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A study on the various approaches of financial inclusion in Indian economy

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Abstract
Financial inclusion refers to the accessibility and equal opportunities for obtaining financial services. It involves methods through which individuals and businesses can obtain suitable, affordable, and prompt financial products and services.
Objective: This paper is an attempt to investigate the various approaches of financial inclusion.
Findings & Conclusion: Overall in conclusion, the various approaches to financial inclusion reveals a multifaceted landscape that encompasses a range of strategies aimed at integrating underserved populations into the financial system.

Keywords: Financial inclusion, approaches, financial education and rural people

Introduction
For economic development, credit is one of the critical inputs. Its prompt availability in the appropriate amount and at a reasonable price significantly improves people's quality of life, particularly for those at the bottom of the social scale. Along with the physical and human challenges, it is one of the three primary obstacles to agricultural input management. (Hans, 2006) [2]. Therefore, employment, economic growth, poverty reduction and social cohension are all dependent on having access to financing, particularly for the poor and vulnerable people. Further, having access to financing will enable the most vulnerable people to escapee the cycle of poverty by providing them with the means to open a bank account, save and invest, insure their homes, or take out credit. However, India is falling behind in this area, which has raised concerns.
The first survey of rural indebtedness (All India Rural Credit Survey) was organized and regulated in 1947, by the RBI reported that loan shark and other informal lenders met more than 90 per cent of rural credit requirements. The banks' share in particular was around 1% in whole rural household debt. Until 1971, the ratio remained low when it was 24 per cent, despite the fact that in rural regions the share of formal sources grows steadily to 29 per cent because of the rising share of cooperatives.
The Situation Assessment Survey (NSSO, 2003) revealed that there are approximately 89.3 million farmers in the nation, with 84 percent (750 million) identified as small and marginal farmers. Over half (51.4 percent) of all farmers were found to be non-indebted. Additionally, among the 43.3 million indebted households, 20.3 million (46.8 percent) obtained financial services from informal sources. The 2003 NSSO survey indicated that 45.9 million farmer households, which accounts for 51.4 percent of the total 89.3 million households, do not have access to credit from either institutional or non-institutional sources. Moreover, only 27 percent of the entire farm households are indebted to formal sources, meaning that 70 percent of these households lack access to formal credit options (Rangarajan, 2007) [6]. Banking data indicates that credit exclusion is significant in 139 districts within the country. In these areas, merely 10% or fewer out of 100 individuals can access credit, and due to the extensive exclusion, there is also substantial variation among regions, social demographics, and asset ownership. The poorer the group, the greater is the exclusion (Rangarajan, 2007) [6]. The findings of the All-India Debt and Investment Survey (2002), also show that the portion of the non-institutional sources, in the overall credit of the farming households rose from 30.9 per cent in 1991 to 38.9 per cent in 2002 (Karmakar, 2002) [3].
The implication of these results is that, despite the extensive network of the institutional

credit system, it has struggled to effectively reach the informal rural financial markets, and non-institutional sources remain significantly influential in meeting the credit requirements of individuals living in rural regions.

Therefore, a significant challenge for the banking industry is to provide financial services to all segments of society. Much like everyone else, the underprivileged require a variety of financial services that are accessible, adaptable, and affordable, going beyond mere loans. At this point, the concept of "financial inclusion" emerges, acknowledging that it can benefit both society and the banking sector. In addition to this, micro-finance serves as a potent instrument in the battle against poverty and represents an effective strategy for achieving financial inclusion. With the introduction of new philosophies and policies related to microcredit, microfinance institutions (MFIs), including Self Help Groups (SHGs), have gained a solid presence in developing countries such as Bangladesh and India, among others. (Satish, 2005) [8] Financial inclusion, i.e. remedy of financial exclusion, is a process of making formal financial services accessible and affordable to all. Financial services do not mean the provision of credit alone, but the provision of all other services, especially savings, insurance and remittance facilities. Main objective is to address constraints that exclude people from participating in financial sector & make financial services available to the common people, to meet their specific needs without any kind of discrimination. It intends to help people secure financial services and products at economical prices such as deposits, fund transfer services, loans, insurance, and payments services etc. It aims to establish proper financial institutions to cater to the needs of the poor people. These institutions should have clear cut regulations and should maintain high standards that are existent in the financial industry. (Mehrotra, N *et al*. 2009) [5].

In today's context, a key factor for achieving equitable economic growth and development is financial inclusion. The term "financial inclusion" entered British vocabulary when it was revealed that approximately 7.5 million individuals did not have a bank account. Financial inclusion refers to "the process of ensuring that vulnerable groups, such as low-income and marginalized communities, have access to financial services and timely and adequate credit when necessary, at an affordable cost," as defined by the committee on financial inclusion chaired by Dr. C. Rangarajan. The aim of financial inclusion is to provide broad segments of the population with equal access to essential financial services, thereby enhancing their quality of life, living standards, and income. It presents a pathway for inclusive growth.The Committee on Financial Inclusion under the chairmanship of C Rangarajan (henceforth CRC) devoted solely to financial inclusion, A Hundred Small Steps (Planning Commission 2009) under the chairmanship of Raghuram G Rajan (Henceforth RRC) devoted a chapter to "Broadening Access to Finance", implying financial inclusion.

A narrow definition of financial exclusion focuses on particular services that are often regarded as vital: "services that do not affect the household's finances, yet (They) are crucial for individuals' livelihoods, safety, and engagement in economic and social activities" (Anerloni and Carluccio).

Objective of the Study: The main objective of this paper is to study the various approaches of financial inclusion.

Various Approaches of Financial Inclusion

According to C. Rangarajan there are six approaches in the system of Financial Inclusion, they are as follows:

- Firstly, providing credit to farming households is a key component of ensuring their financial inclusion, especially for marginal, sub-marginal farmers, and small borrowers which is an urgent need.
- Secondly, rural bank branches should extend their services beyond just credit delivery by offering advice on various agricultural matters.
- Thirdly, in district where population per bank branch significantly exceeds the national average, it may be beneficial to encourage commercial banks to establish new branches.
- Fourthly, it is essential to simplify the loan application processes for small borrowers.
- Fifth, the further strengthening the SHG-Bank Linkage Programme (BLP), as it has proved to be an effective way of providing credit to very small borrowers.
- Lastly, the model of business facilitation and correspondence must be executed efficiently.

Further, GOI and RBI took various measures for financial inclusion including Product led approach, Government Initiatives, Knowledge Based Approach, Technology Based Approach, Regulator Led Approach, and Bank Led Initiative.

Product Based Approach: The Reserve Bank of India has been active, open and encouraging in formulating policies that allow financial institutions to create innovative products aimed at helping the average person benefit from the financial inclusion plan. Several products developed in line with this strategy have been discussed in this study.

- **No-Frills Account (NFAs):** This idea was first introduced by the RBI in November 2005 to ensure that people who have been financially excluded can access basic banking services. Following this strategy, banks began to establish accounts with no minimum balance or very low balance requirements specifically for the underprivileged. In 2012, banks, following RBI guidelines, launched an improved version of these no-

frills accounts by creating Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals, which included the use of a debit card, while putting restrictions on transactions to minimize the risk of misuse of these accounts.

- **Kisan Credit Cards (KCCs):** Under this program, banks provide farmers with smart cards to ensure timely and sufficient credit assistance through a single window banking system for their agricultural requirements. In the period of 2012-13 (up to December 2012), both public and private sector banks issued 1.2 million smart cards as part of the KCC initiative.
- **General Purpose Credit Cards (GCC):** In 2005, the Reserve Bank of India issued directives to banks to offer General Purpose Credit Cards (GCC) that allow rural and semi-urban individuals to access credit of up to Rs 25000/- without requiring collateral, based on an assessment of their household cash flows. According to the updated guidelines released in December 2013, banks must also cater to the non-farm entrepreneurial credit needs of individuals through various credit cards (Such as Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card, etc.). There will be no limit on the amount of the loan as long as it is intended for non-farm entrepreneurial activities and meets the criteria to be classified as a priority sector. Security regulations will be implemented according to the Reserve Bank's directives on lending without collateral for micro and small enterprises, as updated periodically.
- **Saving account with Overdraft facility:** Financial institutions have been encouraged to offer overdraft facilities in savings accounts as well as small overdrafts in no-frills accounts. Banks will establish the limits for these overdrafts based on the account's transaction history. This approach will enable customers to access credit more easily at reduced rates.

Bank Led Approach

- **Self Help Group- Bank Led Initiative (SLBP):** The Self Help Group- Bank Linkage Program (SLBP) has been a significant innovation in India, aimed at facilitating access to financial services for the country's financially excluded populations over the past two decades. In this approach, banks engage with local communities to encourage members to accumulate their savings. These savings are deposited with the bank, which in turn offers a corresponding credit facility. The group collectively decides whether to extend loans to any of its members. The bank offers the structure, accounting functions, and assistance to the group for managing their deposits and loans. Therefore, the model emphasizes saving before lending. The banks face little risk in these loans since the borrower's credibility and the influence of their peers in the group significantly lower the likelihood of default.
- **Business Facilitators (BFs)/Business Correspondents (BCs):** The BC/BF model relies on information and communication technology (ICT). In this framework, intermediaries or BC/BFs are equipped with technology provided by the banks, and further improvements, along with support from RBI policies, have allowed the model, driven by innovative technologies, to close the connectivity gap between the service seekers, namely the under-served public, and the service providers, which are the banks.

Regulatory Approach

- **Simplified KYC Norms:** According to the existing KYC regulations, customers are required to submit various documents to open an account, in line with RBI guidelines. However, individuals residing in rural areas encounter challenges in meeting these requirements. To allow banks to leverage the significant potential of rural banking in unbanked regions and to support the goal of financial inclusion, the RBI has eased several rules for accounts established by individuals intending to maintain balances not exceeding Rs. 50,000, with an anticipated total credit of no more than Rs. 100,000 across all accounts in a given year. Small accounts can now be created based on a referral from another account holder who has fulfilled all KYC obligations.
- **Simplified bank saving account opening:** The account opening form has been streamlined to facilitate account openings for low-income individuals, street vendors, and other transient workers in society.
- **Bank branch authorization:** The RBI has allowed banks to establish branches without prior authorization, departing from its usual guidelines, in tier 3 to 6 cities, towns, or villages. This decision will assist the government, regulator, and banks in accelerating efforts toward financial inclusion and providing financial services to the country's unbanked population.

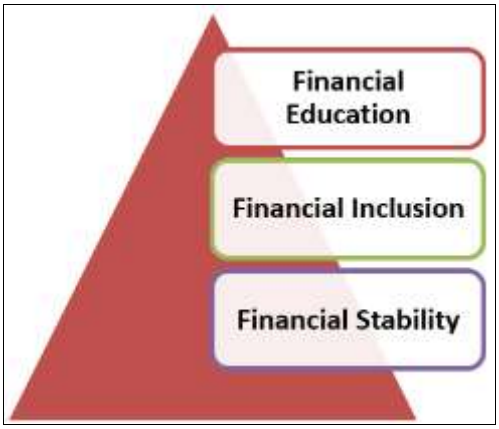
Technology Based Approach

- **Mobile Banking:** One of the most notable advancements in harnessing technology for financial services involves banks collaborating with mobile operators to offer services such as utility bill payments, fund transfers, ticket bookings, and shopping. Examples of this approach include Vodafone's m-Pesa and Airtel Money.
- **Kiosk/ATM based banking:** In certain states, the state government has implemented initiatives to offer a kiosk-based model for access to financial services. Additionally, banks have utilized technology to allow their ATMs to function similarly to 24/7 branches.
- **Branchless Banking:** Several major banks have introduced a concept featuring an online system that includes a chat function to help individuals utilize various electronic machines for cash and cheque deposits and withdrawals. Nevertheless, this initiative is still in its early phases and faces challenges related to initial costs for banks and the knowledge/literacy levels of the rural population, which restricts its current implementation to urban and semi-urban regions.
- **Aadhar Enabled payment services:** Under this system, any citizen of India possessing an Aadhar number can link it to their bank account. All accounts that have associated their Aadhar numbers must report this to the RBI, which then shares the information with various government agencies. When making payments to individuals involved in programs like MGNREGA and other subsidy initiatives, these agencies use this data to directly deposit funds into the beneficiaries' accounts. This approach not only speeds up the delivery of benefits to the recipients but also minimizes the

potential for corruption in the distribution of advantages under these schemes. Furthermore, the distinctive biometric identification information kept in the Aadhar database is anticipated to enable bank customers to utilize Aadhar as their identity to access different financial services. A trial program is presently being implemented in four districts of Jharkhand state, where MGNREGA wages for workers are being deposited into their bank accounts linked to Aadhar.

Knowledge Based Approaches

Financial education, financial inclusion, and financial stability form three key components of a comprehensive approach to enable individuals to utilize the financial services network effectively. While financial inclusion focuses on the supply side, financial education addresses the demand side by increasing awareness among individuals about the necessity and advantages of financial services provided by banks and other entities. Together, these strategies foster enhanced financial stability.



The Financial Tripod

1. The Financial Stability Development Council (FSDC) has a clear mandate to concentrate on both financial inclusion and financial literacy at the same time.
2. In June 2012, the RBI issued guidelines for the establishment of Financial Literacy Centres (FLCs). They recommended that the rural branches of scheduled commercial banks enhance their outreach by organizing outdoor Financial Literacy Camps at least once a month. As a result, by the end of March 2013, a total of 718 FLCs had been established. From April 2012 to March 2013, approximately 2.2 million individuals were educated through awareness camps, choupals, seminars, and lectures.

Governments Initiatives

The government has implemented a range of measures indirectly via the regulators, as well as through schemes promoted by its various ministries. Below are some of these initiatives.

- **Induction of SHG-2:** The initial Self-Help Group (SHG) model launched by NABARD had some constraints. This prompted NABARD to develop a strategy aimed at rejuvenating the SHG initiative through the introduction of the SHG-2 model.
- **Women SHGs Development Fund:** The Union Budget for 2011-2012 introduced a "Women's SHGs Development Fund" with a total amount of Rs. 500 crore. The Government of India established this fund to enhance women's empowerment and support their Self-Help Groups (SHGs). NABARD is responsible for overseeing the management of this fund. It administers the fund through two of its primary microfinance resources, namely the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).
- **Swarnjayanti Gram Swarozgar Yojana (SGSY):** This is a central initiative aimed at creating Self-Help Groups (SHGs) from households in rural areas that are economically disadvantaged, offering training to enhance their capacities and connecting these groups with banking services. The SGSY program is mainly focused on encouraging self-employment through income-generating activities specifically for households that fall below the poverty line in rural settings.
- **National Rural Livelihood Mission (NRLM):** Founded in June 2010 by the Ministry of Rural Development (MoRD), Government of India, this initiative builds on the achievements of the Indira Kranti Patham (IKP), a program aimed at reducing poverty in Andhra Pradesh. The primary strategies of NRLM include:

a) Enhancing the program's focus on the federations of Self-Help Groups (SHGs)
b) Allowing states the flexibility to create tailored action plans for poverty reduction c) Introducing interest subsidies to promote loan repayment and offering multiple rounds of credit
c) Boosting training and capacity-building initiatives by establishing skill training centers in every district
d) Promoting market connections
e) Strengthening the monitoring and evaluation processes.

- **The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):** This initiative aims to enhance the living conditions of individuals in rural communities by guaranteeing that each rural family has the opportunity to access at least one hundred days of wage employment annually, as long as the adult members are willing to participate in unskilled manual work. Compensation is handled through accounts at banks or post offices, and by the fiscal year 2010-11, around 100 million bank and post office accounts had been set up.
- **vi. Aadhar- Unique Identification Authority of India (UIDAI):** The GoI has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the GoI. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhar number will also enable people to have access to services such as banking, mobile phone connections and other government and non-government services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrollment with Aadhar without going to a bank. The individual will be able to access such bank accounts through a micro-ATM network with large geographic reach.

Conclusion

In conclusion, the study of various approaches to financial

inclusion reveals a multifaceted landscape that encompasses a range of strategies aimed at integrating underserved populations into the financial system. These approaches include microfinance, digital banking, community-based initiatives and government policies, all of which play a crucial role in enhancing access to financial services.

Microfinance initiatives have demonstrated significant impact by providing small loans and financial education to low-income individuals, empowering them to start or expand their businesses. Digital banking has revolutionized access to financial services, particularly in remote areas, by leveraging technology to facilitate transactions and provide information swiftly and efficiently. Community-based initiatives foster trust and collaboration, creating tailored solutions that resonate with local needs and customs. Moreover, supportive government policies can create a conducive environment for financial institutions to innovate and reach marginalized groups effectively. Overall, the effectiveness of these approaches often hinges on their ability to adapt to the unique socio-economic contexts of the target populations. As we move forward, it is essential to continue to evaluate and refine these strategies, ensuring that financial inclusion efforts are sustainable, equitable and capable of meeting the diverse needs of all individuals.

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