“A Study on Financial Inclusion –

Empowering your Future Consumer”

Bachelor of Management Studies

Semester V

Submitted

In Partial Fulfilment of the

Requirements

For the Award of Degree of

Bachelor of Management Studies

By

Mrunalini Pravin Bamankar

M 15 16

SIES (Nerul) COLLEGE OF ARTS,

SCIENCE & COMMERCE

Sri Chandrasekarendra Sawaswathy Vidyapuram Plot 1-C, Sector V,

Nerul, Navi Mumbai-400 706

micro finance sector in financial inclusion process of country. To fulfill the objectives related to study and to assess the role of financial institutions in financial inclusion with special reference to micro financing both the models prevalent in India i.e. SHG- Bank Linkage Model and MFI-Bank Linkage model has been analysed. The growth of both the models and their performance from the last eight years is depicted in the chapter through various tools and techniques. Role of financial Institutions comprising Commercial Banks, Regional Rural Banks, Cooperative Banks and SIDBI has been figured out. The analysis clearly shows that commercial banks are really doing well in this sector as compared to others. It has also been observed that major portion of lending to MFIs is comprised of lending by commercial banks. Total numbers of the bank offices have been increased in almost all the areas (urban, semi-urban, suburban, rural and metropolitan) the increasing trend also shows the high rate of increasing during the study period. In India, there is a need for coordinated action amongst the banks, the government and related agencies to 207 facilitate access to bank accounts to the financially excluded. In view of the need for further financial deepening in the country to boost economic development, there is a dire need for expanding financial inclusion. By expanding financial inclusion, inclusive growth can be attained by achieving equity.

Chapter 1) Introduction of Financial Inclusion

1.1 Introduction

Financial Inclusion means providing financial services such as credit availability and banking services to the economically weaker section of the society at affordable prices. It is basically the delivery of financial services mainly to the low-income group of the society at very low prices. Financial refers to all types of financial Services, including savings, payments and credit from all types of formal financial institutions. The availability of financial services that meet the specific needs of users without discrimination is a key objective of financial inclusion.

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 Governor of Reserve Bank of India. Later on, this concept was widely used in India and abroad. Mangalam became the first village in India where all households were provided banking facilities.

Household access to financial services is depicted in Figure I.

Figure I: Household Access to Financial Services Source:

Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan).

A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman: Dr. Raghuram Rajan), The essence of financial inclusion is to ensure delivery of financial ser

Chapter 2) Financial Inclusion in India

2.1 Introduction of FI

FI is the delivery of financial services at affordable costs to vast sections of disadvantaged and low-income groups (for example "no frill accounts").

Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = FI

Where,

FI - Financial Inclusion

NFA - No frills bank account

OFIs - Other Financial Institutions

MFI - Micro Financial Institutions

IT – Information Technology

Therefore, financial inclusion desirable for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

2.2 History of Financial Inclusion (India)

Comprehensive Financial Inclusion incorporates ensuring access to financial services and timely & adequate credit to the excluded sections i.e. weaker sections & low income groups. It is a known fact that in India, while one segment of the population has access to assortment of banking services encompassing regular banking Version dated facilities & portfolio counselling, the other segment of underprivileged and lower income group is totally deprived of even basic financial services. Exclusion of large segments of the society from financial services affects the overall economic growth of a country. It is for this reason that Financial Inclusion is a global concern.

In the Indian context, the term 'financial inclusion' was used for the first time in April 2005in the Annual Policy Statement presented by Venugopal Reddy, the then Governor, RBI. Later on, this concept gained ground and came to be widely used in India and abroad.

In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. The recommendations of the Khan Committee were incorporated into the mid-term review of the policy (2005–06). Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborty, the chairman of Indian Bank. Mangalam, Puducherry became the first village in India where all households were provided banking facilities. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. RBI's vision for 2020 is to open nearly 600 million new customers' accounts and service them.

The government of India recently announced "Pradhan Mantri Jan Dhan Yojana," a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it's important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at the district level.

2.3 Financial Inclusion in India – An Assessment

"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom. Sometimes it falls upon a generation to be great. You can be that great generation. Let your greatness blossom. Of course, the task will not be easy. But not to do this would be a crime against humanity, against which I ask all humanity now to rise up."

- Nelson Mandela

"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."

- Franklin D. Roosevelt

"Poverty is the worst form of violence."

- Mahatma Gandhi

If the misery of the poor be caused not by the laws of nature, but by our institutions, great is our sin.”

- Charles Darwin

2.4 Importance of Financial Inclusion

1. Access to financial services enables the poorest and most vulnerable in society to **step out of poverty** and reduces the inequality in society

2. Financial inclusion not only helps individuals and families, but collectively it develops entire communities and can help **drive economic growth**

3. Financial inclusion is about enabling and empowering people and communities:

- **Enabling** people to have the ability and tools to manage and save their money
- **Empowering** people with the skills and knowledge to make the right financial decisions

4. Participation within the financial system leads to all kinds of **individual benefits**, including:

- Ability to start and grow a business, which gives people an opportunity through micro-financing schemes for example to better long term prospects
- Being able to pay for an education for children, which in turn enables a new generation of educated and informed individuals
- The ability to handle uncertainties that require ad hoc and unexpected payments or ‘financial shocks’

5. Financial inclusion through access to an account, savings and a payment system (whatever that maybe) enables potential and **empowers men, women and whole communities**. This in turn promotes:

- Investment within the community, provides jobs and again research shows that employment boosts status, income and one’s outlook on life. Collectively this helps to invigorate economies.
- Equality both within the community and within families.

banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

- Discussion Paper on Banking Structure in India – The Way Forward:

The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the public.

- In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) 8 at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

2.7 Progress in Financial Inclusion

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

Number of Branches Opened (including RRBs) ™ Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country (Chart 4). ™ In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

RBI has issued revised guidelines on the Financial literacy Centres (FLC) on June 6, 2012, for setting up FLCs, as detailed in Box 1 above.

Growth in SHG-Bank Linkage:

This model helps in bringing more people under sustainable development in a cost-effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credits linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India).

Growth of MFIs:

Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs.

At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crores as at end Sept 2013.

Bank Credit to MSME10:

MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations.

Bank credit to MSME sector witnessed a CAGR of 31.4% during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76%, while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 31, 2012 (Chart 11).

On June 25, 2013, CRISIL, India's leading credit rating and research company launched an index to measure the status of financial inclusion in India. The index- Inclusive- along with a report, was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. CRISIL Inclusive is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusive is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services—branch penetration, deposit penetration, and credit penetration—into one metric. The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are:

- The **all-India CRISIL Inclusive score** of 40.1 is low, though there are clear signs of progress– this score has improved from 35.4 in 2009.
- **Deposit penetration** is the key driver of financial inclusion– the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- **618 out of 632 districts** reported an improvement in their scores during 2009-2011.
- The **top three states** and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

2.11 Challenges to Financial Inclusion

- There have been some recent reports of malpractices with respect to Jan Dhan accounts. In this context, it may be interesting to know the grassroot level challenges that are impacting financial inclusion.
- In India, where nearly one-fourth of population is illiterate and below the poverty line, ensuring financial inclusion is a challenge. The two indicators, poverty and illiteracy, vary widely between different States in India. Rural poverty is above 30 per cent of population in places such as Assam, Bihar, Madhya Pradesh, Uttar Pradesh, Orissa, Jharkhand, Chhattisgarh, and Manipur. Rural poverty can be attributed to lower farm income, lack of sustainable livelihood, lack of skills, under employment and unemployment. Thus, ensuring deposit operations in these accounts is a challenge.

"The JAM social revolution offers substantial benefits for the government, the economy and especially the poor. The poor will have access to financial services and be cushioned against life`s major shocks. Government finances will be improved because of the reduced subsidy burden; at the same time, government will also be legitimised and strengthened because it can transfer resources to citizens faster and more reliably and with less leakage," Jaitley added.

"Within reach of the country is what might be called the 1 billion-1 billion visions. That is 1 billion unique Aadhaar numbers linked to 1 billion bank accounts and 1 billion mobile phones. Once that is done, all of India can become part of the financial and digital mainstream."

"Just as the Goods and Service Tax (GST) created one tax, one market, one India, the PMJDY and the JAM revolution can link all Indians into one common financial, economic, and digital space. No Indian will be outside the mainstream. This is nothing short of a social revolution," Jaitley concluded.