprises' investments in new production technologies, helping in farmers' purchasing productivity-enhancing inputs such as fertilizers, labourers' search for better job opportunities, or children's education and to mitigating people's exposure to large Lifecycle events or unpredictable risks.

Thus, financial inclusion offers plenty of opportunities for growth and development in India.

FINANCIAL INCLUSION – CHALLENGES

The path of financial inclusion is full of various challenges like:

1. Financial services are used only by a section of the population; the excluded sections are rural, poor areas where it is difficult to provide these financial services which are mainly relying on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. The main challenge of financial inclusion is to include the rural and poor people in the coverage area.
2. Financial Illiteracy is also one of the challenges in the area of financial inclusion. Lack of basic education prevents the people to have an access from financial services.
3. Poor living even in urban areas does not fully utilize the financial services as they find them costly and unaffordable which deter the poor from accessing them.
4. Another challenge in the area of financial inclusion is that access to formal financial services requires various documents of proof regarding persons' identity, income, birth certificates, etc. But poor people generally lack these documents and thus are devoid of these services.
5. Poor and rural sections may sometimes subscribe these financial services initially, but may not use them as active as others due to high distance between the bank and residence, poor infrastructure etc.
6. Low income level is another challenging area in the process of financial inclusion because they think banks provides services only to rich class.
7. Due to difficulty in understanding formal languages, various documents and many formalities in banking procedure people are not comfortable in using financial services.
8. Many people who live in remote localities find it difficult to reach the areas where banks are generally situated.
9. Many people, who lack basic knowledge and education, do not know the importance of financial products like insurance, finance, bank accounts, cheque facilities etc. is also the challenge in the implementation of financial inclusion.
10. Many financial institutions not able to justify on commercial grounds the establishment of broad-based infrastructure to serve poor households so they sometimes pull back to their physical presence in rural or poor areas and also place some restrictions to discourage the custom of poor people (e.g. high minimum account balances). As a result, they also pass the access cost on to customers, who had to travel to distant branches and face long queuing time. As a result, many poor people reject financial institutions that serve the middle and upper classes.

FINDINGS AND RECOMMENDATIONS

- With the help of financial inclusion, banking technology has progressed at a faster rate and realized that even poor sector can contribute towards a pool of financial resources.
- Due to the RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1, 02,343 in March 2013, spread across the length and breadth of the country.
- In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.
- Poor people usually avoid going to banks because of complicated forms, procedures, formalities etc. This simple structures and procedures will lead to higher savings in the banks.
- In rural areas, ATM Network accounted for only 10.1% of total ATMs network in the country as on March 31, 2013. So, banks should enhance their ATM network among the rural and un-banked areas so as to serve poor villagers. But while doing so, proper care should be taken regarding safety and security issues.
- Migrants are facing many difficulties in opening their bank accounts. So commercial banks should take care of the needs of the migrant population in their financial inclusion plans.
- To deal with poor villagers, banks should initiate training programmes to train the frontline staff and managers as well as BCs on the human side of banking.
- In rural areas, post offices (POs) are closest to the rural population as compared to bank branches. As on March 31, 2011, there are 1, 54,866 post offices in India, of which 1, 39,040 (89.8%) were in rural areas. Thus, more POs should be engaged to become BCs of banks due to well-known advantages.

CONCLUSION

The concept of financial inclusion has gained substantial importance in the Indian context. Financial Inclusion can be defined as the wide range of financial products and services to which everybody can have an access which allows them to efficiently manage their finances, regardless of their level of income or social status. For achieving the financial inclusion people need to have a minimum and, some basic financial literacy, financial skills, product knowledge and understanding. Bank nationalization was the first step towards financial inclusion in India. Regional rural banks are created to take the banking and financial services to the rural people.

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