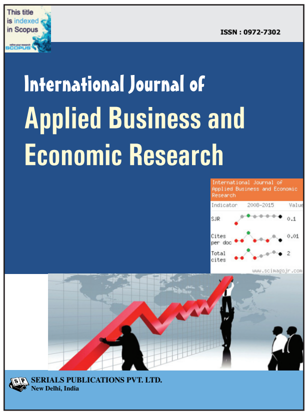

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Financial Inclusion: Role of Payment Systems with Special Reference to E-Money in India

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ABSTRACT

The ambit of financial Inclusion is the services delivered to under-privileged sections of the society at an affordable cost. The basic objective of financial inclusion is timely and adequate services to the weaker sections of the society. The central and state government's access and design the agenda state wise of financial inclusion. They also identify the excluded areas and design the suitable programmes to cover the respective areas. The government has recently launched initiatives to deepen the financial inclusion. Financial inclusion could be made more simple, easier and transparent by introducing E-finance facility to hugely untapped masses of lower section of the society. The fulfillment of objective of financial inclusion is possible only with the introduction of sound conceptual framework which attempts to provide ways to achieve the financial inclusion in all parts of the country, irrespective of urban or rural population and privileged or under privileged population.

Keywords: Electronic finance, Financial Inclusion, Payment systems, unbanked population.

1. INTRODUCTION

The ambit of financial Inclusion is the services delivered to under-privileged sections of the society at an affordable cost. In other words, financial inclusion aims at providing financial access to lower section of the society without any discrimination based on urban or rural, rich or poor and regional disparity. The timely and adequate services to the weaker sections of the society are the basic objective of financial inclusion. Financial Inclusion is an equalizer that enables the customers to contribute towards economic growth of the country. Financial Inclusion ushered in India in mid 1969 and a slew of policies were announced to operationalize it. Considering India's growing economic importance and the projections that Indian economy will be as big as the United States economy around 2050 (Kapoor, 2014). A strong and sturdy financial system is a pillar of economic growth, development and progress of an economy. A mature system supports higher levels of investment and promotes growth in the economy with its depth and coverage. In the contemporary era of achieving power and self-reliance, it is imperative for any regime to create congenial conditions for individuals, households and private institutions. The availability of banking facilities and strong bank branch network are the major facilitators of development and expansionary facilities. In turn, the economic agents facilitate in growth, development, investment, employment generation, infrastructure improvement. The state and central government objectively access the state wise/area wise financial inclusion. They also identify the excluded areas and design the suitable programmes to cover and provide access to respective areas. This will encourage the banks to speed up the agenda for financial inclusion. Regulators should also develop "information system" dedicated to financial inclusion (Amabarkhane, 2016). The unbanked population is facing lack of security of financial support. They are dependent upon their family, friends, relatives and money lenders. The financially excluded masses are not aware of availability of financial products and services made available to them by different banks. The main objective of banks should be to promote financial inclusion to entire population to have the wide spread banking system all over India. (Bhave, 2014). Cashless economy is the policy adopted by the government of Nigeria to fulfill the policy and achieve the targets, comprehensive business models had been framed by their central bank and accessibility of financial services has been increased. An attempt had been made to create awareness regarding electronic channels. In modern times the drive for growth of an economy has undergone a tremendous change. Presently, financial system and its efficiency has been considered as a factor of utmost importance. The financial factors associated with economic growth are banking the rural and poorer masses across the country. The increasing trend of financial inclusion and policy framework laid down by the government is ensuring a paradigm shift from financially excluded population to financially included population. (Dangi, 2012)

The modern financial system is at bringing parity between urban and rural masses relating to financial services access and awareness. There is a need to develop a conceptual framework to assess the problems and face the challenges which come in the way to bank the unbank population (Chhikara K., Kodan A, 2013). Majority of world's population is financially excluded from the financial services. The reasons have been high poverty ratio, gap between rich and poor, lack of awareness and accessibility of financial services in their reach. The another lapses i.e. lack of marketing services and self-awareness group have not been noticed by majority of the banks and agencies conducting research. (Sasadhar, 2012)

The researchers conducting research have been indicating that Nigeria has been low in achieving financial inclusion because of regional and income disparity. The poor masses have not been getting sufficient access to financial products and services. The central bank of Nigeria works continuously on framing policies to be implemented by the respective banks. (Bayero, 2015)

2. DEFINITIONS AND CONCEPTS

Digital Wallets: Digital Wallets can be defined as an application which helps in making e-transactions including payments and receipts. It can be further explained as a system which helps the masses to make e-payments via mobile and wallets with using the mobile phones Digital Wallets helps individual to make electronic commerce transactions. One can purchase items online and make payments. For example, Paytm, Mobikwik, Pockets-ICICI Bank, Chillr-HDFC Bank.

Payment Banks: Payment banks is the recent initiative of reserve bank of india for penetrating more in the deeper markets where brick and motor models for banks are not viable These types of banks can deposits upto accept INR 1 lakh per customer account. These banks provide ATM cards, internet banking and business accounts. Few banks got license are Aditya Birla Nuvo, Airtel M Commerce Services, India Post, Vodafone M-Pesa.

UPI: Unified Payments Interface is a joint initiative of National Payment Corporation of India and Reserve Bank of India. This is launched to transform the cash economy to cash less economy via digital platform. Under this user will link all his participating bank accounts in single mobile application. Fund transfer and payments can be made from this application by selecting any of the bank account.

Aadhaar Enabled Payment System (AEPS): An Aadhaar card is based on biometrics technology which is having the identification of the person with address. It has unique 12 digit identification number of the individual issued by the Unique Identification Authority of India (UIDAI). The Aadhaar Enabled Payment System (AEPS), is the particular bank led, open platform which allows customers for online financial transaction at point of sale (MicroATM) through the business correspondent of any bank using Aadhaar authentication.

3. GOVERNMENT INITIATIVES

The Jan Dhan: Jan Dhan program is launched by the Government of India to deepen the financial inclusion and it is named "Pradhan Mantri Jan DhanYojana". This initiative is targeted to provide bank accounts to the unbanked population of the country. The unbanked customers are provided with RuPay debit card and accidental insurance cover of ₹1 Lac. ₹50000 can be deposited in this account and has credit limit of ₹5000. The life insurance of 30000 is also provided in this account. The accidental claim can be paid, if the card is in use in last 45 days. The process of the account is very simple and single KYC proof will be accepted to open the account. This will help to outreach the masses which are not having the bank account.

New Small Finance Banks: In 2013, the Reserve Bank of India taken the initiative to set up the banks in the remote areas with low cost. These banks will provide the same facilities to these unbaked areas which they provide to the urban areas. This will help covering the unbanked areas and customers will be having access to the world class banking in these remote location. This initiative is low cost brick and motor model.

4. LITERATURE REVIEW

Chhabra (2015) researched that despite vast improvement in banking services and advancement in technology the poor section of the society is not getting financial access to basic financial services. The major reasons are financial illiteracy, absence of awareness campaigns and self-help groups are also insufficient in number. The under privileged section of the society assumes that they can never afford the financial services because of their high cost and unapproachability.

Ranjani and Bapat (2015) suggested that there is a need to create more user-friendly products and services by the banks. The financially excluded population is not getting access to financial products and services. The branch licensing should be increased for improving formal financial services across the country.

Sharma (2014) has focused that financially excluded population is facing bottlenecks regarding availability of financial services at their door steps. There is a need to create awareness and access to financial products and services among under- privileged population. The up gradation of technology and increased awareness could have positive impact on financial inclusion.

Nanda (2012) indicated that there has been a general improvement in the extent of financial exclusion. The income level of countries was covered under the study in which a unidirectional movement with financial inclusion index has been noticed. The countries reporting a high level of inclusion is featured by high income and high level of Socio-economic development. It also indicated that high level of financial inclusion is not present anywhere. The significant policy initiatives can put positive impact on converting under privileged sector into a financially included sector.

The following table summarizes the literature review on the financial inclusion.

5. GAPS IDENTIFIED

The Reserve Bank of India has been taking comprehensive steps towards implementation of financial inclusion in India since 1969. Indian Banking system has the potential to pave the way for unbanked population in India. It is a critical step that requires political contribution, government support and pressure by Reserve bank of India to implement the same. Many studied have been conducted on financial inclusion (as discussed under literature review). But many gaps have been tapped to undertake further study. Financial inclusion could be made more simple, easier and transparent by introducing E-finance facility to hugely untapped masses of lower section of the society. The studies show that Africa is one of the competent countries in achieving financial inclusion. However financial inclusion benefits are truly dependent upon the rational design of financial inclusion model. Reserve Bank of India has been pulling the levers to bring advancement in access of financial inclusion to lubricate the system. At present, 35% of the Indian population is unbanked. Financial inclusion poses different kind of challenges for the economies across world. Financial inclusion in India is a concept which needs much attention. Financial Inclusion and role of E-finance to promote financial inclusion in India is a concept which requires in depth research and analysis to ensure its successful implementation.

6. THEORETICAL FRAMEWORK

The theoretical framework lays down some of the specific terms and their explanation, which will be further used in the study. The term are related to Digital wallets, Payment banks, UPI, Aadhaar Enabled Payment Systems (AEPS), financial advice, Insurance services, Micro-financial institutions, Postal services, commercial banking services are some of the terms covered under theoretical framework.

7. FINANCIAL ADVICE

The Banking industry plays a major role in providing financial services to under- privileged section of society. The disadvantaged sector is lacking basic financial products. The financial advice is an integral factor to enable socially and economically services. Instead of wider international promotion of financial inclusion, still over one and a half billion population is financially excluded all over the world.

Authors	*Title of the Paper*	*Details*	*Techniques used*	*Major findings*
Zins, A. & Weill, L.	The determinants of financial inclusion in Africa	Africa, 2016	Probit Estimations, comparative analysis	The results indicate that it stresses the role of policies targeting groups of population particularly affected by financial exclusion and identifies the main obstacles they face. It was concluded that formal finance is more important as compared to informal finance.
Bayero, A.M.	Effects of Cashless Economy Policy on financial inclusion in Nigeria : An exploratory study	Nigeria, 2014	Multiple Linear Regression (MLR)	Significant relationship between explanatory variables (Awareness, customer value and Infrastructure and financial inclusion. The central Bank of Nigeria, money deposit banks and other stakeholders must enhance value proposition of the customer.
Chakravarty, R.S.	Financial Inclusion in India: An Axiomatic approach	India, 2013	Axiomatic Approach	The proposed index of financial inclusion is implementable. The percentage contribution of different dimensions to overall achievement of financial inclusion is significantly noticeable.
Bhanot, D., Bapat, V. and Bera, S.	Studying financial inclusion in North-east India	Assam and Meghalaya, 2012	Logistic Regression and Model building, Chi-Square Test	Significant association between area terrain and financial inclusion for varying levels of government benefits. There is significant relationship between post office banks and promotion of financial inclusion.
Kapoor, A.	Financial Inclusion and the future of Indian economy	New Delhi, India 2013	Secondary Data: Indian Equity Investors Survey, 2010 Economic Survey 2012-13	Financial Inclusion is deepening by increasing mobile, internet penetration and upward financial markets. Startups are taking higher calculated risks in different securities to increase the shareholders wealth
Kodan, S.A. & Chhikara, S.K.	A Theoretical and Quantitative Analysis of Financial Inclusion and Economic Growth	15 Countries (Cross-Country Analysis) India, 2007-2010 and Inter-State analysis (24 States)	Spearman's rank correlation co-efficient, multinomial regression	The sample indicates that there is very high correlation between financial inclusion and development of countries.
Ambarkhane, D., Singh, S. & Ardhendu, V.	Measuring Financial Inclusion of Indian States	21 Indian States, 2011	Displaced Ideal Method	The result show that high financial inclusion is not present in any state. There is slight inclusion in Kerala (CFI: 0.41) and Goa (CFI:0.353)
Thankom, A. & Rajalaxmi, K.	Financial Inclusion: Policies and Practices	India, South Africa, Australia	The Economist Intelligence Unit's, Global Microscope (Secondary Tool)	In South Africa, there are numerous initiatives are going on, but still the financial exclusion has risen. The financial exclusion percentage has increased from 23.4% in 2010 to 27% in 2011
Priyadarshee, A. & Hossain, F.	Financial Inclusion and Social Protection: A Case of India Post	India, 2010	RBI and UNCDF reports	The research findings suggest that social protection programmes are increasing at a fast pace in Uttar Pradesh and Gujarat. The banks have been making efforts to reduce the losses and serve the unreserved population.
Sankaramuthu-kumar. S, & Alamelu. K	Financial Inclusion: African Scenario	Africa, 2009-2012	Multi-Dimensional Index	The data reveals that Mauritius has top financial index with 0.834 and it is followed by Seychelles 0.793. Morocco is ranked third with 0.260 index. There exists direct positive relationship between financial access and usage i.e. 0.803.

In last two decades for weaker and under privileged section various institutions has been set up over the years in India. This includes commercial banks, co-operative banks, agricultural credit societies and post offices to cater the financial needs of people. The initiatives taken by Reserve Bank of India and Government of India towards promoting financial inclusion since 1960's have considerably improved the access to formal financial institutions.

8. MICRO FINANCIAL INSTITUTIONS

Microfinance is short term lending without collateral in smaller amount. Previously, in older times, forms of lending had been provided only by money lenders. But at present formal financial institutions have entered into the world of lending MFIs serve their client's methods any kind of collateral securities. All the customers are offered same kind of contract. This easy availability of financial service is still not approachable to poor marks. They are approachable to poor marks they are unaware of the services provided by the MFIs at easy & safe terms and conditions in comparison to money lenders who charge exhibiting rate of interest from the borrowers. In developing countries like India, individual lending contracts have been procedure more successful and for betterment of borrowers.

MFIs did not spend time in spreading their lending out, rather tended to concentrate their lending out, rather tended to concentrate their lending out, rather tended to concentrate in certain geographical areas, there by leaching saturation and meeting the cut-throat competition in the market. The rapid expansion of MFIs increased the number of loans and clients, but this has corded credit discipline to some extent. (Cihose, 2013)

9. LIFE INSURANCE SERVICES

It is recognized that all income and population groups are not adequately serviced by financial set up of India. A 2006 UN report on building inclusive financial sectors for development defined an inclusive financial system as one which provides credit to all 'bankable' individuals and firms; insurance to all insurable individuals and firms, savings and payment services for everyone. Financial inclusion does not insure that each individual is availing financial services but it concentrates on making available, financial services to untapped and unaware masses. Kompson, 2006, states that there is a lack of awareness about life insurance services because of low and irregular income of lack of motivation and absence of ability to save. Batewan M, in this study reveals that there is a strong association between demand for life insurance and financial inclusion. The adequate steps should be taken to financially educate the rural masses to improve financial inclusion and to increase life insurance participation.

A recent UNDP study revealed that 66 per unit of Indian households are 'completely excluded' from any kind of financial services, they don't have even their bank accounts. Insurance has a worse explanation to tell. About 90 percent of the population is not covered by insurance and this creates a bigger opportunity to tap the rural masses. The potential should be reviewed from time to time to outreach the untapped population, to increase financial literacy among them and to ensure that insurance claims are paid.

10. CO OPERATIVE BANKS & COMMERCIAL BANKS

Financial inclusion can be affordable costs to disadvantaged sections of the society financial inclusion is further facilitated by effectors working of co-operative and commercial banks to a vast majority of people at an affordable cost (Abifanin, 2015). The financial services barrier should be unlocked. This can only be possible if the co-operative and commercial banks will provide financial services to unbanked population.

To perform the challenging tasks of offering integrated financial services to unprivileged section of the society, the co-operative banks are more suitable. Innovative products need to be made and offered to the clients, households markets and work places to design the financial products. The services of co-operative banks are highly essential to harmers the wide potential (Siddaraju, 2012).

The main objective of commercial banks to accept deposits from the public and to provide financial services to unbanked and unsaved population of the society where co-operative banks aim at accepting deposits from the member and public for the purpose of providing loans to farmers and small businessmen for service motive.

11. POSTAL SERVICES

In India, about 40% of the population across the country has bank accounts. Other then banking and financial institutions the Indian post which partially do banking activities under the intuitions of Ministry of Finance is doing commendable job towards providing easy financial service to the people throughout the country specially in isolated areas through its widely speed network. Apart from providing regular postal service's the post offices are also providing financial services to the public through post office savings bank. It also provides money transfer services post office savings bank which was established with an objective of encouraging saving habits among the masses has become a medium of mobilizing a huge amount of finds. (Malakar, 2013)

Objectives of the Study

The objectives of the study are as follows:

1. To study the dimensions of financial inclusion operating in India.
2. To identify the challenges faced by the banks in facilitating financial inclusion through various government initiatives.
3. To identify the role of payments system and awareness campaign in increasing the proportion of financially included segment of society.

12. RESEARCH QUESTIONS

1. What are the dimensions of financial inclusions operating in India.
2. Explain the disadvantaged segments of the society, who are financially excluded in India.
3. What are the challenges faced by banks in facilitating financial inclusion through various government initiatives.
4. What are the awareness campaigns adopted to increase the proportion of financially included population.
5. What are the bottlenecks being faced by unprivileged section of the society.

13. PRACTICAL IMPLICATIONS OF THE STUDY

The present research work has been undertaken for an in-depth study to understand the perceived challenges and opportunities likely to be faced in the pace of fulfilling financial inclusion by the banks. The techniques and ways to thoroughly encounter these challenges will be done in detail. The problems faced by customers who are still unbanked will be studied. This will provide an overview to the banks about the barriers in financial inclusion. This study will provide valuable information to different external banking agencies, banks and financial institutions. The study also aims at improving awareness level among customers. It will also cover the E-finance related issues involved in implementation of financial inclusion and suggestions mechanism

14. CONCLUDING REMARKS

The major objective of banking industry is to promote financial inclusion and spread the awareness and accessibility among financially excluded masses (Bhave, 2014). The studies conducted based on financial inclusion in India and across the world state that majority of the world's population is financially excluded from basic financial products and services. The lack of awareness, accessibility, knowledge creation and lack of self-help groups have been the major reasons behind unbanked population. Cashless economy is the attempt made by Government of Nigeria to fulfil the policy of creating more and more financial inclusion (as already discussed in the paper). The business channels have been developed in such a way that it will result in creating awareness regarding basic financial services and electronic banking as well. Still Nigeria is lagging behind in achieving financial inclusion due to income and regional imbalances. It can be concluded that there is a need to create awareness among the unbanked masses so that they can avail financial services at their place. The fulfillment of objective of financial inclusion is possible only with the introduction of sound conceptual framework which attempts to provide ways to achieve the financial inclusion in all parts of the country, irrespective of urban or rural population and privileged or under privileged population.

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