Chapter 10

Journey of Financial Inclusion Driven by Indian Banking Industry

Abhineet Saxena
University of Rajasthan, India

Ashish Sharma
India International School, India

ABSTRACT

Financial institutions, especially banks, have proved to be a boon for the economic development of a country like India. An attempt has been made in the present chapter to analyze the state of financial inclusion and the role of banking in achieving full financial inclusion in India. The journey of financial inclusion through banking in India has been critically appraised. Some of the important outcomes that can be highlighted are increased banking access of rural population in past few years together with the huge expansion in banking infrastructure in rural areas. Banking in India has been transformed with the introduction of PMJDY, BC Model, etc. Increasing trend has been observed in IMPS and M-Wallet penetration. North-eastern part of the country is still a challenge in the way of financial inclusion. The journey of financial inclusion on the wheels of Indian banking industry is still in search of the ultimate destination, and it will take miles to achieve full financial inclusion.

DOI: 10.4018/978-1-5225-4035-9.ch010
JOURNEY OF FINANCIAL INCLUSION DRIVEN BY INDIAN BANKING INDUSTRY

INTRODUCTION

Financial Inclusion is one of the major concerns of the banking sector. Financial inclusion drives not only for improving the range, quality and availability of financial services and products but also focuses on the un-served and financially excluded community. Some of the major determinants of financial inclusion are admittance to the affordable banking and financial services, credit, savings, insurance, usage, quality, financial literacy, innovation and diversification.

Central government of India had established a Committee on Financial Inclusion Chaired by Dr C. Rangarajan (2008) also defines financial inclusion in the same line as the process of ensuring access to financial services and timely and adequate credit where needed by weaker sections and low income groups of Indian society at an affordable cost. Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the various financial institutions across the country which not only benefits the economy but also establish proper infrastructure for efficient payment mechanism and allocation. The empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality.

It is also called ‘Inclusive Financing’. However, the term financial inclusion was first introduced in India by RBI in its annual policy statement 2005-06. This term was used by RBI in the alignment of the efforts started in 1960s by Indian government along with Indian banking industry to bring majority of India citizens under the banking umbrella. As mentioned by Dr. K.C Chakrabarty in one of his article banking: Key driver for inclusive growth, Financial inclusion in India can be categorized in different phases. 1960-1990 was the initial phase where the whole focus was on channeling of credit to the neglected sectors of the economy. 1990-2005 was the second phase which focused mainly on strengthening the role of financial institution in economic reforms. This was the phase when SHGBLP programmes were encouraged together with kisan credit card promotion in order to enhance the financial support in terms of affordable credit in the rural areas. Since then during the third phase, financial inclusion was considered as one of the major policy measures. In this current phase the focus of financial inclusion is on providing safe facility of saving deposits through ‘no frills’ account. Similar to the practices regarding financial inclusion in other countries, in India it has been observed that central bank of the country has a vital role to play in. RBI along with the banking sector together with the strong network of NABARD, SIDBI and other development banks have put their hard efforts to achieve the milestone. Henceforward it can be concluded that Financial Inclusion is the way procedure to ensure successful admittance of appropriate financial products and financial services to all sections of the society.
Related Content

Customers' Perspectives of Internet Banking Adoption in Developing Economies
www.igi-global.com/chapter/customers-perspectives-of-internet-banking-adoption-in-developing-economies/115357?camid=4v1a

Can Access to Microfinance Reduce HIV Prevalence among Women?: Evidence from the Literature
www.igi-global.com/chapter/can-access-to-microfinance-reduce-hiv-prevalence-among-women/94441?camid=4v1a