

Financial exclusions and measures for achieving financial inclusion through rural banking

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Abstract:

MODERN economy as called as "bank economy". Without bank today the function of economy become a "body without blood" banks are financial vehicles which transport financial services to the entire economy. Thus it balances both sustainable and stable development economy in entire nation. To extend this and maintain growth, it's very much important to concentrate the paradigm of rural financial inclusion through banking industry. Financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity but also enhance liquidity of the economy.

The Indian banking industry has shown tremendous growth in few decades due to financial inclusion in various areas and shown rapid development both in rural as well as urban area. The major reason for this sort of development is due to acquaintance of technology. Technologies are helped Indian banking industry to extend its hands of service to even remote areas. This paper discusses the issues relating to the financial exclusion and measures adopted by RBI for financial inclusion

Introduction

The Indian economy is the second fastest growing economy in the world. Majority of the population in India resides in rural areas. Thus development of rural India is a key step towards economic development for a country like our. hence, it's very much important to concentrate the paradigm of rural financial inclusion through banking industry.

The term "financial inclusion" has gained importance since the early 2000s. **Financial inclusion** or inclusive financing is the delivery of financial service at affordable costs to sections of disadvantaged and low-income segments of society in contrast to **financial exclusion** where those services are not available or affordable. In India the reserve bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available basic services of banking.

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financial services to the entire economy. Thus it balances both sustainable and stable development economy in entire nation. To extend this and maintain growth, it's very much important to concentrate the paradigm of rural financial inclusion through banking industry.

Financial exclusion:

Financial exclusion can be defined as the unavailability of banking services to people with low or non-income. It is believed to be one factor preventing poor people leave out poverty and it's also called as social exclusion. India is said to live in its villages, a valid statements considering that nearly 70% of our population lives in rural areas, however its significant to refer that the most of the rural people are excludes from various services from financial products offered to rural area. And it's very sad to known that most of the people are unaware banking services. It includes the non-access of banking service, insurance, credit facility and other financial products.

The latest National Sample Survey Organization survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services - such as savings accounts, credit, remittances and payment services, financial advisory services, etc. Low-income groups do not have access to the formal banking systems, as they usually do not have the documents needed to open a bank account. As a result, they depend on the informal sector for their savings and loan requirements. Recognizing the importance of inclusive growth in India, efforts are being taken to make the financial system more inclusive. The following are the some reasons for financial exclusion

1. Absence of proper technology and infrastructure
2. Difficulties in reaching and covering rural areas
3. Absence of delivery mechanism
4. Improper business correspondent model

Measures for achieving financial inclusion:

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society. The following are the some measures offered by RBI for financial inclusion.

- **Opening of no-frills accounts:** Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts. For this RBI has classified entire service area of banks and banks held responsible for opening no frill accounts in there service area. Around 28.23 million no frill accounts are opened for achieving this objectives.
- **Simplification of know-your-customer (KYC) norms:** know your customer requirements for opening bank accounts were relaxed for small accounts in August 2005; thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters

issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

- **Engaging business correspondents (BCs):** In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing rural financial and banking services. The BC model allows banks to provide doorstep delivery of services for rural people, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time.
- **Use of technology:** Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology, to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.
- **Adoption of electronic banking transfer:** Banks have been advised to implement electronic banking transaction by leveraging information and communications technology -based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs. The service of EBT has been extended to even rural areas also through core banking system.
- **Kissan credit cards** With a view to helping the poor and the disadvantaged people in rural area and access to easy credit, banks have been asked to consider introduction of a general purpose of kisan credit card facility for rural and semi-urban branches. The objective of the scheme is to provide easy access of credit and easy withdrawals. . To achieve. Around 76 million kisan credit cards are issued.
- **Simplified branch authorization:** To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centers with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centers without the need to take permission from RBI in each case, subject to reporting.
- **Opening of branches in unbanked rural centers:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centers.

Conclusion

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without appropriate regulations. The major reason for failure of financial inclusion plan includes Absence of proper technology, infrastructural Difficulties in reaching and covering rural areas, Absence of delivery mechanism and improper business correspondent model. Hence it's very much important to concentrate the above key areas to remove obstacles and need proper implementation of existing plans and need to be revised according change regulation according to our economic system

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