

Impact of Contemporary Issues on Financial Inclusion

***Dr. Mrinali Kankar**

****Ms. Shweta Bansal**

Abstract:

Financial inclusion is a way of providing basic banking facilities like deposit and payment facility, saving account, etc at the doorstep of each individual who is deprived of this facility at a very low cost so that they can be connected to the banking system. Financial inclusion means the availability of financial services which can meet the particular need of users without any discrimination. It is an attempt to provide basic financial services to all and especially to poor people.

Demonetisation also had a great impact on financial inclusion. The opening of bank accounts for depositing the banned currencies shows that it has promoted banking literacy among the people and connected the common man who was not under the net of the banking system.

The introduction of GST will also have a great impact on Indian economy. If both financial inclusion and GST are put together, will work as an extremely powerful tool. As India is an informal and cash economy and by creating these platforms, there is more encouragement for this informal economy to be formal economy and over the next 4-5 years these will underwrite a good healthy growth.

Keywords:- Financial Inclusion, Demonetisation, GST, Informal Economy, Banking System

Introduction

In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y. Venugopal Reddy, the then Governor, Reserve Bank of India. For the progress of Indian economy with sustainable development, maximum participation is needed from all the sections of society. But the only hurdle in the way is lack of financial literacy and awareness amongst rural section of society. To cope up from this problem spreading financial literacy in rural areas was the tedious task. Financial Inclusion is the term which means spreading awareness and accessibility of financial services to each rural household all over the country. In India financial inclusion provides a type of social security to each household as they are not subject to extortion arising in the informal banking sector, including predatory lending. RBI is also trying to make it attractive for institutions to offer banking services to everyone as it is necessary building block for sustainable growth. Financial Inclusion has major impact on economic growth and development of nation as increase in the number of bank accounts will give a rise to reserves for Indian banks which allows for more loans to be taken out and increase consumption and investment in the economy. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas. To connect all households with banking services a programme known as Pradhan Mantri Jan Dhan Yojna (PMJDY) has been launched that aimed at opening Zero balance saving account for every unbanked household, providing access to financial literacy, credit and pension. This is a time-bound two phase programme. PMJDY was launched in August 2014 in which an account holder-

- i. Is not required to maintain a particular balance
- ii. Is eligible to receive subsidy payments directly into their account
- iii. Can transfer funds and check balances through ones feature phone
- iv. Is entitled to receive a RuPay debit card
- v. Is eligible to enroll in an accidental insurance plan at \$0.20 a year for coverage of \$3000
- vi. Is eligible to enroll in life insurance plan at \$5 a year for coverage of \$3000
- vii. Is eligible to enroll in a pension plan with a monthly payment of \$15-75
- viii. Is eligible to receive a \$75 loan from bank after six months, depending on use.

The success of PMJDY is the result of continuous involvement of government in the implementation of programme as weekly video conference meetings were held and the data on currently faced problems and their consequence and solutions were reported.

Access to transaction account is a basic move towards financial inclusion. It allows people to store money and send and receive payments. A transaction account can also serve as a gateway to other financial services which ensures that people worldwide can have access to a transaction account is the focus of the world bank group's Universal financial access 2020 initiative.

One of the key enabler of financial inclusion is the technology, which includes branch on wheels a mobile van branch that provides banking services to a cluster of remote villages which are deprived of banking services.

Other financial inclusion policy initiatives:-

1. regulatory dispensations on KYC norms
2. simplifies branch authorization
3. business correspondent model

Pradhan Mantri Jan-dhan Yojna

Beneficiaries as on 25/10/2017					
Bank Name / Type	Number of Beneficiaries at rural/semi urban/centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of Total Beneficiaries	Deposits in Accounts (in Crore)	Number of Rupay De bit Cards issued to beneficiaries
Public Sector Banks	13.46	11.18	24.64	53172.37	18.43
Regional Rural Banks	4.15	0.76	4.91	11870.82	3.61
Private Sector Banks	0.59	0.38	0.98	2042.51	0.91
Grand Total	18.2	12.32	30.52	67085.7	22.95

Source: Government of India

Significance of the study

This paper discusses about the Effect of contemporary issues (Demonetisation and GST) on financial inclusion. It also strives to describe the schemes like Pradhan Mantri Jan Dhan Yojna (PMJDY) and focuses on the impact of demonetisation on different groups of society and explains the benefits and effect of GST.

Review of Literature

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. The reviews of some of the important studies are presented below. Financial Inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs in a responsible and substantial way.

- According to RBI (2011) Financial Inclusion is the process of ensuring access to appropriate financial vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.
- According to Raghuram Rajan (2014) Financial inclusion is about (a) the broadening of financial services to those people who do not have access to financial services sector; (b) the deepening of financial services for people who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered the products can make appropriate choices. The imperative for financial inclusion is both a moral one as well as one based on economic efficiency.

Research Methodology

The prepared paper is a descriptive study in nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference paper, working paper and websites, etc.

Demonetisation

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation. Indian currencies with denomination 500 and 1000 have ceased to be the medium of exchange from the midnight of 8th November 2016. This move was implemented as a tool to measure the amount of black money in these high denomination currencies and to curb the terrorist activities. The main idea of government was to bring undisclosed money to the banks by allowing a limited exchange of old currency to new issued currency and unlimited deposit of old notes till 31 Dec 2016. The Demonetisation has given a tremendous drive to financial inclusion. It has stimulated the Jan-Dhan accounts. From Demonetisation the Jan Dhan bank account which were opened for poorest of poor were then swelling with cash. The effect of demonetization on the process of financial inclusion can be studied on various sections of the society which are the participants in the financial inclusion drive. Demonetisation had both positive as well as negative impact on each sector of economy.

Impact Of Deonetisaton

Impact of demonetisation can be seen on various sector as it has a very wide range and effects almost all the sectors of economy

Common People:

With the introduction of Demonetisation large queues were seen in front of banks for exchange of old currency which made it problematic for common people. All the hardship was borne by common people as about 90 percent transactions were performed in cash. By it lending of money would be more approachable for common man as the bank rates will reduce making it easy for common man to avail fresh loans.

Banks:

Bank deposits has increased by a huge margin which has increased their lending activities as well. Demonetisation has shifted economy from cash to cashless economy thus this cashless society has increase credit access and financial inclusion .But by Demonetisation deposits may rise in short term but this will not continue in long run.

Rural Population:

The effects of demonetization have been even more worrying in the rural parts of the country which are even more dominated by cash and which have limited physical accessibility to banks and other financial institutions. Visiting physical bank branches in rural areas still remains a time consuming and costly exercise for many. Other digital financial services like ATMs and POS machines at shops are limited in number and crippled with infrastructural issues. Ordinary rural residents are placed in great stress with nowhere to go.

Business:

E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments. Digital Payment need has increased financial literacy among people. They believe that it would lead to a decline in COD returns which is expected to cut down their costs. The demand for point of sales (POS) or card swipe machines has increased. The goods and services tax (GST), whose objective is to replace all taxes levied by the federal government and the states with one central tax.

Goods And Services Tax:

GST is one of the most crucial tax reform which was to be implemented from April 2010 , but it came in force from July 2017 due to differing interests and political issues. GST is a detailed inter- disciplinary tax system that has seamlessly unified the economy into a single national market. This tax includes all indirect taxes which were previously implemented by states and central government like VAT, Service tax, etc. . The emergence of GST has separated India from other emerging markets as it will ensure long-term growth in Indian economy .The introduction of GST is making India one market, making business processes more efficient. GST was implemented with the Motto "ONE NATION, ONE TAX ".Most of the countries followed unified GST . In India also dual system of GST is followed including Central goods and services tax (CGST) and State goods and services tax (SGST).

Impact Of Gst:

The effect of GST can be seen on each and every sector of the Indian economy.GST also brings in the benefits of enabling Financial inclusion by-

- **Simplifying the Tax:**

With uniform tax system, it is easy to learn, making it simpler for individual to absorb it. After one tax a farmer while purchasing seeds online is able to understand the tax charged and a rural individual who sells his handcrafted products to Maharashtra, will now not have tough time to know the common tax, rather than octroi charges applicable earlier.

- **One System Digitization**

Digitisation automation demands one system that could track the tax channels. With multiple tax laws integrating them into one system is tough. Hence many times we have seen people ignoring paying the tax because there was no system to track or pay it outside the formal system via cash. With solutions available now on mobile devices, it's easy for any rural person to track down his selling/purchasing in all cases.

- **Organised sectors with no middleman:**

After GST unorganised sectors have been structured into organised sectors with no middleman. With Digital India, Aadhaar linking to Bank Accounts, PAN Cards, mobile phones, etc. the Government is trying to tie each individual to one identity. Now GST is linking the identification of individual to tax system which will enable small businesses and unorganised sectors to follow formal tax rule. For instance small handloom seller trying to sell his products across pan-India will now have a single identity card linked to his bank account and GST registration.

Conclusion:

Financial Inclusion is making rural household aware of the banking facilities at easy and affordable rates. RBI has played a key role in promotion of financial inclusion so that each and every household can be involved. Our banking sector and government are also making efforts to get remarkable result in the field of financial inclusion. Financial Inclusion is both moral as well as economic efficiency based. Raghuram Rajan has said that if everyone had the tools and resources to better themselves, it would increase output, growth and economic prosperity. The vision of reserve of India is to open nearly 600 million new customers account and service them through a variety of channels by leveraging on IT by 2020. The 5 A's of promoting financial inclusion through cashless payment instruments are availability, accessibility, acceptability, affordability and awareness. Financial inclusion is a step which will in long term ultimately lead to the development of country. Financial Inclusion is an key enabler of making India a developed country. Both Demonetisation and GST has a impact on financial inclusion. Both these factors have positive as well as negative impact but it is assumed that it will have long term benefits in the development of economy.

**Assistant Professor, Department of ABST
Kanoria PG Mahila Mahavidhyalaya, Jaipur
**M.com ABST
Kanoria PG Mahila Mahavidyala, Jaipur*

Reference

1. <http://www.worldbank.org/en/topic/financialinclusion/overview>
2. <https://www.oecd.org/finance/financial-education/48303408.pdf>
3. Raghuram Rajan: Financial inclusion - technology, institutions and policies -Keynote address by Dr

Raghuram Rajan, Governor of the Reserve Bank of India, at the NASSCOM (The National Association of Software and Services Companies) India Leadership Forum, Mumbai, 12 February 2014.

4. "Effect of Demonetisation on Financial Inclusion in India" by Parul Mahajan and Anju Singla
5. <https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/MFI101213FS.pdf>
6. <http://www.teknospire.com/static/Blog/GOIInitiativesToBoostSociaAndFinancialInclusion.html>
7. M.Sharma, What Does India's Demonetization Experiment Mean for Financial Inclusion?, *Centre for Financial Inclusion Blog*, 16 November 2016. Retrieved from <https://cfi-blog.org/2016/11/16/what-does-indias-demonetization-experiment-mean-for-financial-inclusion/>
8. <https://yourstory.com/2016/07/financial-inclusion-sustainable-growth-raghuram-rajan>