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# Financial Inclusion as a Tool for Eradicating Social Exclusion

**Abstract**

The process of Financial Inclusion through the Banks is catalyst in the economic and social growth and progress in the modern era. In this respect, there is a rapid thrust for financial inclusion, more so in emerging economies, such as, India. Society will progress only if there is financial independence for all the stakeholders and thus the importance of financial inclusion. Providing access to finance is a form of empowerment of the vulnerable groups. Access to basic banking services provides congenial conditions for growth of individuals, households and private Institutions. Also, social factors like unemployment and illiteracy are closely connected to the success of financial inclusion.

Thus a sustainable social development can be simultaneously achieved alongside financial inclusion. In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc, all this at a reasonable cost.

The present paper analyses the role and, efforts of RBI and SBI towards making the process of financial inclusion a success. It emphasizes the need of financial inclusion for eradicating social exclusion.

**Keywords:** Financial Inclusion, Social Development, Social Inclusion and Exclusion, Human Development Index (HDI).

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**Introduction**

Financial inclusion signifies delivery of financial services at an affordable cost to the vast sections of the disadvantaged and, low- income groups. About 2.9 billion people around the world do not have access to formal sources of banking and financial services. In India alone 560 million people are excluded from formal source of finance, as against 41.6 percent (457 million) of the population that still lives below the poverty line. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. In India, the term financial inclusion first featured in 2005, when RBI, in its annual policy statement of 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, urged banks to review their existing practices to align them with the objective of financial inclusion. Indian banking sector consists of the Reserve Bank of India (RBI), which is the central bank, commercial banks and co-operative banks. Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. As per the Rangarajan Committee report (2008) Financial Inclusion is defined “as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost”. It is thus clear that a major criterion for the success of financial inclusion depends on the social status of the population. As far as the social benefits are concerned, financial inclusion increases the amount of available savings, increases efficiency of financial intermediation, and allows for tapping new business opportunities thus improving the social standards of the people.

**Objectives of the Study**

This research paper has four main objectives,

1. To understand the financial exclusion and its extent.
2. To understand the financial inclusion and its importance.
3. To find out the extent to which financial inclusion has impacted the social inclusion.
4. To analyze the past years performance and achievements towards reaching out to the unbanked areas under financial inclusion.

**Social Exclusion Status in India**

Social exclusion also often incorporates a stronger spatial focus than previous descriptions and discussions of social division. As we shall see, this is in part a result of the perception that some social groups and neighborhoods' have become more detached and alienated from mainstream society than hitherto fore. A number of studies (Pacione, 1997; Lee et al, 1997) have thus pointed to the increasing spatial polarisation of British society in the 1980s and, 1990s, fuelled by the restructuring of employment patterns and housing policies such as the sale of better quality council houses. As a result, a concentration of material poverty, economic inactivity, lone parenthood, crime and other indicators of exclusion are claimed to have resulted in the creation of a "residuum" of unpopular council estates and inner city areas with very poor private rented housing stock.

"Social Development is the promotion of a sustainable society that is worthy of human dignity by empowering marginalised groups, women and men, to undertake their own development, to improve their social and economic position and to acquire their rightful place in society….."- Bilance, 1997. The definition clearly points out the impact of financial independence of the less privileged and the marginalized citizens of the country on the overall development of the society.

Amartya Sen draws attention to various meanings and dimensions of the concept of social exclusion. He draws a distinction between situations where some people are kept out (or left out), and where some people are included (forcibly) on deeply unfavourable terms. The two situations are described as "unfavourable exclusion" and "unfavourable inclusion". Sen argues that it is important to distinguish between 'active exclusion' -- fostering of exclusion through deliberate policy interventions by the government or by any other wilful agents (to exclude some people from some opportunity), and 'passive exclusion', which works through the social process in which there are no deliberate attempts to exclude, but nevertheless may result in exclusion from a set of circumstances.

In the market economy framework, occupational immobility operates through restrictions in various markets such as land, labour, credit, other inputs and services necessary for any economic activity. Labour, being an integral part of the production process of any economic activity, would obviously become part of market discrimination. This implies that the caste system involves the negation of not only equality and freedom, but also of basic human rights, particularly of low-caste untouchables, thus becoming an impediment in personal development.

The principles of equality and freedom are not the governing principles of the caste system. This is because the underlying principles of the caste system assume particular notions of 'human rights'. Unlike many other human societies, the caste system does not recognize the individual and his/her distinctiveness as the centre of the social purpose. In fact, for the purpose of rights and duties, the unit of Hindu society is not an individual. Even the family is not regarded as a unit in Hindu society, except for the purposes of marriage and inheritance. The primary unit in Hindu society is caste, and hence the rights and privileges (or lack of them) of an individual are on account of him/her being a member of a particular caste (Ambedkar; first published in 1987).

Social exclusion can indeed arise in a variety of ways, and it is important to recognize the versatility of the idea and its reach. However, there is also a need for caution in not using the term too indiscriminately (by skilfully using the language of social exclusion to describe every kind of deprivation—whether or not relational features are important in its genesis). Indeed, the language of exclusion is so versatile and adaptable that there may be a temptation to dress up every deprivation as a case of social exclusion. There is, I fear, some evidence in the vast—and rapidly growing—literature on social exclusion that the language has run well ahead of the creative ideas involved.

It is noteworthy that social indicators like literacy and employment are also the major determinants of financial inclusion. Illiteracy leads to ignorance about the rights and facilities available to a citizen and thus results in financial exclusion. Although there is difference between education and financial literacy the benefit of basic education is manifold and compounds to greater national growth and development. Male literacy rate was 82.14% whereas female literacy rate was 65.46% as per 2011 India Census. The gender gap in literacy reduced to 16.68% from 21.6% in 2001. Unemployment is the inability of the government to provide employment to the employable population. However the recent policies of inward foreign investments have lead to the availability of more employment opportunities.

The Copenhagen Social Summit 1995 defined Social Development in terms of three basic criteria:

1. Poverty Eradication
2. Employment Generation
3. Social Harmony

The Human Development Reports of United Nation Development Programme (UNDP) have developed indices such as the Human Development Index (HDI), the Human Poverty Index (HPI) & the Gender-related Development Index (GDI). The Human Development Index (HDI) is measured in terms of capabilities of three basic dimensions of human development:

1. Life longevity

2. Knowledge (adult literacy and combined primary, secondary and tertiary enrolment)
3. Decent standard of living (real per capita income)

The contest between India's GDP and the Human Development Index (HDI) as the most appropriate measure of the performance of a country has been longstanding. While GDP is a measure of income, HDI is one that indicates the wellbeing of citizens. The breakthrough for the HDI was the creation of a single statistic which was to serve as a frame of reference for both social and economic development. The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1. India's HDI value has gone up from 0.345 to 0.554 between 1980 and 2012, an increase of 61 per cent. India is ranked 136 among 186 countries in the world as on 2013.

In concluding this section it thus seems important to distinguish between two main manifestations of the social exclusion idea. Narrower explorations of the theme usually stress:

1. The multidimensional nature of poverty and disadvantage,
2. The persistence of multiple deprivation over time,
3. The extreme effects of such deprivation on relatively concentrated social groups and geographical locations,
4. The desirability of "including" such groups in mainstream society.

Broader applications of the idea, in contrast, emphasise,

1. The vulnerability of large proportions of the population to situations of exclusion for at least some of their lives;
2. The need a social dimension to the idea of citizenship, linked to the ideas of equality of opportunity and protection from poverty;
3. The desirability of "cohesive" societies which nevertheless respect social difference.

**Efforts towards Financial Inclusion in India**

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

**Concept and Definition of Financial Inclusion**

Financial inclusion is one of the most important aspects in the present scenario for inclusive growth and development of economies. The financial inclusion term was first time used by British lexicon when it was found that nearly 7.5 million persons did not have a bank account. But financial inclusion concept is not a new one in Indian economy. Bank Nationalization in 1969, establishment of RRBs and introduction of SHG- bank linkage programs were initiatives taken by RBI to provide financial accessibility to the unbanked groups. According to committee on Financial inclusion headed by Dr. C. Rangarajan defined 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." Financial inclusion does not stand for delivery of financial services for all at all cost. But it means that the delivery of financial services and products at affordable costs of excluded sections of population and low income groups. It plays a crucial role to remove away the poverty from the country. Financial inclusion is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, living and better income. It provides path for inclusive growth.

**Importance of Financial Inclusion**

Easy access to financial services will allow the population leaving in lower strata, to save money safely and help in preventing concentration of economic power with a few individuals, thus mitigating the risks that the poor could face as a result of economic shocks. Therefore, providing access to financial services is becoming an area of concern for the policymakers as it has far reaching economic and social implications. In India, The single most frequently used source of loan for medium Indian household is still moneylender. Large parts of our financial system are still hampered by political intervention and bureaucratic constraints, limiting their potential contribution. India's poor, many of who work as agricultural and unskilled semi skilled wage laborers and low salaried workers are largely excluded from the formal financial system. Even micro and small enterprises, find it difficult to have an access to formal sources of finance and thus are largely excluded from financial system. Over 40% of India working population earn but have no saving. Financial inclusion provides protection to poor from the control of the spurious money lenders.

Indian Approach to Financial Inclusion Broadly, the policy approach adapted to financial inclusion in India can be divided in two categories - the minimalist approach and the expanded approach- (a) The minimalist approach for financial inclusion focuses on the provision of a bouquet of basic financial products and services; whereas, (b) The expanded approach for financial inclusion focuses not only on the provision of the basic banking products but also other important ancillary financial products, which would also entail focus on consumer protection and education, particularly financial literacy for the new entrants to the formal financial system (Khan, 2012).In India, various measures taken by banks, GOI and RBI for financial inclusion plan. Figure 3 highlighted currently adopted financial inclusion approaches.

India has a rural population of about 780 million with limited or no access to financial services. The branch banking route apparently is not very practical due to the huge cost of opening the branches vis-a-vis volumes expected, high costs of operations, limited banking hours, illiteracy, non-availability of alternate channels in rural centre, etc. Further, financial inclusion through branch network may adversely affect customer service at branches due to increased traffic and larger numbers of people to be attended to within the limited hours of banking. Therefore, the banks will have to provide technology driven products such as, ATMs, internet kiosks for successfully implementing financial inclusion. The involvement of Self Help Groups and Micro Finance Institutions is also must for development of effective financial inclusion models by commercial banks. In the context of India becoming one of the largest micro-finance markets in the world, especially in the area of women's savings and credit groups (SHGs) and the sustaining success of such institutions as demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable proposition. SBI alone, as on date, has credit linked over 850,000 Self Help Groups, lending approx. Rs.4,000 crore to these groups. The NPA in this segment which is below 1 per cent is proof of the viability of such projects.

**Initiatives towards Financial Inclusion**

**Business Model**

Financial inclusion in a large scale is possible only if the banks join hands with identical partners in their initiative. While business correspondent model introduced by RBI enables such partnerships there are a few prerequisites for these models to evolve.

**Requirements for the Business Model**

Features of the IT Solution SBI's Initiatives for Financial Inclusion the banking needs of these financially excluded people are mostly of limited transactions with low value in nature. Running a full-fledged rural outfit is not a viable proposition considering the involvement of huge operational cost. Business Correspondents (BCs) model is ideally the alternate viable business model in order to have a greater coverage of these people in rural and, other area. Under the set-up, the bank is permitted by RBI to outsource selected banking services through Business Correspondents (BCs) and their authorized agents. The customers shall have the freedom to use branch banking facilities even though the business correspondents are available in their locality or they were initially sponsored by the business correspondents. A proven & tested software solution Hardware & other equipments compatible to software application Financially sound, established, experienced & reputed business correspondents with adequate expertise and manpower Uninterrupted tele-connectivity. The major concerns would be as under:

1. As there is no proven / tested model, the initial take off may be slow till sufficient experience is gathered.
2. It is essential that the programme is viable for all the partners. However, payment of fee/ commission, etc. to the business correspondent, has no precedence and will evolve over time.
3. Risk management, operations, registration, credit, etc are major issues.
4. Cash management by the business correspondents is also an issue which can affect the reputation of the bank. But these are not insurmountable. With experience and over a period of time.

These can be sorted out and standards laid down.

The objective of State Bank of India in the present day context is to ensure financial inclusion of the whole population irrespective of areas and sectors. The 'inclusion' phenomenon cannot be confined to few pockets of area and people. The important question is increasing outreach and deepening penetration. There are two ways of doing it: i) through the brick and mortar rural branches, ii) outsourcing all the functions to a business correspondent in a particular area, viz., a state or with the help of business facilitators at a local level. Large scale rolls out and rapid scaling up again is not possible without suitable technology intervention which is easy to use, robust, dependable and, at the same time, cost efficient. SBI's answer to financial inclusion is the 'SBI Tiny project', which can in simple terms be defined as a “Bank in a Box”. The entire set up consists of a cell phone which serves as POS machine, a finger print reader and a tiny printer, all of which can be packed into a 10 inch by 10 inch box. All these work on rechargeable batteries. SBI Tiny accounts (no frills accounts) are opened on the smart cards. The smart card is akin to an e-purse and stores information about the customer, the account number, finger prints as well as the balance in the account. The smart card can handle up to 16 accounts including loan accounts. This card is highly secure as it works on the bio-metric validation of the customer. The card works on the Radio Frequency Identification (RFID) technology. SBI is today using this technology in our smart cards which work in conjunction with a mobile or a hand held connectivity device which works on Near Field Communication Technology (NFC). Transactions are possible both in online and off line mode. It also permits the real time updation of balances in the card. By issuing a smart card to the rural customer, the cost of the transaction is reduced because we are dispensing with paper based transactions and shifting the actual operation of transacting on the account away from the branch to Customer Service Point / Provider (CSP) at the outlet in the location of the rural customer. SBI is running pilots at several places like Aizawl (Mizoram), Medak and Warangal (Andhra Pradesh), Pithoragarh (Uttarakhand) and West Garo Hills (Megalaya). Andhra Pradesh has been identified by our bank for carrying out disbursements under National Rural Employment Guarantee Programme (NREGP) and, other rural development schemes through SBI Tiny Card accounts in Warangal and Medak districts. The scheme is also being extended to areas like Chamoli and Pauri in Uttrakhand and Titabar in North East.

Sadhan Kumar Chattopadhyay in a working paper for RBI on Financial Inclusion in India: A case study of West Bengal, August 2011, has developed an index of financial inclusion (IFI), which gives information on several aspects of financial inclusion in one single number (IFI). Three basic dimensions of an inclusive financial system – banking penetration (BP), availability of the banking services (BS) and usage of the banking system (BU) were considered. Below given data is the State-wise Index of Financial Inclusion, GDP per capita, literacy rate and rate of unemployment in the different states of India.

The index reveals that states like Kerala and Maharashtra which have higher HDI are also highly financially included. At the same time states like Punjab and Tamil Nadu score averagely on both the indices. However Karnataka which has high financial inclusion have much to do in the social index. Also, Mizoram which ranks second in the HDI index is severely financially excluded and Andhra Pradesh which ranks sixth in the financial inclusion index scores poorly in the human development index. Orissa and Bihar are ranked very low in both the indices. Thus for some states there is direct correlation between financial inclusion and, HDI.

**Appendix-I**

Shows the availability of banking services in different states in India, as revealed by the census-2011.

**Conclusion**

India's challenges are multifarious. a geographically diverse growing population, corruption, an of apathetic general populace, lack of proper infrastructure, rapid urbanization, inaccessibility of health care facilities and unavailability of basic financial services. In this scenario India's approach to development cannot be one-dimensional (i.e. focusing only on economic upliftment), but, as Prof. Amartya Sen suggests in his book Development As Freedom, it needs to incorporate the various freedoms people enjoy. The problem of financial exclusion needs to be tackled with urgency if we want our country to grow in an equitable and sustainable manner. Traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion in India. Banks, therefore, need to innovate and think 'out-of-the-box' for solutions to overcome the problem of financial exclusion in India. They need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner. This way banks in India would be doing a great service to the cause of financial inclusion and make their name in history. Financial inclusion may be a social responsibility for the banks in the short-run but will turn out to be a business opportunity in the long-term. Financial Inclusion is no longer an option, but it is a compulsion. The entire world is looking at this experiment in India and it is important that banks rise up to this challenge and meet it successfully. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Pursuit of financial inclusion by adoption of innovative products and processes does, however, pose challenge of managing trade-offs between the objective of financial inclusion and financial stability. In the Indian context, the Reserve Bank has always sought to balance the risk of partnerships and product innovations with the ability to achieve greater penetration in a safe, secured and prudentially sound manner.

While financial inclusion appears as a noble goal in itself, recent history shows that efforts to drive financial inclusion can be counterproductive unless handled well. The dangers of reckless credit expansion in the name of financial inclusion should serve as a cautionary tale for policymakers today. Financial inclusion can be a worthy goal only insofar as it helps reduce poverty levels sustainably. Given that the roots of poverty often lie outside the realm of finance, easing access to credit without addressing real economy constraints is unlikely to either boost growth or help fight poverty. Efforts to drive greater financial inclusion can, in fact, end up harming rather than benefiting those in whose name such efforts are launched: the poor and the vulnerable. There are no easy short-cuts to financial inclusion. A cross-country survey by the World Bank shows that 7% of Indians reported taking a loan from a financial institution in the past year and 11% reported saving at a formal financial institution. Given the low proportion of people who save regularly, India must turn its attention to access to savings.

Although it is beyond the scope of this paper to give any policy framework, there are some points that can be made as prescriptions for action. Some of these are now highlighted, although at this stage no particular priority or importance is attached to each:

1. Empowering local communities. One of the key advantages of approaches to social division based on social exclusion, it is often argued, is their focus on the multidimensional nature of exclusion and the fact that its overall effect is to disempower those affected by it. Such multidimensional problems, it is argued, particularly at the level of the neighbourhood, need integrated action by a range of public and voluntary agencies. These agencies also need to work in partnership with local people if (inappropriate) solutions or services are not merely to be imposed on the excluded.
2. Targeting resources and services. Our review of social exclusion in contemporary Britain has noted that to some extent poverty and unemployment have become spatially concentrated and that exclusion has disproportionately affected some social groups. This suggests that to some degree, account must be taken of these issues when determining library resource allocation, and that some scope exists for special action or initiatives in particular localities or targeted at specific social groups.
3. Equal opportunity. As we have seen, one effect of the dissemination of this culture throughout public services has been the alienation or exclusion of poor and marginalized social groups because of inappropriate or irrelevant service provision. There is evidence of this both in public libraries (Roach and Morrison, 1998) and more widely throughout public services (Bramley, 1996). This suggests strongly that libraries (and, in passing, other public services) should re-examine equal opportunity as a rationale for service provision and not simply for employment practice. Equal opportunity would

also ensure that initiatives which aim to foster social inclusion are not culturally and socially narrow or prescriptive and aim for pluralism or "inclusive diversity" (Miller, 1998) in the broadest sense.

Financial inclusion is not a onetime effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders – the Government, financial institutions, the regulators, the private sector and the community at large. From the sporadic attempts of today dispersed across the nation, it should gather momentum and grow in geometric proportions and develop into a focused and effective movement. If this is to be achieved, it requires the passionate involvement, dedication and commitment of all stake holders. It requires a major mindset change in the minds of every individual involved – banker, bureaucrat, regulator et al, and, therefore, creating awareness at all levels. At the same time, the role of technology in the whole scenario cannot be undermined either. It has to be admitted that today, more than even before, technology plays a vital role in bringing about integration in society of all social and economic classes. Accessibility, affordability, appropriateness and benefits determine how deep financial inclusion penetrates the social fabric of the village. Financial inclusion can empower even the poorest person and bring about a dramatic change in his fate.

As observed by Dr. Yunus, "…….basic ingredient of overcoming poverty is packed inside each poor person. All we need to do is to help this person to unleash this energy and creativity.... Only place in the world where poverty will exist will be in the museums and no longer in human society." With combined efforts of all the stake holders, viz., policy makers, regulators, banks, NGOs, MFIs and other similar entities, this can be made possible.

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STATE WISE PERCENTAGE OF HOUSEHOLDS AVAILING BANKING SERVICES IN 2011

| Sr. No. | India/State/Union Territory # | Percentage of Households availing Banking services |
|---|---|---|
| (01) | A & N Islands | 89.3 |
| (02) | Andhra Pradesh | 53.1 |
| (03) | Arunachal Pradesh | 53.0 |
| (04) | Assam | 44.1 |
| (05) | Bihar | 44.4 |
| (06) | Chandigarh | 80.1 |
| (07) | Chhattisgarh | 48.8 |
| (08) | Dadra & Nagar Haveli | 56.7 |
| (09) | Daman & Diu | 65.4 |
| | Contd. on next page | |
| Contd.. Sr. No. | Contd. India/State/Union Territory # | Percentage of Households availing Banking services |
| (10) | Delhi | 77.7 |
| (11) | Goa | 86.8 |
| (12) | Gujarat | 57.9 |
| (13) | Haryana | 68.1 |
| (14) | Himachal Pradesh | 89.1 |
| (15) | Jammu & Kashmir | 70.0 |
| (16) | Jharkhand | 54.0 |
| (17) | Karnataka | 61.1 |
| (18) | Kerala | 74.2 |
| (19) | Lakshadweep | 85.3 |
| (20) | Madhya Pradesh | 46.6 |
| (21) | Maharashtra | 68.9 |
| (22) | Manipur | 29.6 |
| (23) | Meghalaya | 37.5 |
| (24) | Mizoram | 54.9 |
| (25) | Nagaland | 34.9 |
| (26) | Odisha | 45.0 |
| (27) | Puducherry | 64.0 |
| (28) | Punjab | 65.2 |
| (29) | Rajasthan | 68.0 |
| (30) | Sikkim | 67.5 |
| (31) | Tamil Nadu | 52.5 |
| (32) | Tripura | 79.2 |
| (33) | Uttar Pradesh | 72.0 |
| (34) | Uttarkhand | 80.7 |
| (35) | West Bengal | 48.8 |
| | ALL INDIA | 58.7 |

Source : Census of India 2011, (GoI-FM, 2012).