Financial Inclusion in India

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Abstract

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 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 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

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." 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.

India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. About 50 percent of adult's reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards

holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB‟s and SCB‟s has still stood only 48000 in a country to provide service to 6 lakh villages. So there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts.

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report “Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services.” The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It‟s been surprising fact that India ranks second in the world in terms of financially excluded households after china .For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. 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. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. Thus the term Financial Inclusion can 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.

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. ‘Financial Inclusion’ efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc and all this at a reasonable costs.

KEY WORDS: Financial Inclusion, Financial Exclusion, Financial Services

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