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FINANCIAL INCLUSION IN INDIA



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**ABSTRACT:**

Finance has plays very important role in the economic development and sustainable growth .for this purpose a strong financial system must be developed and this can be achieve through a financial inclusion .financial inclusion means providing financial services (specially banking services ) to low income groups i.e. vulnerable section of society at affordable cost .Thereare many initiated taken by the Reserve Bank of India and Government of India in favor of financial inclusion but the Impact of these did not yield satisfactory

results. This paper is an attempt to discuss term financial inclusion, what initiative taken by RBI and government of India and its result , importance of financial inclusion how financial stability related with financial inclusion

**KEYWORDS**

*Financial inclusion , economic development and sustainable growth, strong financial system .*

### OBJECTIVES OF THE STUDY

1. To understand the term of financial inclusion
2. To understand its importance
3. Initiative of RBI and government of India in promoting financial inclusion

### METHODOLOGY OF THE STUDY

Secondary research was conducted to review the present status of financial inclusion in India. The data was collected through secondary sources i.e. published articles, journals, reports, books and website etc.

### INTRODUCTION

Financial inclusion is well known term for developed economy but for underdeveloped economy is a new concept like India. In India more than 65% population are living in rural areas. Financial inclusion play a most important role in sustainable development in India through providing financial services to those peoples who do not connect with the financial system especially in rural areas at affordable cost. its provides an opportunity to low income groups and vulnerable section of society to connect with banking system i.e. to have bank account, ATM cheque financial services book, to save and investment in different sector of economics etc. .Access of financial services to low income groups and vulnerable section of society help for poverty reduction, employment, economic growth and social cohesion.. There are many initiated taken by the Reserve Bank of India and Government of India for promoting financial inclusion but result is not yield satisfactory A number of studies have suggested both

### CONCEPT OF FINANCIAL INCLUSION

Financial inclusion means access of a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance; for all households at a reasonable. In other words it means to connect low income groups and weaker section of society with financial system of country at affordable cost and most efficiently

Rangarajan's committee (2008) on financial inclusion defines it as: "Financial inclusion may 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."

### FINANCIAL INCLUSION INCLUDES

1. Bank account of every household
2. Promote saving
3. Chequebook, electronic card
4. Insurance etc.

## IMPORTANCE OF FINANCIAL INCLUSION

1. The people of rural and urban areas are easily connected with financial system i.e. they get access to banking system, insurance, mutual funds etc.
2. It promotes direct transfer scheme instead of physical cash payments of subsidies people get amount of subsidies directly in their bank account i.e. more effective delivery of subsidies.
3. It promotes economic growth in country because people easily get access to credit from bank that help in self-business
4. It improve standard of living of people
5. It promote the habit of saving among people thus increasing capital formation in country

## Initiative of RBI and government of India in promoting financial inclusion Initiative of RBI.

1. KYC norms simplified—Know your customer (KYC) norms is a process through which bank obtain information about the customer. We know that to open a Regular Account, a customer has to provide certain documents that conform customer identify and his address but customers face difficulties in providing these documents for opening regular bank accounts because in India number of people does not have any identity proof the RBI identified documents such as Passport, Driving Licence, Voters' Identity Card, PAN Card, Aadhaar Card issued by UIDAI and NREGA Card etc. customer need to submit one of these documents for open a account in a bank. A person do not have any of the documents that show his 'proof of identity' in that case he can still open a bank account known as 'Small Account' by submitting his recent photograph and putting your signature or thumb impression in the presence of the bank official. (source: www.rbi.org)

2. No-Frill accounts: The central bank had introduced 'no-frills' accounts in 2005 to provide basic banking facilities to poor and promote financial inclusion. The accounts could be maintained without or with very low minimum balance.

3. General Credit Card (GCC): The scheme shall provide credit to customers in rural and semi urban areas without any kind of hassle for various purpose based on his or her income without demanding any of collaterals i.e. bank security The scheme will be implemented in all rural and semi urban branches of the bank

Any individual household having regular income from salary, business, profession and any other economic activities

## Quantum of limit:

Maximum Rs.25,000/- per individual household.

The limit to be fixed based on the assessment of income

Sl No.	Annual Income	Limit (Max)
1	Up to Rs.10000/-	Rs. 1000/-

## FINANCIAL INCLUSION IN INDIA

2	Above Rs.10000/- to Rs.25,000/-	Rs. 5,000/-
3	Above Rs.25,000/- to Rs.50,000/-	Rs. 10,000/-
4	Above Rs.50,000/- to Rs.1 lac	Rs.15,000/-
5	Above Rs.1.00 lakh	Rs. 25,000/-

(Source: www.bgvb.co.in)

4. Information and communication technology –RBI encouraged banks to use more ITC for maximizing their reach and work more effectively

5. Adoption of Electronic benefit transfer –ICT enables bank adoption of EBT for various social security schemes

6. Financial Education: RBI has taken number of measures to increase financial literacy in the country. For example it gives information on its website in different languages etc.

## GOVERNMENT OF INDIA INITIATIVE

1.kisan credit card-It was first proposed in the Budget 1998-99 by Finance Minister of NDA government Yashwant Sinha. Consequent to this, NABARD had prepared a Model Kisan Credit Card Scheme in consultation with the Major Banks The Kisan Credit Card (KCC) scheme has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner.Its aim to provide adequate, timely and cost effective institutional credit from the banking system to the farmers for their cultivation needs. The quantum of credit for term for agricultural and allied activities, etc., is based on the cost of the assets proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, and on repayment capacity.

The guidelines of Revised KCC Scheme, 2012 specifies that the eligible KCC customers will be issued smart card/debit card(biometric smart card compatible for use in ATM/Hand held swipe machines), with facility withdrawal/disbursement of loan through ATM/PoS/micro ATMs using these cards. NABARD with a view to facilitate early action in this direction, set up a Special Unit – Kisan Credit Card (SPU-KCC) in January 2013 with a mandate to encourage co-operative banks and RRBs to issue RuPay Kisan Cards. The core objective of the Units is to facilitate issue of such cards by these banks through guidance, co-ordination with National Payment Corporation of India (NPCI), interaction with sponsor banks of RRBs and co-operative banks. The overarching goal is to develop cash less eco system by enabling the farming community to avail all new banking facilities at par with urban areas of the country. The SPU-KCC undertakes the policy formulation, capacity building and networking with various stakeholders to achieve the above objectives. It has floated Schemes providing financial support to RRBs and co-operative banks for issuing RuPay Kisan Cards.Raigad CCB was the first co-operative bank in the country to issue RuPay Kisan Cards in May 2013. Subsequently, six more CCBs also launched RuPay Kisan Cards during the year. The driving force behind this was the initiatives

Ru pay kisan card- ‘RuPay’, a new card payment scheme launched by NPCI, is conceived to fulfil RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments. RuPay has come out with its RuPay Kisan Card which leverages the benefits of both KCC and RuPay. RuPay Kisan Cards involves a number of

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positive features such as

- (a) Unlike Visa and Master Card networks, RuPay does not charge any entry fee
  - (b) Since it is a PIN based product, it provides highest security
  - (c) It provides advanced features such as processing of adjustment file to enable Tip and Surcharge processing on SMS platform
  - (d) Administration costs and quarterly charges of RuPay Kisan Cards are only a fraction when compared to other current international card brands.
  - (e) It is a smart card which can be used at the nearest ATM
- (Source: NBARD magazine, www.rbi.org)

2. Pradhan mantra jand han yojana-Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. PMJDY accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria. Interest on deposit. Its provide benefits like Accidental insurance cover of Rs.1.00 lac. No minimum balance required. Life insurance covers of Rs.30, Easy Transfer of money across India etc.

Impact.....

Pradhan Mantri Jan - Dhan Yojana (Accounts Opened As on 13.05.2015)

S.NO		No.Accounts			No.of ruby debit card	Balance in account	% of zero balance balance accounts
		Rural	urban	Total			
1.	Public Sector Bank	6.63	5.561	12.19	11.39	13087.42	55.54
2	Private Banks	.38	.26	.64	.58	919.96	50
3	Regional Rural Banks	2.35	.41	2.76	1.99	2911.53	55.43
	Total	9.36	6.23	15.59	13.96	16918.91	54.52

Source. (Ministry of finance ,GOI)



3. Self-help group linkage programme - Self Help Groups (SHGs) are a homogenous group of 10-20 individuals who come together for saving and providing credit to each other when necessary. Members of Self-help group linkage programme are engaged in livelihood activities such as running a retail shop, cattle rearing, zari work, tailoring jobs, making candles, artificial jewellery etc. Each individual saves a fixed amount on a monthly basis. Self Help Group-Bank Linkage Programme (SBLP) aims to deliver financial products & services to the various sections of society that lack access to the formal banking system.

### ELIGIBILITY

- (a) Members should be preferably between 10 to 20.
- (b) Members should preferably have a homogenous background and interest.
- (c) The group should have an active existence of at least 6 months.
- (d) Group should successfully undertake savings and credit operations from its own resources.
- (e) The group should function in a democratic manner and participation to be given to all members in decision-making.
- (f) The interest of Voluntary Agencies (VAs) / NGOs in the group must be evident.
- (g) The Bank should be convinced of the genuineness of the group formation and objectives.

### AMOUNT OF LOAN

The loan amount is 1:1 to 1:4 based on the savings accumulated by the group.

### RATE OF INTEREST

Interest rates range from 1.50% to 2.50% above Base Rate for various limits. Base Rate w.e.f 16.03.2015 = 10.15%

### SECURITY

No primary / collateral

(Source: <http://www.statebankoftravancore.com/portal/microfinance>)

4. PRADHAN MANTRI SURAKSHA BIMA YOJANA This scheme has been launched by government to provide access of insurance to vulnerable section of society at affordable cost. It is an Accident Insurance Scheme offering accidental death and disability cover for death or disability on account of an accident. The scheme will be a one year cover, renewable from year to year. The scheme would be offered / administered by various Insurance Companies. Participating banks will be free to engage any such insurance company for implementing the scheme for their subscribers.

Scope of coverage: All savings bank account holders in the age 18 to 70 years in participating banks will be entitled to join.



Benefits: As per the following table:

	Table of Benefits	Sum insured
a	Death	Rs.2 lakh
b	Total and irrecoverable loss of both eyes or loss of use of both hands or feet or loss of sight of one eye and loss of use of hand or foot	Rs.2 lakh
c	Total and irrecoverable loss of sight of one eye or loss of use of one hand or foot	Rs.1 lakh

Premium: Rs.12/- per annum per member. The premium will be deducted from the account holder's savings bank account through 'auto debit' facility in one installment (source: [financialservices.gov.in/jansuraksha](http://financialservices.gov.in/jansuraksha))

### 5. Pradhan mantri jeevan jyoti yojana

This scheme is another step taken by government for improving financial inclusion this scheme provide life insurance to poor and to vulnerable section of society at affordable cost. The scheme will be a one year cover, renewable from year to year, Insurance Scheme offering life insurance cover for death due to any reason. The scheme would be offered / administered through LIC and other Life Insurance companies.

#### Scope of coverage:

All savings bank account holders in the age 18 to 50 years in Participating banks will be entitled to join

#### Benefits:

Rs.2 lakhs is payable on member's death due to any reason

#### Premium:

Rs.330/- per annum per member. The premium will be deducted from the account holder's savings bank account through 'auto debit' facility in one installment (source: [www.pmjdy.gon.in/jansuraksha](http://www.pmjdy.gon.in/jansuraksha))

### 6. ATAL PENSION YOJANA

Gol has announced a new scheme called Atal Pension Yojana (APY) in 2015-16 budget. The Government of India is concerned about the old age income security of the working poor and to vulnerable section of society and is focused on encouraging and enabling them to save for their retirement. The APY is focused on all citizens in the unorganized sector. APY is applicable to all citizen of India aged between 18-40 years and all bank account holders may join APY. The scheme is administered

by the Pension Fund Regulatory and Development Authority (PFRDA) through NPS architecture. Under the APY, there is guaranteed minimum monthly pension for the subscribers ranging between Rs. 1000 and Rs. 5000 per month. The benefit of minimum pension would be guaranteed by the Govt. Govt will also co-contribute 50% of the subscriber's contribution or Rs. 1000 per annum, whichever is lower, as part of pension scheme.

Age of entry	Monthly pension of Rs.1000	Monthly pension of Rs.2000	Monthly pension of Rs.3000	Monthly pension of Rs.4000	Monthly pension of Rs.5000
18	42	84	126	168	210
20	50	100	150	198	248
25	76	151	226	301	376
30	116	231	347	462	577
35	181	362	543	722	902
40	291	582	873	1164	1454

(Source: [www.pmfund.gov.in/jansuraksha](http://www.pmfund.gov.in/jansuraksha))

## CONCLUSION

Importance of financial inclusion to economic growth has become even more pronounced in recent years. In India the level of financial inclusion is not satisfactory as a large section of society still is not connected with any kind of financial system. To improve the level of financial inclusion the government and RBI make number of initiatives but the result is not satisfactory.

In India for achieving the goal of total financial inclusion the financial institution such as bank, regulators and government i.e. all stakeholders work together and further there should be a rule in country that promotes financial inclusion.

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