"FINANCIAL INCLUSION IN INDIA: SWOT ANALYSIS"

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Abstract **-"The objective of the study is to identify the difficulties that Government of India is facing to implement the concept of financial inclusion. Since socio-economically rural residents are the most vulnerable portion of the society, it is the ethical, moral and social responsibility for the Government to ensure that the downtrodden common mass of the country receive protection from the risk of mis-selling by the unscrupulous financial intermediaries. The methodology used for the proposed study is based on secondary information available from several research articles prevalent in the different reputed national and international journals in the sphere of financial inclusion. Similarly the data has been collected from the RBI database, the annual reports of SEBI and IRDA as well as from the different published reports. "**

Keywords: **budget, inclusion, growth marketing, rural India, RBI, SEBI, IRDA.**

I. INTRODUCTION

Even after 60 years of independence, a large section of Indian population still remains unbanked. This malaise has led generation of financial instability among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion.

Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups (for example "no frill accounts"). An estimated 2 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. For example, in Sub-Saharan Africa only 24% of adults have a bank account even though Africa's formal financial sector has grown in recent years.[1] The availability of banking services to the entire population should be the prime objective of financial inclusion.

A) History evolution of financial inclusion

Nicholson report (1895) was the first to highlight the need to establish "LAND BANKS" as an alternative to dominance of money lenders, resulting , the cooperative credit societies Act , 1904 was passed to provide , amongst other things , a legal basis for cooperative credit societies.

B) Historical Perspective

A) 1954 : All-India Rural Credit Survey Committee report -suggested Multi-agency approach for financing the rural and agricultural sector;
B) 1963 : Formation of Agricultural Refinance Corporation
C) 1969: Nationalization of 14 major Private Banks – The flow of agricultural and rural credit witnessed a rapid increase
D) 1972–Mandatory system of Priority Sector Lending (PSL)
E) 1975 : Establishment of RRBs
F) 1980 : Nationalisation of 6 more private banks
G) 1982 : Establishment of NABARD through the transfer of H) RBI's agricultural credit department Provision of bank credit under Govt. Sponsored Subsidy Schemes Linking Agricultural Credit Targets at 18% with individual bank's net bank credit
I) 1990–Implementation of the concept of Village level credit planning for 15 to 20 villages allotted to each of rural, semi-urban and urban branches of PSBs and RRBs under Service Area Approach
J) Formulation of potential linked credit plan for each district annually by NABARD
K) Agricultural Debt Relief Scheme and Financial Sector ReformsSHG-Bank Linkage as the most suitable model in Indian context a/c to NABARD
L)2000-Reforms sharply focused on Agricultural creditdoubling the flow of agricultural credit – implementation of agricultural credit package
M) Annual Special Agricultural Credit Plan

II. OBJECTIVES OF THE STUDY

To study the various schemes started for financial inclusion and to find out the strength, weakness, opportunities and threats i.e. SWOT ANALYSIS of financial inclusion in India.

Research Methodology

The secondary data has been used for this study and mainly information is gathered from RBI bulletins, journals and information available on websites of various banks.Literature Review

1) Leeladhar, 2005, As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the

public policy. In India the focus of financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account. The international definitions of financial inclusion have been viewed in much wider perspective .

2) The United Nations(UN, 2006) define financially included as the financial sector that provides ‘access’ to credit for all ‘bankable’ people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.

3) Vallabh and Chathrath, 2006,In India, the focus of the financial inclusion at present is more or less confined to ensuring a bare minimum access to a savings bank account without frills to all. However, having a current account/savings account on its own, cannot be regarded as an accurate indicator of financial inclusion.

4) GOI, 2008,Committee on Financial Inclusion defines financial inclusion as delivery of financial services at an affordable cost to vast sections of disadvantaged and low-income groups.

A)Need of FINANCIAL Inclusion in India

The main objectives on which financial inclusion of Indian rural and semi-rural areas is based are:

1) *To inculcate the habit of saving*– The lower income category has been living under the constant shadow of financial duress mainly because of the absence of savings.
2) *Providing formal credit avenues* – mostly, the unbanked population has been dependent on informal channels of credit like family, friends and moneylenders. Adequate availability of formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside.
3) *Plug gaps and leaks in public subsidies and welfare programmes* – A considerable sum of money that is meant for the poorest of poor does not actually reach them. While this money meanders through large system of government bureaucracy much of it is widely believed to leak and is unable to reach the intended parties. Government is therefore, pushing for direct cash transfers to beneficiaries through their BANK ACCOUNTS rather than subsidizing products and making cash payments.

C) Financial Inclusion Strategies

1) BC-model
2) PoS(Point of Sale)
3) No-frills accounts (With very little or no minimum balance), simplification of KYC norms
4) KCC – Kisan Credit Card – from the year 1998-99 –to meet production credit requirements and short-term credit needs in a timely and hassle-free manner credit for crop production
5) Lead Bank Scheme -1969 aimed at forming a coordinated approach for providing banking facilities. To enable banks to assume their lead role in an effective and systematic manner, all districts in the country (excepting the metropolitan cities of Mumbai, Kolkata, Chennai and certain Union Territories) were allotted among Public Sector Banks and a few Private Sector Banks The Lead bank role is to act as a consortium leader for co-coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy. For the preparation of District Credit Plans and monitoring their implementation a Lead bank Officer (LBO) now designated as Lead District Manager was appointed in 1979
6) Local Area Banks (1996) –are expected to bridge the gap in credit availability and strengthen the institutional credit framework in the rural and semi-urban areas Although the geographical area of operation of such banks will be limited, they will be allowed to perform all functions of a scheduled commercial bank Licences are given out in under-banked or unbanked areas of the country. Some of these local area banks could eventually become full-fledged banks at some stage the local area banks are likely to have a capital adequacy ratio higher than 15% to offset higher risk arising from being geographically focused... The scheduled commercial banks are required to have a capital adequacy ratio — ratio of capital fund to risk weighted assets expressed in percentage terms — of 12%
7) Swabhiman – Opening of Bank accounts covering the habitations with minimum population atleast through Business correspondent model providing cash services.Habitations with population more than 1600 in plain areas and 1000 in north-eastern and hilly states as per 2001 census are covered.
8) Ultra small Branches with Bank officers offering other services, undertake field verification and follow-up banking transactions.
9) Direct Benefit Transfer: Cash transfer through Aadhar payment Bridge requires Bank accounts which leads to financial inclusion.
10) Interest subvention scheme: facilitates access to cheap credit from the banks indirectly through interest subsidies from the govt. It is a subsidy of interest given by Government to certain sectors like Textiles, Farm.. For eg. Textile Company borrows from Bank at 10% and Government gives subvention of 2%. Hence net bank takes

interest from textiles companies 8%. Other sectors have to pay 10% to the bank. Likewise, Farm or Agriculture sectors borrows from Bank at 10% and they will get 4% subvention from the govt. Certain sectors are covered by the system of Differential rate interest(DRI) which is less than base rate.Eg : Educational loans, export credit, agriculture, credit to weaker sections.

11) Priority Sector Lending – target of 40% of Net Bank Credit to select few sectors for all banks including foreign private ones;
12) RashtriyaMahilaKosh (RMK)- to facilitate credit support to poor women for their socio-economic upliftment
13) Dedicated bank for Women (National Bank for Women) proposed in 2013-14 budget. Objective of broadening the SHG-bank linkages.

D) Steps taken by RBI for FINANCIAL inclusion

As per Reserve Bank of India in its annual report
"The report quoted a World Bank study in April 2012, which had shown half of the world's population held accounts with formal financial institutions. The study said only nine per cent of the population had taken new loans from a bank, CREDIT UNION or microfinance institution in the past year. In India, only 35 per cent have formal accounts versus an average of 41 per cent in developing economies."

E) India also scored poorly in respect of

1) CREDIT CARDS
2) Outstanding mortgage
3) Health insurance
4) Adult origination of new loans and mobile banking.

F) The various steps taken by RBI are:

1) No-frills account – These accounts provide basic facilities of deposit and withdrawal to accountholders makes banking affordable by cutting down on extra frills that are no use for the lower section of the society. These accounts are expected to provide a low-cost mode to access BANK ACCOUNTS. RBI also eased KYC (Know Your customer) norms for opening of such accounts.
2) The banking systems have started to adopt the business correspondent mechanism to facilitate banking services in those areas where banks are unable to open brick and mortar branches for cost considerations. Business Correspondents provide affordability and easy accessibility to this unbanked population. Armed with suitable technology, the business correspondents help in taking the banks to the doorsteps of rural households.
3) To plug the leakages that are present in transfer of payments through the various levels of bureaucracy, government has begun the procedure of transferring payment directly to accounts of the beneficiaries. This "human-less" transfer of payment is expected to provide better benefits and relief to the beneficiaries while reducing government's cost of transfer and monitoring.
4) BCs — 110,000 business correspondents employed through the business facilitator and business correspondent (BC) models and set up goals for banks to provide access to formal banking to all 74,414 villages with population over 2000.
5) RBI also adopted the information, communication, technology-based agent bank model through BCs for door-step delivery of financial products and services since 2006. Minimum infrastructure for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 km.

G) Schemes for financial inclusion

Over last one year, government has launched various flagship social security schemes with an objective of broadening financial inclusion in India. This was done to make financial services such as banking, insurance, and others available to the Indian citizens especially from the low & middle class category at an affordable cost and make them financially secure.

1) Pradhan Mantri Suraksha Bima Yojana:
Considered to be the cheapest accidental death cum disability insurance policy with an annual premium of just Rs. 12, it has received a massive positive response from most of the Indians. Although the insurance cover is small which is Rs. 2, 00, 000 for accidental death and Rs. 1, 00, 000 for partial disability but considering the fact that nearly 80% of the country's population do not have any insurance, the scheme has evoked a very good response as it will further increase the insurance penetration to the remotest locations of India.

2) Pradhan Mantri Jeevan Jyoti Bima Yojana:

Similar to PMSBY, PMJJBY is also the cheapest life insurance policy with an annual premium of Rs. 330 and moreover it does not require medical examination. The cover offered under the yojana is Rs. 2, 00, 000 and the termination of policy takes place after the policy holder reaches the age of 55 years.

3) Atal Pension Yojana:

This pension scheme was launched with a sole purpose of providing pension to the workers from unorganized sector after the retirement to meet their daily needs. Contribution can be done monthly/quarterly/every 6 months and equal amount will be contributed by the government of India with an option to prematurely exit from the scheme before the age of 60 years. Pension amount receivable would be in the range of Rs. 1,000-Rs.5, 000.

4) Jeevan Suraksha Bandhan Yojana:

This scheme is a Raksha Bandhan gift and is launched with an objective to drive PMSBY and PMJJBY. Through this yojana, brothers can gift social security schemes to their sisters by purchasing gift card worth Rs. 351 and deposit scheme worth Rs. 201 which will be used for making the premium payment for Suraksha Bima Yojana and Jeevan Jyoti Bima Yojana. Apart from this, term deposit scheme worth Rs. 5001 can also be taken which will serve two purposes – premium payment for PMSBY and PMJJBY for the first year and remaining money would be investment for term deposit for 10 years.

5) Pradhan Mantri Jan Dhan Yojana:

Opening zero balance saving account for every unbanked Indian household was the main objective behind the launch of PMJDY. Overdraft facility of Rs. 5,000 is also available provided the account is kept active for 6 months after opening. Some banks are also opening account to existing customers whereas majority of them have restricted to only those with no bank account.

6) Sukanya Samriddhi Yojana:

With a mission to secure the financial future of the girl child, this small savings scheme SSA – was launched under the Beti Padhao Beti Bachao initiative. For the current year i.e. 2015-2016, the interest rate offered is 9.2%. For e.g. in this scheme if you invest Rs. 20,000 for 14 years, the maturity amount will be Rs. 10, 67, 528 (assuming 9.2% interest).

Parents or local guardians can open account in the name of the girl child at post offices orvarious banks designated by Reserve Bank of India. Moreover the interest income and investments are eligible for tax deduction under section 80C of Indian income tax act, 1961 and the scheme matures once the girl child reaches the age of 21 years. For opening the account, initial deposit of Rs. 1,000 has to be made. And next year onwards, deposit can be made for amount ranging from Rs. 100 to Rs. 1, 50, 000. Premature withdrawal is possible only when girl gets married before the maturity. The interest rate would be declared by the government every year. When the scheme was launched in the year 2014-2015, the interest offered was 9.1%.

H) The SWOT Analysis Strengths

1) Because of large population and majority of which lives in rural areas gives opportunities to both public and private sector to untapped the unbanked rural population which can become a big market for the banks.
2) The savings of upper middle and middle-middle income group of the Indian society can be strength for the economy.
3)The banking sector of the country is quite big having a large number of players in the form of public and private sector banks. India has 57 grameen banks with more than 17,000 branches across the country. Thus, with the existence of these specialized banks who already deal with the rural consumer government can easily increase the momentum of financial inclusion.
Availability of wide range of financial products to meet the financial demands of upper and middle sections of the society.

5) The government has fixed a target of issuing Adhaar to almost every Indian by 2016. The flow of subsidies in the accounts opened under Jan dhan Yojana will be done with the help of Adhaar which may increase the usage of these accounts and the savings in these accounts, however, small may increase money with the banks in form of savings in these accounts.

I) Weakness

A majority of people fall in the lower income group who are mot even able to meet their basic needs and they are the ones who are to be brought in the purview of banking is a difficult task. Despite of so many efforts a number of accounts opened under Jan Dhan Yojana are dormant with not even a single transaction done within 45 days after opening of the account.

1) The success of financial inclusion depends upon strong technology in terms of network; more number of towers etc. network availability especially in rural areas is of utmost concern and needs to be improved.
2) Lack of awareness about banking facilities and availability of different financial products and services among rural population is a big weakness of the economy.
3) The Business correspondents can be used to provide banking facilities but in absence of branches of banks the BCs cannot receive trust and good response from the rural people.
4) Under the BC model the business correspondent is required to report to the affiliated branch at the end of the day which increases the burden of the BCs thus, leading to less attraction amongst BCs to work due to cumbersome process.

5) Absence of financial products needed by weaker and poor sections of the society.

J) Opportunities

The country's large unemployed population can be utilized for promoting financial inclusion by making them a part of the delivery mechanism of the process in the form of business Correspondents (BCs) and business facilitators (BFs) and this unemployed population of the economy can be used for spreading financial literacy and bringing about financial inclusion.

1) A survey can be done on the targeted group to know about their choices and preferences about the type of financial products required.
2) Existing institutions such as grameen banks can be used effectively to expand access to financial services to the poor.
3) Post offices if given full fledged permission to act as a bank can reach to even the most remote areas of the country as they already have a brick and mortar branch in the most remote areas of the country .Thus, by using their services the government can save the expenses of opening of new branches in order to reach the unbanked people.

k) Threats

1) The commission given by banks to the business correspondents is very less due to which the people working as BCs are not very satisfied and are not very interested to work as BCs.
2) creating awareness about banking facilities in rural areas is a major threat to indian economy.
3) The approach of banks especially the private sector banks for opening their branches in rural areas is very indifferent. Private banks are not even interested in opening their branches in such areas .This indifferent approach of private banks may pose a threat.
4) There are many states eg assam where percentage of issue of adhaar cards is very low and connecting bank accounts with the Adhaar card may pose a challenge in these states.
5) Achieving the target of issuing about 70 crore more adhaar cards by 2016 again looks a target difficult to be achieved.
6) Finding the highly motivated workforce who can act as Business Correspondent competitively is a threat and retaining them in the profession again is a challenge.
7) The large number of dormant accounts under Jan Dhan Yojana if not taken care of may create unnecessary burden on the banks and can reduce the speed of financial inclusions' growth.

III.CONCLUSION

The government has taken several initiatives to promote the pace of financial inclusion in the country but what is the need of the hour is to convert the threats into opportunities by utilizing the excessive population of the country in promoting financial inclusion, spreading financial literacy in the country and efforts should be taken to bring the financially excluded in the scope of banking. Also, instead of opening separate branches or new banks for increasing the pace of financial inclusion which may prove a financial burden on the government the already existing available options like giving license to the post office to act as a bank, RRBs and localities of villages who can act as BC should be looked upon first.

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