Chapter 5
Financial Inclusion in India:
An Assessment

Rohit Bhattacharya
Dhirendra Mahila Post Graduate College, India

ABSTRACT

The concept of Financial Inclusion is not a new one. It has become a catchphrase now and has attracted the global attention in the recent past. Lack of accessible, affordable and appropriate financial services has always been a global problem. It is estimated that about 2.9 billion people around the world do not have access to formal sources of banking and financial services. India is said to live in its villages, a convincing statement, considering that nearly 72% of our population lives there. However, a significant proportion of our 650,000 odd villages does not have a single bank branch to boast of, leaving swathes of the rural population in financial exclusion. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one per cent (RBI, Working Paper Series (DEPR): 8/2011). Financially excluded people, consistently, depend on money lenders even for their day to day needs, borrowing at excessive rates to finally get caught in a debt trap. In addition, people in far-off villages are completely unaware of financial products like insurance, which could protect them in adverse situation. Therefore, financial inclusion is a big necessity for our country as a large chunk of the world's poor resides here. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. Present paper is an attempt to highlight the present efforts of financial inclusion in India its future road map, its challenges etc.

OBJECTIVES OF THE STUDY

- To review the present status of the financial inclusion in India in particular and the world general.
- To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion.

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METHODOLOGY OF THE STUDY

Secondary research was conducted to review the present status of financial inclusion in India. Research methodology explains and chooses the best (in terms of quality and economy) way of doing it. The information and data for the research can be collected through primary as well as secondary sources i.e. published articles, journals, newspapers, reports, books and websites." Various graphs and tables have been used. Data has been collected from the websites of the Reserve Bank of India and also taken from various committee reports submitted to Government of India on Financial Inclusion.

INTRODUCTION

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking (Srikanth, 2013).

Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms (Agarwal, 2014).

The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply. The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes and language barriers (Chakrabarty, 2012),

DEFINITION OF FINANCIAL INCLUSION

- *Financial inclusion refers to universal access to a wider range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products*. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit