

## “FINANCIAL INCLUSION: THE GATEWAY OF FINANCIAL EMPOWERMENT OF RURAL INDIA”

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### **INTRODUCTION:**

Financial inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low income groups. 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, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

### **Definition**

RBI definition of Financial Inclusion

The Reserve Bank of India (RBI) in December 2009 changed the definition of financial inclusion by stating that “Financial inclusion is not restricted merely to opening of bank accounts but must also include the provision of all financial services like credit, remittance and overdraft facilities for the rural poor”.

*“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.” - NABARD*

### **Meaning**

Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

Indian economy in general and banking services in particular have made rapid strides in the recent past. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector and these services are:

1. A no-frills banking account for making and receiving payments,
2. A savings product suited to the pattern of cash flows of a poor household,
3. Small loans and overdrafts for productive, personal and other purposes, &
4. Micro-insurance (life and non-life)
5. Money transfer facilities.

### **Initiatives taken by Government and Various Institutions for Financial Empowerment of Rural India:**

#### **Government of India**

For the purpose to financial empowerment of rural India, The Government of India form the Committee on Financial Inclusion and in order to address the issues of financial inclusion, the government of India constituted a “committee on financial inclusion” under the chairmanship of Dr. C. Rangarajan. The committee submitted its final report to Hon'ble Union Finance Minister on 04 January 2008. The Committee has 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.”**

The Committee on Financial Inclusion suggests the following recommendation and this recommendation have already been accepted by GOI for the achieving the target of financial empowerment of rural India for rural development and these **recommendations** are:

**National Rural Financial Inclusion Plan (NRFIP):** Launching of a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50% (say 55.77 million) of the financially excluded rural cultivator/non-cultivator households, by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks . The remaining households have to be covered by 2015. For the purpose, a National Mission on Financial Inclusion (NMFI) is proposed to be constituted comprising representatives from all stakeholders to aim at achieving universal financial inclusion within a specific time frame.

**Constitution of two funds with NABARD:** the Financial Inclusion Promotion & Development Fund(FIPF) and the Financial Inclusion Technology Fund(FITF) with an initial corpus of Rs. 500 crore each to be contributed by GOI/RBI/NABARD. The FIPF will focus on interventions like, “Farmers’ Service Centers”, “Promoting Rural Entrepreneurship”, “Self-Help Groups and their Federations”, “Developing Human Resources of Banks”, “Promotion of Resource Centers” and “Capacity Building of Business Facilitators and Correspondents”, while the FITF will focus on funding of low-cost technology solutions.

**Microfinance Programmed:** Deepening the outreach of microfinance programmed through financing of SHG/JLGs and setting up of a risk mitigation mechanism for lending to small marginal farmers/share croppers/tenant farmers through JLGs

**PACS:** Use of PACSs as Business Facilitators and Correspondents

**Micro Finance:** Non Banking Finance Companies (MF-NBFCs) could be permitted to provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. Such MF-NBFCs may also be recognized as Business Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.

**Opening of specialized microfinance branches/cells:** Opening of specialized microfinance branches/cells in potential urban centers for exclusively catering to microfinance and SHG - bank linkages requirements of the urban poor. An enabling provision is made in the NABARD Act, 1981 permitting NABARD to provide micro finance services to the urban poor.

### **Financial Institutions & Other Institutions**

For the purpose to financial empowerment of rural India various financial and non-financial institution to taken an initiative and follow various activities like financial literacy, financial education, financial support to low income group through banking, etc. These institutions and their activities are really helpful to financially empower rural India, so details are follows:

#### **Forbes India – Special Report on Financial Inclusion in India**

Forbes India has released a special report this month on Financial Inclusion in India. There are a total of 7 articles but they are currently not available online and can only be read in the print issue available at newsstands across the country.

#### **Beyond Micro Lending**

For over a decade now, the microfinance industry has been the poster child of financial inclusion in India. From being tiny non-profits at the start of the millennium, microfinance institutions (MFIs) have built up a base of 26 million clients and \$2.6 billion in loan outstanding currently, taking the benefit of credit to some of the country's most isolated communities untouched by four decades of nationalized banking.

#### **TCS bags Financial Inclusion Solution Project from Indian Bank**

Indian Bank has selected TCS for its Financial Inclusion Solution project. The Deal value pegged at INR 850 million for three years. TCS' cloud computing services will be used to enable banking services for rural customers in 5,500 villages. Tata Consultancy Services, the leading IT services, business solutions and outsourcing firm, announced that it had won a deal for implementing the Smart Card-based Financial Inclusion Solution (FIS) for Indian Bank to extend the banking services in unbanked/under-banked areas, enabling its reach to over 3.5 million customers over the next three years.

#### **HDFC bank launches pilot mobile financial inclusion initiative with Vodafone's M-Paisa**

HDFC bank last year tied up with Vodafone to launch its bank services to be delivered through its M-Paisa platform. The pilot program was recently reviewed by senior RBI officials in Rajasthan, India.

On the successful completion of the pilot, HDFC plans to roll out the service throughout India and has set an ambitious target of acquiring 10 million customers through its financial inclusion initiative.

Vodafone and HDFC bank launch Urban Financial Inclusion program

The country's first-of-its-kind initiative will help millions of Indians to have access to banking and money transfer in an effort to take banking to millions of unbanked Indians by leveraging deep penetration of mobile phones, HDFC Bank and Vodafone India launched **HDFC**

**Bank Mobile Bank Account with Vodafone m-paisa** at Chomu, on the outskirts of Jaipur, in Rajasthan on the 26th of November, 2011.

“The partnership between HDFC Bank and Vodafone India is path-breaking as it leverages the Telco's significant distribution reach and provides customers the security of financial

transactions offered by a bank,” said **Mr. Rahul Bhagat**, Country Head – Retail Liabilities, Marketing & Direct Banking Channels, HDFC Bank.

Through this arrangement, customers can now **perform basic banking transactions on the mobile phone and even deposit and withdraw cash, at appointed Vodafone m-paisa TM outlets**, without having to go to bank branches. To strengthen this initiative, HDFC Bank has a Board-approved plan to bring 10 million families under financial inclusion over a period of five years.

#### **FICCI-UNDP Promoting Financial Inclusion in India:**

In November 2011, M-CRIL released a paper titled “Promoting Financial Inclusion”, which was commissioned by FICCI and UNDP. The paper endeavors to explore the status of recommendations made by ‘Rangarajan Committee on Financial Inclusion’ and ‘Raghuram Rajan Committee on Financial Sector Reforms’. The findings presented in the paper are based on review of policy announcements by the GoI and RBI

#### **CBSE to introduce financial literacy programmed in schools:**

CBSE may include financial literacy programmed in school curriculum Indians may soon start getting schooled in financial literacy early on, with the Central Board of Secondary Education, or CBSE, readying to integrate it into already taught subjects such as moral science from the next academic year.

#### **Inclusive Financial Innovation Workshop at XLRI Jamshedpur:**

Inclusive Financial Innovation Making Finance and Insurance Markets Work for the Poor March 1-3, 2012 XLRI Jamshedpur(India) Introduction: Building an inclusive financial sector serving the asset poor households and marginalized communities, including micro entrepreneurs, who stay at the lower rung of the economic and social stratification, remains a key task of policy.

#### **Financial Inclusion Awards:**

Skoch Development Foundation has announced that it’s Financial Inclusion Awards. Skoch Financial Inclusion Awards seek to recognize best practices from the banking and financial services sector for promoting inclusive growth and poverty alleviation from across India.

#### **Citi Foundation commits US\$ 1 million to Habitat for micro savings and financial education:**

The Citi Foundation has provided US\$ 1 million to Habitat for Humanity for an innovative three-year multi-country micro savings and financial education initiative. The grant is one of the Citi Foundation’s largest international funding commitments this year. The Citi-Habitat Home Improvement Micro savings Program will target communities living in substandard housing in the Philippines, Thailand, and Vietnam, etc.

#### **Financial Inclusion in India – State of Sector Report 2011**

SKOCH Development foundation has released some of its preliminary findings from its annual Financial Inclusion – State of Sector Report. The preliminary findings shed light on the status of poverty in India, the rural housing shortages, gender-end exclusion in India; drop in growth of SHG-Linkage program, agricultural credit decline and no-frills account activity in India.

### **Industry optimistic on future of financial inclusion in India**

Experts from the financial and digital sectors exhibited an optimistic outlook on the future of financial inclusion in India during the first day of the 4th Financial Inclusion and Digital Payment Conference, organized by IAMAI. The speakers were unanimous in acknowledging the viable impact of technology and digital payments to increasing financial inclusion in India,

### **India Info line launches Financial Literacy Drive**

IIFL (India Info line) Group, one of the largest homegrown integrated financial services provider, as a part of its Corporate Social Responsibility initiative, last week announced the launch of the its comprehensive financial education and awareness initiative, FLAME – Financial Literacy Agenda for Mass Empowerment. FLAME was launched by Dr K C Chakrabarty, the Deputy Governor.

### **Financial Inclusion Map of India – Bank A/C Holders Map of India**

RBI definition of Financial Inclusion The Reserve Bank of India (RBI) in December 2009 changed the definition of financial inclusion by stating that financial inclusion is not restricted merely to opening of bank accounts but must also include the provision of all financial services like credit, remittance and overdraft facilities for the rural poor.

### **Ministry of Finance recognizes Aadhaar number for Opening of Bank Accounts**

A Ministry of Finance, Government of India, notification dated the 16 of December 2010 has recognized Aadhaar number issued by the Unique Identification Authority of India (UIDAI) as an “officially valid document” to satisfy the Know Your Customer (KYC) norms for opening bank accounts. Aadhaar for Financial Inclusion.

### **Government Policies and Financial Inclusion**

By Suyash Rai, Advocacy, IFMR Finance Foundation Markets typically exist within the boundaries set by the state. The financial markets are no exception to this. Mobilisation and allocation of capital – the key roles of the financial system – are done within the framework defined by the government. From nationalisation of banks and significant economic reform in rural India.

### **Financial Inclusion in India – Opinion**

By S.S Sangra, former Chief General Manager of NABARD. Send your feedback to sssangra(at the rate) gmail (dot) com . The Government of India has mainly two objectives for equitable and sustainable development in the rural India. Institutionalisation of Rural Credit delivery system.

### **Financial Services Matrix in India**

Rural Finance the best of intentions get thwarted ever so often, simply because the co-ordination and communication required are absent. Nowhere is this more evident than in the regulations governing delivery of financial services, given that there are multiple regulators to regulate various aspects.

### **Eko India Financial Services : SimpliBank gets maximum social impact award**

SimpliBank which is a cloud based core banking system with a mobile phone front end and is aimed at helping people in the lower income group to do banking has won an award for social impact from PCQuest Eko India Financial Services banking product known as SimpliBank, has won an award under the category

### **Issue New Banking Licenses To Indian Owned Companies – ASSOCHAM**

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) has recommended to Reserve Bank of India (RBI) to issue new banking licenses only to Indian owned and Nationally incorporated banks so as to ensure that Financial Inclusion (FI) of **aam aadmi** with banking system is achieved as desired by government for inclusive growth.

### **Banks and telecom companies to drive financial inclusion in India**

Mumbai: Identifying digital payments as the way forward to push economic growth, the 3rd Financial Inclusion and Digital Payments Conference titled “Cash to Cashless Society”, provided a platform to discuss and deliberate the best plausible approach required to model a system to drive digital payments and financial inclusion.

### **UIDAI and Punjab National Bank sign MoU**

Punjab National Bank has signed a Memorandum of Understanding with Unique Identification Authority of India (UIDAI) today in New Delhi to act as Registrar for ‘AADHAAR’ project. PNB thus becomes the sixth bank in the country to have entered into such MoU by which its shall provide AADHAAR (UID No.) to its existing 58 millions.

### **Micro Matters – Sa Dhan launches magazine on Financial Inclusion**

**Sa-Dhan:** The Association of Community Development Finance Institutions in India which includes NGO’s and MFI’s as its members has launched a magazine on microfinance and financial inclusion called Micro Matters. The inaugural issue is now available for download online. Sa-Dan is the Association of Community Development Finance Institutions (CDFIs) representing more than 237 members across 21 states.

### **Axis Bank to cover 12,000 villages under new financial inclusion plan**

Axis Bank, India’s third-largest private bank has begun implementing its rural expansion plans and intends to cover 5,500 villages for financial inclusion by March 2011 and scale it up to 12,000 villages in five years’ time. The bank has kick-started its financial inclusion initiative in villages located near Nasik in the state of Maharashtra.

### **Financial inclusion is key to inclusive growth**

Finance minister of India, Pranab Mukherjee urged private sector banks to build in financial inclusion plans in their respective business strategies. Financial inclusion is integral to the inclusive growth process and sustainable development of the country. However, the financial inclusion models that banks come up with should be replicable and viable across the country.

### **Sam Pitroda speaks on Financial Inclusion at Financial Inclusion Summit**

If we continue producing billionaires, it is not going to take us too far. What we need is a focus on the ground reality, said Sam Pitroda, Advisor to Prime Minister on Public Information, Infrastructure and Innovation, in his address at the Financial Inclusion Summit organized by Confederation of Indian Industry (CII), in New Delhi

### **Financial services to rural India should be relevant**

Even as FMCGs have penetrated rural markets in a major way and there are over 600 million mobile subscribers around the country, only 40% of the population still holds bank accounts. So, financial inclusion remains a study in contrast to the advancements that have taken place in many business sectors, said Mr Sachin Pilot, Minister, GOI.

### **Indians more financially literate than Americans**

According to a study conducted by the economists at the Federal Reserve Bank of Chicago, a majority of Indians (80 per cent) responded correctly to a given financial literacy test, while only 60 per cent of respondents from the American population gave right answers to the test.

### **RBI Boss Contests Karnataka's Claims on 100% Financial Inclusion**

Bangalore, Sept 23: Contesting Karnataka's claims on 100% financial inclusion (FI) in the state, Reserve Bank of India Governor D. Subbarao banks have to cover a lot of ground for achieving full inclusion. Dr Subbarao, who flagged off a pilot project on financial literacy at Doddaballavanagala village in Doddaballapur taluka of Bangalore Rural district.

### **Conclusion**

In short, "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations. For the purpose to financial empowerment of rural India various financial and non-financial institution to taken an initiative and follow various activities like financial literacy, financial education, financial support to low income group through banking, etc. These institutions and their activities are really helpful to financially empower rural India.

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