Journal of Positive School Psychology http://journalppw.com
2022, Vol. 6, No. 8, 9227-9231

Role Of Financial Institutions In Promoting Financial Inclusion

V. Mohammed Mustafa* , Dr. T. Narayana Reddy, Dr. V. Mallikarjuna*****

** Research Scholar, Jawaharlal Nehru Technological University, Anantapur.*
***Head, School of Management Studies, JNTUAnantapur.*
****Principal, Sri Sai College of IT &Management, Kadapa.*

Abstract

For economic growth Financial Inclusion become as a new paradigm and it plays vital role in reducing the poverty from the society. Financial Inclusion refers to delivery of banking services to the masses of financial weaken, disadvantaged and rural people at an affordable terms and conditions as making accessible and available to them. Through this it is possible to reduce the gap between above said people and banking. The present study is aim to know the role of financial institutions in promoting the Financial Inclusion.

1.1 Introduction

Financial inclusion frequently has been seen as a socio-economic development tool that should be subsidized by the majority of the developing countries governments. However, the Indian government requires that all the banks have to dedicate a certain proportion of their lending to "priority" sectors such as agriculture, social sector, and marginal sector for their socio-economic development. For example, the Chinese banks continue to play an important role in providing financing to agriculture sector, small & medium enterprises. Moreover, this makes the financial inclusion process much more effective and also improves the overall efficiency of the financial system.

According to World Bank of Roma Report (2012) Financial inclusion is emerging as an economic tool and also as a priority for policymakers to regulators in financial sector development, with an increasing number of countries introducing comprehensive measures to improve access to and usage of tailored financial services, informed by a fast-growing body of experience and knowledge (Eswar Prasad., 2010). As an International initiation there are more than 60 countries which have initiated financial inclusion reforms in recent years. The growing priority placed on financial inclusion is illustrated by the commitments made by financial regulators from more than 20 developing countries to financial inclusion and to financial education under the Maya Declaration (World Bank, 2012)

1.2 Definition of Financial Inclusion

According to the Planning Commission (2009), Financial inclusion refers to universal access to a wide 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 includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

GOI (2008) defines Financial inclusion 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. The meaning of financial inclusion is delivery of financial services to the low-income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

According to Chakraborty (2011), Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. This issue started gaining importance recently in the news media. IIMB-WP N0. 474 5 However, as is the case with several issues in India, financial inclusion has remained a pipe dream with a majority of Indians continuing to lack access to banking services.

1.3 Need of Financial Inclusion in India

Through financial inclusion the resource base of Indian financial system can be enhanced as it promotes a culture of savings amongst large segment or rural population. Further, by provision of financial services to low income groups helps them to protect their financial wealth and use it in any insistent circumstances. Easy access to formal credit will protect the vulnerable sections of society from usurious money. The main objectives of Financial Inclusion in India are enumerated below:

1.3.1 Providing formal credit channels:

So far major chunk of the population which is deprived of any formal access to credit depends on family, friends and moneylenders for fulfilling their financial needs. Formal banking channels will enable people from lower income groups to stabilize their livelihood and will in improving their standards of living.

1.3.2 Creating a platform for inculcating the habit of saving money:

For growth of a nation financial system is a crucial component. By aiming for financial inclusion Government of India wants to increase the financial resource base through motivating all individuals to have a bank account and thus inculcate habit of saving (Singh and Singh, 2016).

1.3.3 Providing direct benefits of subsidies and welfare programme:

A major challenge faced by Government is that the sum of money designated for rural masses under several schemes does not reach them in reality. If every individual residing in rural areas will have a bank account, the disbursal of cash will be quick and transparent (Sehrawat and Giri, 2016). Consequently, government has opted for direct cash transfers in accounts of beneficiaries.

1.4 Significance of Financial Inclusion

In majority of the developing countries, access to finance is demanded more for the bottom up pyramid community and considered as a public good, which is as important and basic as access to safe water, primary education, etc. The most significant effect of financial inclusion is that the entire national financial system is benefitted by greater inclusion, especially when promoted in the wider context of economic inclusion. India, a growing economy, has special significance of financial inclusion as it brings large segment of the productive sectors of economy under formal financial network and could unleash their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. Financial inclusion efforts do have multiplier effect on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid (BoP) population by providing access to formal savings arrangement resulting in expansion in credit and investment by banks. Deeper engagements of the BoP/under-banked population in the economy through the formal financial system could lead to improvement of their financial conditions & living standards, alleviation of the poverty, enabling them to create financial assets, generate income and build resilience to meet macro-economic & livelihood shocks (Khan, 2012). It encourages bringing un-banked customers into financial mainstream. All these result in escalating the economic development of the country.

1.5 Role of Financial Institutions in Promoting Financial Inclusion

1.5.1 Role of commercial banks

Banks play an important role in mobilisation and allocation of resources in any country. They are the key pillars of India's financial system. Besides opening of accounts, GCC, KCC, micro insurance, bank is also doing other activities for accelerating the growth of financial inclusion. They are encouraging interaction between financial sector and rural development staff to ensure that financial sector expertise is included on any rural project that has a finance component. Besides this, they introduce financial services designed for the poor, providing improved services to rural clients' by introducing new technology, offer flexible grant funding to financial institutions seeking to adapt or introduce new financial products or to reduce delivery transaction costs or introduce more diverse & transparent financial services for farmers.

1.5.2 Role of regional rural banks (RRBs)

Regional rural banks came into existence in the Indian financial system since last four decades. Its inception has improved the rural credit delivery mechanism in India. Over the years, they are seen as the small man's bank taken deep roots and have become a sort of inseparable part of the rural credit structure. As on March 31, 2013, there were 64 RRBs having a network of 17,867 branches all over the country for extending credit to rural masses. The growth in the branch network has enabled the RRB's to expand banking activities in the unbanked areas and mobilise rural savings. They have emerged as a strong intermediary for financial inclusion in rural areas by opening large numbers of 'No Frills' accounts and financing under General Credit Card (GCC). These banks have set up Financial Literacy and Credit Counselling Centers (FLCC) to create awareness among public.

1.5.3 Role of NABARD

NABARD has been very effective in promoting financial inclusion, capacity building and assistance for creation of infrastructure. In order to promote financial education, it has set up literacy centres to educate the masses on finance, banking and insurance with the help of stakeholders. Based on the Rangarajan committee's recommendation, NABARD with the help of government has set up a Financial Inclusion Promotion and Development Fund (FIPDF) and Financial Inclusion Technology Fund (FITF) in order to foster financial inclusion programme.

1.5.4 Role of post offices

In order to speed up financial inclusion process, the Indian Post also plays a vital role with its wide range network of 1,39,182 rural post office branches and 15,797 urban post office branches. Post offices are offering services like saving account, recurring deposit account, monthly income scheme, public provident fund, time deposit, senior citizen saving scheme, national saving certificate, postal life insurance, rural postal life insurance etc. in order to cover more and more of the rural population under the financial inclusion drive.

1.5.5 Role of micro finance institutions

Micro finance has been looked upon as an important means of financial inclusion in India. Micro finance has to act pro-actively not just as a means to financial inclusion but also to work towards reducing dependence of poor borrowers on various informal sources of credit that are often known for the onerous terms at which they offer credit. It also plays a significant role in reducing poverty in India. Providing access to micro finance can prove to be an effective way of reaching the poor and improving their lives. It is an enabling, empowering and bottom-up tool to poverty alleviation that has provided economic and non-economic externalities to low-income households in India.

1.5.6 Role of self-help group-bank linkage programme

Self-help groups have emerged to be the most effective instrument for financial inclusion. The objectives of self-help group programmes are to alleviate poverty, increase sustainability, improve capacity building and help the weaker section to build assets. The self-help group-bank linkage model is the dominant channel where commercial banks lend directly to self-help groups formed Explicitly for this purpose. This serves as a meaningful linkage between commercial banks and self-help groups. Thus, the micro finance services provided through self-help group-bank linkage programme proved to be the most successful initiative in financial inclusion. They have been accepted as effective tools to inclusive growth for extending various financial services to hitherto excluded categories of poor and rural households.

1.6 Conclusion

In developing economies like India, the financial institutions play a critical role as mobilizes of saving and allocators of credit production and investment. Especially banks, as financial intermediary,the bank contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them (Chakrabarty, 2013). Financial conditions and standard of living of the financially weaken and the rural area people can improved through accessible of financial services at affordable price, terms and conditions.

References

1. Chakrabarty K.C. (2011), Keynote address on Financial Inclusion, Mumbai, September
2. Chakrabarty K.C. (2013), Keynote address on Financial Inclusion, Mumbai, September
3. Eswar s. Prasad, Financial Sector Regulation and Reforms in Emerging Markets: An Overview, Brookings Publication, 2010
4. Government of India (2008), “Committee on Financial Inclusion” (Chairman: Dr. C. Rangarajan).
5. Khan, Harun R. (2012, June). Issues and challenges in financial inclusion – policies, partnerships, processes & products. Keynote presented at the symposium on financial inclusion in Indian economy organised by Indian Institute of Public Administration, Bhubneshwar.
6. Planning Commission (2009), “Report on Financial Sector Reforms” (Chairman: Dr. Raghuram G. Rajan).
7. Sehrawat, M., &Giri, A. K. (2016). Financial development and poverty reduction in India: an empirical investigation. International Journal of Social Economics, 43(2), 106-122.
8. Singh, D., & Singh, H. (2016). Market Penetration by Indian Banks: Motives and Motivators. Indian Journal of Finance, 10(3), 28-42.
9. World Bank, Financial Inclusion Strategies: Reference Framework, Published by the World Bank for the G20 Mexico Presidency, 2012, Mexico
10. World Bank, Reducing Vulnerability and Promoting Self-employment of Roma in Eastern Europe through Financial Inclusion