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EVALUATION AND ANALYSIS OF FINANCIAL INCLUSION IN INDIA

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Abstract

Financial inclusion is one of the most important word mostly are used in banking sector with a view to demonstrate or reveled involvement of that individual those are belongs to rural area in Indian economy. It's always considered as parameters to known about the inclusion of those groups of people from specific community in India regarding involvement in financial activities. As per the observations more than 150 million poor people have access to collateral-free loans. However; there are still large sections of the world population that are excluded from the financial services market. In India half of the poor are financially excluded from the country's main stream of the banking sector. Still in India 22 percent of the people are living below the poverty line. Their monthly income is less than $1 per day and they are living in most un-livable conditions. In India, growth with equity has been the central objective right from the inception of the planning process. The eleventh Five year plan (2007-12) re-emphasized the need for a more inclusive growth in order to ensure that the per capita income growth is broad- based. More and more Indian companies are trying to enter in the list of fortune 500 and one of our Indian entrepreneurs appears in the list of the top five richest persons of the world. The paper discuss about tackling this disparity between people by ways of financial inclusion through micro finance models and it also analyses how that leads to the economic development of a country.

INTRODUCTION

The causality between economic growth, financial deepening and financial inclusion has been well recognized in India's development strategy, particularly since the reforms of the early 1990s.However an accelerated effort through targeted interventions has been a more recent story. The eleventh five year plan (2007-12) of the Government of India has further emphasized the initiatives of financial inclusion with its greater focus on "inclusive growth". The farming ,micro, small and medium enterprises have immense potential to play a critical role in achieving the objective of faster and more inclusive growth as these sectors contribute to output and

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employment generation in a significant way with capacity to expand regionally diversified production and generating widely dispersed off farm employment.

The banking industry in India has recognized this imperative and has undergone certain fundamental changes over the last two decades. Reforms since the early nineties in the banking sector have facilitated increasing competition, the development of new generation private sector banks as well as technological breakthrough in diverse financial products, services and delivery channels. With the recent developments in technology, both delivery channels and access to financial services have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit / debit cards, internet banking, online money transfer, etc.

OBJECTIVES OF THE STUDY

• To review the present status of the financial inclusion in India.

• To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion. • To highlight how the micro finance models are useful to increase Financial Inclusion.

METHODOLOGY OF THE STUDY

Secondary research was conducted to review the present status of financial inclusion in India. Research methodology explains and chooses the best (in terms of quality and economy) way of doing it. The information and data for the research can be collected through primary as well as secondary sources i.e. published articles, journals, news papers, reports, books and websites." Various graphs and tables have been used. Data has been collected from the websites of the Reserve Bank of India and also taken from various committee reports submitted to Government of India on Financial Inclusion. FINANCIAL INCLUSION: AN OVERVIEW

More recently, the term financial inclusion has gained argument among professionals. "Financial Inclusion" focuses attention on the need to bring previously excluded people under the umbrella of financial institutions. There is no universally accepted definition of financial inclusion. Financial Inclusion is generally defined in terms of exclusion from the financial system. The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services .Furthermore, the definitions have witnessed as shift in emphasis from the earlier ones, which defined financial inclusion and exclusion largely in terms of physical access, to a wider definition covering access to and use and understanding of products and services.

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RATIONALE FOR FINANCIAL INCLUSION

Finance has come a long way since the time when it wasn't recognized as a factor for growth and development. It is now attributed as the brain of an economic system and most economies strive to make their financial systems more efficient. It also keeps policymakers on their toes as any problem in this sector could freeze the entire economy and even lead to a contagion.

The first question that comes to mind is why can't financial inclusion happen on its own? Why do we need to make a policy to increase the same? Like any other product or service, why can't it find a market of its own? The reasons are:

a) Financial Exclusion: It has been found that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then hasto relies on informal sector (moneylenders etc) for availing finance that is usually at exorbitant rates. These leads to a vicious cycle. First, high cost of finance implies that first poor person has to earn much more than someone who has access to lower cost finance. Second, the major portion of the earnings is paid to the moneylender and the person can never come out of the poverty.

b) High cost: It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them. For example, to open a checking account in Cameroon, the minimum deposit requirement is over 700 dollars, an amount higher than the average GDP per capita of that country, while no minimum amounts are required in South Africa or Swaziland. Annual fees to maintain a checking account exceed 25 percent of GDP per capita in Sierra Leone, while there are no such fees in the Philippines. In Bangladesh, Pakistan, Philippines, to get a small business loan processed requires more than a month, while the wait is only a day in Denmark. The fees for transferring 250 dollars internationally are 50 dollars in the Dominican Republic, but only 30 cents in Belgium.

c) Non-price barriers: Access to formal financial services also requires documents of proof regarding a persons' identity, income etc. The poor people do not have these documents and thus are excluded from these services. They may also subscribe to the services initially but may not use them as actively as others because of high distance between the bank and residence, poor infrastructure etc.

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d) Behavioral aspects: Research in behavioral economics has shown that many people are not comfortable using formal financial services. The reasons are difficulty in understanding language, various documents and conditions that come with financial services etc.

WHO ARE THE EXCLUDED AND WHY?

Many people across the globe are excluded from mainstream banking. These range from people with low income to people with low information and accessibility to people with no social security or insurance cover.

The main reasons behind exclusion are:

a) Lack of information: Lack of information about the role and function of banks, banking services and products, interest rates, etc. stop people from including themselves in mainstream banking. DR. ANURAG B. SINGH, PRIYANKA TANDON 44

b) Insufficient documentation: Many people (even in metropolis and urban areas) are unable to show their self identification documents during the opening of a bank account or during taking a loan.

c) Lack of awareness: Many people are unaware of the banking terms and conditions laid down from time to time.

d) High transaction charges: Various commercial banks across the globe levy transaction charges on credit or debit transactions, on over usage of banking services, on cheque book issuance etc.

e) Lack of access: Accessibility is a problem from all those people who live in geopolitically isolated regions. Moreover, as most of the commercial banks are located in the vicinity of cities, people in rural areas (mainly in developing countries) have a geographical barrier in accessing banks.

f) Illiteracy: Because of illiteracy, a substantial number of people are unable to take recourse to banking services.

CONCLUSION

Access to financial services such as savings, insurance and remittances are extremely important for poverty alleviation and development. In order to achieve the goal of total financial inclusion, policymakers, banks, MFIs, NGOs and regulators have to work together. In addition to cooperating with other stakeholders, policymakers who believe that microfinance can help them to speed up financial education programs that allow their citizens to realize the economic

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potential of microfinance. Basic financial literacy programs can help achieve better results in poverty alleviation.

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