

# FINANCIAL INCLUSION PLAN – PROGRESS AND PROSPECTS

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## ABSTRACT

*Financial Inclusion is the most significant aspects in the present scenario for inclusive growth and development of the country. Financial inclusion can be described as the provision of affordable financial services, viz savings, credit, insurance services, access to payments and remittance facilities by the formal financial system to those who are excluded. Financial inclusion is considered as a vital indicator of development and wellbeing of a society. Financial Inclusion is considered as an effective means to sustainable economic growth and is intended to ensure that each citizen of the country is able to use their earnings a national financial resource for redeployment in productive sectors of the economy. Financial inclusion plan (FIP) is the Reserve Bank of India (RBI) designed financial inclusion measures to be implemented by commercial banks to provide banking services in unbanked villages. Under Financial inclusion plan, banks can provide its services in any selected mode including opening of a branch, business correspondents etc. The main objective of the present study is to examine the various financial inclusion plans initiated by the commercial banks and to evaluate the progress of financial inclusion in India. The study is based upon secondary data and it is analytical and descriptive in nature. The research paper concludes that the financial inclusion plans adopted by the commercial banks improved the financial inclusion and it helps in the economic development of the country.*

## KEY WORDS

**Financial Inclusion, Financial Services, Financial Inclusion Plan, Commercial Banks, Economic Growth.**

## INTRODUCTION

### Financial Inclusion

Financial Inclusion is the most significant aspects in the present scenario for inclusive growth and development of the country. It is 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 (Rangarajan 2008) in the report on financial inclusion in India. Financial inclusion can be described as the provision of affordable financial services, viz savings, credit, insurance services, access to payments and remittance facilities by the formal financial system to those who are excluded. Financial inclusion is considered as a vital indicator of development and wellbeing of a society. Financial Inclusion is considered as an effective means to sustainable economic growth and is intended to ensure that each citizen of the country is able to use their earnings a national financial resource for redeployment in productive sectors of the economy. It aims to establish proper financial institutions to cater to the needs of the poor people.

### Financial Inclusion Plan

Financial inclusion plan (FIP) is the Reserve Bank of India (RBI) designed financial inclusion measures to be implemented by commercial banks to provide banking services in unbanked villages. Under Financial inclusion plan, banks can provide its services in any selected mode including opening of a branch, business correspondents etc. FIP broadly include self set targets in respect of rural brick and mortar branches opened; Business Correspondents employed; coverage of unbanked villages with a population of above 2,000 as also other unbanked villages with

population below 2,000 through branches; Business correspondents and other modes; No-frills accounts opened, Kisan Credit Cards and General Credit Cards and other specific products designed by them to cater financially excluded segments.

FIP was implemented in two phases. During phase I 1, 74,414 unbanked villages were identified and allotted to various banks through state level bank committees for coverage through various modes. During phase II the remaining unbanked villages are identified and these villages are allocated to banks for opening of banking outlets by March 2016. Second phase also tries to improve the program of the first phase by ensuring that the newly opened accounts will remain active. The RBI is closely monitoring the progress made by the banks under the Roadmap. Banks were advised to integrate FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation metrics of their staff. As financial literacy precedes financial inclusion, a two tier Train the Trainers program was designed to build the capacity and skills of Business Correspondents for effectively delivering financial services at the grass root level. National Centre for Financial Education has been set up under section 8 of the Companies Act, 2013 to focus on promoting financial education across the country for all sections of the population as per the National strategy for financial education. The Financial inclusion and Development Department of RBI is the nodal department for formulating and implementing policies for promoting financial inclusion in the country.

## STATEMENT OF PROBLEM

In the present scenario for inclusive growth and development of the country financial inclusion is the most important aspect. The exclusion of the people from the formal banking system hinders economic growth at the grass root level. In this context the present study tries to find out the importance of Financial Inclusion Plans. Are the financial inclusion plans improving financial inclusion? Can financial inclusion be considered as an effective means to sustainable economic growth of the country?

## OBJECTIVES OF THE STUDY

- Examine the various financial inclusion plans initiated by the commercial banks.
- Evaluate the progress of financial inclusion in India.

## RESEARCH METHODOLOGY

The present study is descriptive and analytical in nature. It is based on secondary data which is collected from the websites of RBI and other research papers, journals, books, newspapers etc.

## ANALYSIS & FINDINGS

### Brick and Mortar Branches

To promote financial inclusion and to extend the banking network in unbanked areas, the RBI has granted permission to domestic scheduled commercial banks to open branches at any places in the country without seeking prior approval of RBI in each case subject to at least 25% of the total number of branches opened during a financial year being opened in unbanked rural centres. In order to promote banking penetrations and financial inclusion, RBI has advised all the State Level Banker's Committee (SLBCs) to identify villages with population above 5,000 without a bank branch of a scheduled commercial bank in their state. 6,593 villages have been identified by the SLBCs and allotted among scheduled commercial banks for opening branches.

	2015	2016	2017	2018	2019
Number of Bank branches in Village	49571	51,380	50,860	50805	52489

The number of branches in village has increased over the study period. There were 49571 branches by the end of March 2015 and as on March 2019 the total number of branches was 52,489 and it shows an average growth rate of 5.89%.

### **Business Correspondents**

The Reserve Bank of India has taken several measures over the years for increasing banking outreach and ensuring greater financial inclusion. The RBI has issued guidelines in January 2006 for engagement of Business Correspondents (BCs) by banks for providing banking and financial services. BCs are retail agents engaged by banks for providing banking services at locations other than a bank branch /ATM. BCs help the bank to provide its limited range of banking services at low cost. They are instrumental in promoting financial inclusion. Almost 10 lakh Business Correspondents function in both rural and urban under banked areas where banks do not have branches providing customers basic banking services.

The role of BCs in expanding the reach of banking services in rural areas is getting acceptance and recognition. A registry portal developed by the IBA on the basis of the framework provided by the RBI was launched in February 2018 to enable banks to upload data pertaining to BCs employed by them. It is expected to sensitize the public with information on availability of BCs and their contact details once the portal becomes available for public.

### **No-Frills Account**

No –Frills Account is a new scheme introduced by the RBI during 2005 to bring more excluded into the financial inclusion basket. No-Frills Account targets the poor and the marginalized to open bank accounts with zero balance or very small minimum balance without any pre conditions or requirements. These account holders can deposit and withdraw cash at the branch and also use ATMs. Any numbers of deposits are allowed but the withdrawals are limited. No penalty is levied for non operating or non activating of accounts. Financial inclusion measures on a mission mode were started since the launch of No-Frills Account. Later in 2010, it was renamed as Basic Savings Bank Deposit Account (BSBDA). Products and services offered under BSBDA include Savings cum overdraft account, Pure savings account- recurring or variable recurring deposit, A remittance product to facilitate Electronic Benefit Transfer and other remittances, Credit products like GCC or KCC. Financial inclusion drive can be accelerated with all these facilities provided by this account.

### **Kisan Credit Card Scheme**

Kisan Credit Card scheme is a credit scheme introduced in 1998 by Indian banks. The model was prepared by NABARD on the recommendations of R.G. Gupta Committee to provide term loans for agricultural needs. KCCs were issued to small farmers to get hassle free credit from banks. Issue of credit cards to the needy people was another component of RBI's financial inclusion drive. The KCC scheme facilitates the farmers to purchase the seeds, implements and other farmer's requirements and even to withdraw cash. KCC is one of the most widely accepted and highly appreciated banking products. The scheme allows frequent withdrawals and continuous repayments which facilitate regular contacts with the banks and hence add to financial inclusion. Insurance coverage is also introduced to this scheme.

## General Credit Card Scheme

RBI has decided that banks introduce a GCC Scheme ( Scheme to cover loans for general purpose under GCC) for issuing General Credit Cards to their constituents in rural and semi urban areas based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card. Banks have been asked to introduce general purpose credit card facility upto Rs. 25,000 at their rural and semi urban branches for low income people. The objective of the scheme is to provide hassle- free credit to customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. Fifty percentage of this loan facility is treated as priority sector lending. While considering the borrowers the women beneficiaries are given preference under GCC. It helps the ordinary families to avail easy and formal credit from banks. This facility enables the borrowers to renew the credit from time to time and improve and enhance the credit limit.

### Progress of Financial Inclusion

Particulars	2015	2016	2017	2018	2019
Urban location covered through BCs	96,847	1,02,552	1,02,865	1,42,959	4,47,170
BSBDA through Branches ( No. in lakhs)	2,103	2,384	2,544	2,474	2,547
BSBDA through branches (Amount in Crores)	36,500	47,410	69,113	73,085	87,765
BSBDA through BCs (No. in lakhs)	1,878	2,308	2,800	2,888	3,195
BSBDA through BCs (Amount in crores)	7,500	16,400	28,500	39,056	53,195
BSBDA (Total No. in lakhs)	3,981	4690	5330	5,362	5,742
BSBDA (Total Amount in Crores)	43,900	63,810	97,700	1,12,141	1,40,960
KCC (Total No. in lakhs)	425	473	460	464	491
KCC (Total Amount in Crores)	4,38,230	5,13,070	5,80,500	6,09,587	6,68,044
GCC (Total No. in lakhs)	92	113	130	118	120
GCC (Total Amount in Crores)	1,30,160	1,49,300	2,11,700	1,49,792	1,74,514

Source: Annual Reports of RBI various years. [www.rbi.org.in](http://www.rbi.org.in)

The progress of financial inclusion on the basis of the urban location covered through BCs was 96,847 in 2015 has reached 4,47,170 in the year 2019. It shows an average growth rate of 360.73%. The total number of BSBDA through branches and business correspondents was 3,981 lakhs in 2015 and increased to 5,742 lakhs in 2019 shows an average growth rate of 44.24%. Total amount of deposits mobilised under the BSBDA was 43,900 crores in 2015 and it has reached 1,40,960 crores in the year 2019 having an average growth rate of 221.10%. The number of KCCs in 2015 was 425 lakhs and it is increased to 491 lakhs by the end of 2019, shows an average growth rate of 15.53%. The total amount of credit disbursed under KCC was 4,38,230 crores in the year 2015 and it has become 6,68,044 crores by the end of

2019 shows an average growth rate of 52.44%. The GCCs issued by the banks were 92 lakhs in the year 2015 and it has reached 120 lakhs by the end of 2019 shows a compound growth rate of 30.43%. The total amount disbursed by the GCC was 1,30,160 crores was in 2015 and it has become 1,74,514 crores by the end of March 2019. It shows a compound growth rate of 34.08%.

## CONCLUSION

Financial inclusion is the most important aspect in the present scenario for inclusive growth and economic development of the country. Priority sector lending enhances credit flow to those vulnerable sections of the society. There is often mismatch between the credit requirements of rural borrowers and the portfolio of purposes for which banks provide credit. Financial Inclusion plans can bridge this gap as it intends to help people secure financial services and products at economical prices and to cater to the needs of the poor people. As financial literacy precedes financial inclusion, a two tier Train the Trainees program was designed to build the capacity and skills of BCs for effectively delivering financial services at the grass root level. The progress of the financial inclusion shows the tremendous increase in the number of branches opened, number of BCs and the amount of deposits mobilised under the BSBDA as well as the amount of credit disbursed by the KCCs and GCCs. It helps to improve the standard of living of the majority of the people of the country and it also helps to bridge the gap between rural and urban people. The various financial inclusion plans help to improve financial inclusion and there by improve the economic development of the country.

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