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9. Rural and Urban Financial Inclusion

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Abstract:

The World Bank define financial inclusion (FI) is the uniform financial service access and utilization, whereas financial exclusion is not everyone has access to financial services or possesses the necessary skills or knowledge to use them. It is an emerging issue that has been seen in several nations. The goal of financial inclusion is to give everyone, but especially those in need and those living in rural areas, access to banking. In India, planned financial inclusion initiatives have been underway for more than ten years. The sufficient banking branches, business correspondents, and outlets in both designated urban and rural areas, the transactions convenience, financially literacy are different crucial component. To promote financial inclusion in India, the GOI, RBI, and NABARD have launched several programs. It covered several topics, such as bank nationalization, bank branch network expansion, no-frill accounts, simple KYC requirements, General Purpose Credit (GCC) cards, credit counseling centers, farmers' clubs, micro pension models, project financial literacy and business correspondents, joint liability groups, PMJDY (Pradhan Mantri Jan Dhan Yojana), KCC (Kisan Credit Card), and more. Achieving financial inclusion has become a priority for many nations worldwide as having more accessible financial systems has been linked to stronger and more sustainable economic growth and development.

Keywords:

Financial Inclusion, RBI, NABARD, Kisan Credit Card, Pradhan Mantri Jan Dhan Yojana, Business Correspondence.

9.1 Introduction:

The goal of financial inclusion is to give everyone, but especially those in need and those living in rural areas, access to banking. In India, planned financial inclusion initiatives have been underway for more than ten years. Without sufficient banking branches, business correspondents, and outlets in both designated urban and rural areas, financial inclusion is not possible. The convenience of doing transactions is another crucial component. Making sure that people are financially literate enough to make informed financial decisions is the final but certainly not least crucial component.

The availability and equality of opportunity to access financial services is known as financial inclusion. (Nanda, Kajole; Kaur, Mandeep 2016). It describes the procedures via which people and organizations can obtain suitable, reasonably priced, and prompt financial services and products, such as banking, lending, equity, and insurance offerings. (Shankar, Savita (2013). Through giving the unbanked people access to resources for savings, investments, and insurance (Morgan, P. J. 2020), it offers avenues to improve inclusiveness in economic growth and reduce income disparity (Ibrahim, S.S; Aliero, H. M., 2020). The majority of the time, financial inclusion initiatives focus on the underbanked and unbanked, providing them with sustainable financial services. It takes more than just opening a bank account to provide financial inclusion (World Bank, 2013). It is possible to bar banked people from using further financial services. (Mahajan, V & Ramola, B.G. 1996). Achieving financial inclusion has become a priority for many nations worldwide as having more accessible financial systems has been linked to stronger and more sustainable economic growth and development.

Financial exclusion (FE), which refers to the fact that not everyone has access to financial services or possesses the necessary skills or knowledge to use them, is an emerging issue that has been seen in a number of nations. Financial inclusion (FI) is the opposite phenomena, characterized by uniform financial service access and utilization (World Bank, 2013).

Since the 1950s, the Indian government has held the goal of financial inclusion, which is the provision of financial services to those who would not normally have access to them. (Mahajan, V & Ramola, B.G. 1996). Prior to Prime Minister Indira Gandhi's nationalization of 14 commercial banks in 1969, the country's banking facilities had not been accessible to many parts of the country. According to Indira Gandhi, the "branching" of banks into rural areas boosted funding for unserved rural populations and agriculture, with the aim of "accelerated development" and combating unemployment and poverty. (Cole, Shawn Allen, 2007).

There have been numerous initiatives to expand banking and credit availability in India since the nationalization of a few banks in 1969. No-frill Savings Bank accounts were introduced to mark the start of the current phase of financial inclusion initiatives. Regarding this, it is noted that the availability of Business Correspondent (BC) outlets has expanded, which has contributed to a notable increase in the speed of opening basic accounts after the introduction of PMJDY (2015) and demonetization (2016).

Financial inclusion has been accelerated by these factors, along with UPI, the expansion of Point of Sale (POS), Mini ATMs, QR codes, and other related accessibility and simplicity of use.

The Financial inclusion provides efficient financial services to all actors in the economy, particularly those in low-income and undeveloped areas. Improving the depth and breadth of finance requires a strong financial inclusion system as a foundation. Financial inclusion was established as an improving objective in over 50 nations and regions globally by 2014, having been a significant public policy priority in the wake of the financial crisis. "Access to suitable, low cost, fair and safe financial products, and services from mainstream service providers" is what is meant by financial inclusion [6]. Around the world, financial inclusion has made significant progress, and conditions for the impoverished are getting better.

Financial inclusion has produced very positive overall results. There is now a great deal of opened basic accounts, and the volume of transactions in these accounts is breaking records. The consistent expansion of BC outlets in both rural and urban areas has made this possible. There has been an increase in BCs over the past two years, which has aided individuals in managing their personal and business affairs while under COVID-19-induced lockdown. Approximately 1.3 million new BC outlets have been added to villages during this time, and 1.3 million new locations in urban and metropolitan regions have been served by BCs.

For any nation to experience rapid and steady growth, inclusive growth is necessary. Inclusive growth is necessary for long-term development and equitable income and prosperity distribution. Consequently, the provision of innovative financial goods and services to the impoverished and excluded is necessary for effective financial inclusion. A country's ability to achieve sustainable development goals like less hunger, clean energy and water for all, and less inequality, as well as economic growth, credit availability, risk management, women's empowerment, and better access to education are all impacted by financial inclusion.

An exclusive inclusive index to assess the level of financial inclusion in India is the CRISIL (Credit Rating Information Services of India Limited) Inclusix. This relative metric has a range of 0 to 100, where 100 denotes full financial inclusion and 0 represents financial exclusion. Branch penetration (BP), deposit penetration (DP), credit penetration (CP), and insurance penetration (IP) are the four key indicators of fundamental financial services that CRISIL Inclusix combines into a single statistic. With a CRISIL Inclusix score of 58, India's financial inclusion status was above average (CRISIL, 2018).

To promote financial inclusion in India, the GOI, RBI, and NABARD have launched several programs. It covered several topics, such as bank nationalization, bank branch network expansion, no-frill accounts, simple KYC requirements, General Purpose Credit (GCC) cards, credit counseling centers, farmers' clubs, micropension models, project financial literacy and business correspondents, joint liability groups, PMJDY (Pradhan Mantri Jan Dhan Yojana), KCC (Kisan Credit Card), and more. Consequently, the favorable effects of all these endeavors were easily noticeable in specific financial results. Figure 4 makes it abundantly evident that the number of commercial banks has expanded dramatically since 2004. From 2004 to 2017, the number of branches climbed from 67156 to 142207.

The NABARD All India Rural Financial Inclusion study, or NAFIS, is a nationwide study that was introduced in 2016–17 and offers a comprehensive picture of the financial inclusion and lives of the rural population. Loans, savings, investments, pensions, remittances, insurance, and a host of other financial inclusion-related topics are all covered by NAFIS. Along with evaluating an individual's experience using financial products and services, assessments were also made of their banking knowledge, attitude, and behavior. The study included 187518 people, 29 states, 245 districts, and 40327 households in India. Three elements were combined in the construction of NAFINDEX: payment systems, contemporary banking services, and traditional banking goods. The NAFINDEX for all of India was 0.337 on a scale from 0 to 1, indicating a critical need to increase the scope of financial inclusion in the country.

9.2 Saving and Investment:

Approximately 56.2% of households who were agricultural and 46.3% of households that were not agricultural reported saving money during the survey year, which was 2016–17. In addition, the majority of households maintained their savings in banks, post offices, and Self-Help Groups (SHGs).

9.2.1 Incidence of Indebtedness and Borrowing:

As the percentage of families with outstanding debt on the survey date, the incidence of debt was determined. At the time of the poll, roughly 52.5% of households classified as agricultural and 42.8% of households classified as non-agricultural were in debt. Furthermore, the total incidence of debt in India is 47.4%. Telangana has the largest percentage of debt (79%), whereas Jammu Kashmir has the lowest percentage (27%) of debt. However, concerning household borrowing habits, roughly 43.5% of farm households stated that they had taken out loans throughout the survey period. About 60.5% of them have only borrowed money from formal institutions, whilst 30.3% have borrowed money from unofficial sources, and the remaining 9.2% of agricultural households have borrowed money from both sources.

9.2.2 Insurance and Pension Coverage:

Approximately 26% of households with agricultural practices and 25% of households without agricultural practices had insurance coverage of some kind.

Furthermore, 6.9% of farming households who had taken out a loan from a financial institution for agricultural reasons the year before were covered by crop insurance. According to NABARD (2018), the percentage of agricultural households with milch animals that have livestock insurance is 1.7%. Conversely, while evaluating pension coverage within Indian homes throughout the survey period, it was shown that 81.1% of all households were receiving some form of pension.

9.2.3 Individual Level Financial Knowledge, Attitude and Behavior:

In total, 9.4% of people living in rural areas and 13.2% of people living in semi-urban areas reported having attended a financial education or training session. Based on the location assessment results, strong financial awareness is reported by 48% of respondents from rural areas and 52% of respondents from semi-urban areas.

Regarding financial attitudes, it was shown that 42% of respondents in semi-urban areas and 49% of respondents in rural areas were hopeful. The behavioural evaluation's findings showed that 57% of respondents in semi-urban areas and 54% of respondents in rural areas had sound financial practices. Based on the combined estimation of financial literacy status, approximately 15% of respondents in semi-urban areas and 11% of respondents in rural areas demonstrated good financial literacy (NABARD, 2018).

9.3 Government Initiatives Towards Financial Inclusions:

1. PMJDY:

The Prime Minister of India introduced PMJDY, a nationwide initiative for financial inclusion, on August 28, 2014. The main goal of the program is to give every family access to banking services and at least one basic bank account (Kumar, 2015). According to PMJDY (2020), there are presently 40.35 crore Jan Dhan accounts in India, with a balance of Rs. 145214 crores. The savings, deposit, remittance, credit, insurance, and pension aspects of Jan Dhan accounts are among their several characteristics.

There was an upward trend in the quantity of Rupay cards and Jan Dhan accounts opened between 2014 and 2020. The largest number of PMJDY recipients is seen in Uttar Pradesh. The remarkable rise in Jan Dhan accounts in India's rural and urban areas from 2015 to 2020.

The Pradhan Mantri Financial inclusion initiatives developed in India include the life insurance Jeevan Jyothi Bima Yojana (PMJJBY), the accident insurance Pradhan Mantri Suraksha Bima Yojana (PMSBY), and the social security scheme Atal Pension Yojana (APY).

2. KCC:

In August 1998, the R.V. Gupta Committee recommended the Kisan Credit Card plan (KCC), a credit plan developed by NABARD to meet the credit requirements of resource-poor farmers. The KCC wants to offer farmers flexible, hassle-free, and reasonably priced credit in a timely and appropriate amount. In addition to lending money for agricultural output, the program also provides working capital requirements for non-farm businesses, loans for connected subsidiary activities, and a single window system that allows for some provision for consuming needs. Every farmer who uses KCC is protected by the Personal Accident Insurance Scheme (PAIS), and all crop loans obtained under the program are insured by the Pradhan Mantri Fasal Bima Yojana (PMFBY).

3. SHG and JLG Bank Linkage:

Self Help Groups (SHG) and Joint Liability Groups (JLG) enabled their members to obtain credit without requiring collateral, thereby enhancing their social and economic capabilities (Sarma & Mehta, 2014). Ten to twenty members make up the SHG, which offers loans with maximum limits of three, five, and ten lakhs in the first, second, and third years, respectively. Repayment of the loans can take three to five years. However, JLG, which has four to ten members, offers loans up to five lakhs, with three to seven years to return the money.

4. MGNREGA:

The Government of India (GOI) implemented the MGNREGA Direct Benefit Transfer (DBT) system to increase the security of rural livelihoods by guaranteeing at least 100 days of paid work in a fiscal year. In addition to promoting financial inclusion, MGNREGA wage payments through banks and post offices have the potential to have a big influence in rural areas (Sahoo, 2013). In 2020, there will be roughly 31.12 crore workers in India covered under MGNERGA (MGNREGA, 2020).

5. Indian Post Payment Bank:

India Post's proximity to the rural populace makes it ideally situated to provide microfinance services (Arun, 2010). Currently, there are 650 postal payment bank branches in India, along with 3250 post offices serving as access points, 1.55 lakh post offices, 3 million postmen, and over 10,000 doorstep service providers (IPPB, 2018). The primary benefits of India Post are fast account opening at doorstep or post office counters, Aadhaar-based Direct Benefit Transfer (DBT), and hassle-free cash withdrawals and deposits.013). In 2020, there will be around 31.12 crores of workers in India covered under MGNERGA (MGNREGA, 2020).

6. Mobile Banking:

Financial transactions on a mobile device, such as a tablet or phone, are referred to as mobile banking. There are numerous benefits to mobile banking, including the flexibility to conduct financial transactions anytime and anywhere, client empowerment and rewards, quick and location-based services, and increased system efficiency. Comparing online or in-person banking to these options, there are a few drawbacks, including security concerns and a limited skill set. The GOI's Digital India, Digidhan mela, and Digital Locker programs have improved mobile banking options in India. Several commercial banks' payment tools, such as BHIM UPI, Phone Pay, Paytm, Google Pay, and others, have improved mobile banking in India.

In India, financial inclusion is more crucial since it is a prerequisite for reducing poverty, fostering social cohesion, and promoting inclusive growth that includes the most vulnerable and disadvantaged. Large investments in need-based goods and services, new delivery methods, financial literacy, social and physical infrastructure, and need-based products and services are needed for the economy to make steady progress. Remarkably, the objective of universal inclusion remains a pipe dream, even though India's financial sector policies have long been driven by the desire to increase financial inclusion. The attainment of universal inclusion can be facilitated by expanding the availability of financial services and promoting their utilization for both social and economic welfare.

The next objective ought to be to alter the mentality and cultural norms of recently connected individuals to enable them to utilize the formal financial system by taking out bank loans and making timely repayments. Therefore, the next stage of financial inclusion will be less about policy and more about educating the public, raising awareness of digital and financial issues throughout society, and teaching those who will benefit from financial inclusion how they can use their rights to borrow money and their obligation to repay bank loans to expand their rural businesses. This literacy campaign will necessitate a bottom-up, multimodal strategy. The Reserve Bank of India should make financial inclusion a required subject at all educational levels, from elementary school to university education, in coordination with other banks and educational institutions. This will help to ensure that the next generation of students understands the importance of fostering a healthy loan repayment culture and that society becomes more technologically savvy.

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