CHALLENGES OF FINANCIAL INCLUSION TO REACH OUT POOR

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Abstract: Financial inclusion means connecting all individuals, who are in the remote rural areas, to a well-functioning financial system. This includes easy accessibility of banking products and services, availability of cheap credit through appropriately designed loans for poor & low income households and small entrepreneurs and availability of basic financial products like insurance. According to the World Bank, India has 600,000 villages, of which only 74,000 have access to banks. Financial inclusion may be interpreted as the ability of every individual to access basic financial services which include savings, loans and insurance in a manner that is reasonably convenient and flexible in terms of access and design and reliable in the sense that savings are safe and that insurance claim will be paid with certainty (Mor and Ananth, 2007). In India, the focus of the financial inclusion at present is more or less confined to ensuring a bare minimum access to a savings bank account without frills to all. However, having a current account/savings account on its own, cannot be regarded as an accurate indicator of financial inclusion. [Vallabha and Chathrath, 2006].

Key words: Bank, Financial Inclusion, Income, Poor, Rural area, savings

I. Introduction

In India the unbanked rural area most of the poor population experience difficulties in accessing appropriate financial services. As a result, they have to depend on moneylenders who charge a high rate of interest. The interest rate charged on such borrowings are high; the average interest rate charged by non institutional agencies being 36% per annum in 1991-92 and 42 % in 2002-03, roughly triple the interest charged by formal lenders (Anjanikumar et al, 2007). Without an inclusive financial system, poor individuals and small enterprises have to rely on their own limited savings and earnings to invest in their education and entrepreneurship to take advantage of growth opportunities (World Bank, 2008). A strong and sturdy financial system is a pillar of economic growth, development and progress of an economy According to Nitin Kumar .A financial system, which is inherently strong, functionally diverse and displays efficiency and flexibility, is critical to our national objectives of creating a market-driven, productive and competitive economy. Rohit Sarkar said a mature system supports higher levels of investment and promotes growth in the economy with its coverage. The economic agents facilitate in growth and one of the important facilitator is Financial Inclusion .Financial inclusion is defined as delivery of financial services to the poor at affordable cost.

Rangarajan Committee (2008) on financial inclusion stated that: “Financial inclusion may be defined 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.” Indian Institute of Banking & Finance (IIBF) opines, “Financial inclusion is delivery of banking services at an affordable cost (‘no frills’ accounts,) to the vast sections of disadvantaged and low income group. Un restrained access to public goods and services is the sine qua non of an open and efficient society”. Without an inclusive financial system, poor individuals and small enterprises have to rely on their own limited savings and earnings to invest in their education and entrepreneurship to take advantage of growth opportunities (World Bank, 2008).

The Inclusive of financial services to poor such as savings, appropriately designed financial products for poor and appropriate insurance and payments services can help the people to relieve from the clutches of money lenders, engage in income generation and come out of poverty Financial services and products offered by banks, finance institutions, nonfinancial institutions and micro finance institutions the basis for measuring the financial inclusion .Vasantha et( 2013) Financial inclusion is emerging as a main concern for policymakers and regulators, which is a major driving force to achieve self sustained inclusive economic growth. Achieving the objective of hundred percent financial inclusions is one of the biggest challenges for financial sector. Financial Inclusion, broadly defined, 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 Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan). Household access to financial services is depicted in figure 1.

Figure 1: Household Access to Financial Services

NSSO 59th Round Survey Result shows that 51.4% of farmer households are financially excluded from both formal/informal sources. Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources of credit. Overall, 73% of farmer households have no access to formal sources of credit. Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.

Figure 2: Villages Covered

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010. World Bank report stated that for rural India about 40% of households have deposit accounts, 20% have outstanding loans and only 15% have any insurance.

II. Opportunities

Srikanth R (2013) Stated that Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks. The problem of financial inclusion addresses the involuntarily excluded as they are the ones who, despite needing financial services, do not have access to them (NABARD, 2009) C. Paramasivam, V. Ganesh Kumar (2013) Stated that inclusive growth is possible only
through proper mechanism which channelizes all the resources from top to bottom. Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest rural people consist in the world. Financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack of access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future.

K. Hema Divya (2013) Stated that financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The objective of financial inclusion is to deliver banking services at an affordable cost to vast sections of the low-income groups. Credit programs that target poor women are likely to produce substantial improvements in women’s social and economic status (Das and Nanda, 2008). Rural branches of commercial banks must go beyond providing credit and provide extension services, including advice on farm-related activities. (Rangarajan Committee, 2008).

The Committee on Comprehensive Financial Services for Small Business and Low Income Households has suggested providing a universal bank account to all Indians above the age of 18 years. This target is to be achieved by January 1, 2016, less than two years from now. The Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts.

According to a State Bank of India (SBI) report, the vision is to “gradually move in a direction where every poor person is able to operate his bank account from his mobile, as mobile penetration is higher than financial services penetration.” Low-income populations benefit the most from technological innovations such as mobile payments, mobile banking and borrower identification based on fingerprinting and iris scans, reported the World Bank. “Innovations make financial services cheaper and easier to access for the poor, women and rural residents, especially those living in remote, less populated regions without brick-and-mortar bank branches,” says the Bank’s 2014 “Global Financial Development Report.”

Reddy (2010) suggested a new approach for banks to reach wider populations in rural areas establish mobile-banks/representatives/agents who operate on a commercial basis rather than relying on self-help groups. These agents/representatives work on commission basis and hence, are self-motivated and cost-effective in assisting banks in service provision/deposit mobilization. Ghosh (2007) suggests that the Post Office Savings Bank (POSB) can be used to cater to the financial needs of rural India where microfinance institutions (MFIs) have very little presence in the total demand for finance. To boost micro financing initiatives and the financial inclusion program, banks are deploying biometric ATM solutions to its rural customers, helping illiterate or barely literate clients to become part of the banking user community (Biswas, 2010).

Sangwan (2007) studied financial inclusion and self-help groups (SHGs), and found that over the last 15 years, India has witnessed unprecedented growth in financial services unfolded by liberalization and the globalization of financial services due to the adoption of information technology (IT) and the unlocking of the regulatory framework. However, alongside this positive development, there is evidence that the formal financial sector still excludes a large section of the population.

Gadamsetty Sai Arun (2013) Stated inclusive growth is absolutely necessary to pull millions of Indians out of poverty. Financial inclusion is crucial driver for such growth by covering large sections of society providing them with financial services. High economic growth in the past decade has lead to huge economic inequality in India; various efforts have been made to achieve the objectives of the financial inclusion. One such effort is adoption of ICT in Indian banking sector. Today, banks have centralized operations; banks and branches are increasingly moving to core banking solutions (CBS), network-based computing, and new delivery channels such as networked ATMs, internet banking, smart card-based products, mobile access, and so on, and are using IT for customer relationship management, customer transaction pattern analysis, credit profiling, and risk management (Thorat, 2007).

In India, some rural farmers and MFIs are using mobile phones to do bookkeeping, to receive and send payments, and to pay utility bills (Rogers, 2007). In addition, handheld devices and smart card technology are used to automate loan processing and tracking. Biometric ATMs with smart cards are used for financial transactions without the need for personal identification. BASIX, India's largest microfinance organization, is experimenting with handhelds and smart card technology to automate the loan process and keep track of repayments, in order to reduce labor and cash handling costs. BASIX's Mobile Portfolio Management System also helps to minimize accounting errors (Global Envision, 2003).

II. Challenges of Financial inclusion

Financial inclusion is important because it is considered as an important condition for sustaining growth (Subbarao, 2009). Access to well-functioning financial system by creating equal opportunities enables economically and socially excluded people to integrate better into the economy and actively contribute to

development and protects themselves against economic shocks (RBI, 2009). Dr. Anurag B. Singh, Priyanka Tandon (2012) stated that more than 150 million poor people have access to collateral-free loans. However, there are still large sections of the world population that are excluded from the financial services market. In India, half of the poor are financially excluded from the country’s main stream of the banking sector. Still, in India, 22 percent of the people are living below the poverty line. Their monthly income is less than $1 per day and they are living in most un-liveable conditions. Despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society. (Leeladhar, 2005) The process of ensuring access to timely and adequate credit and financial services to vulnerable groups at an affordable cost (Kamath, 2007). Sarma (2010), referring to Kempson and Whiteley (1999a, 1999b), distinguishes between five factors that account for the lack of financial inclusion (exclusion): (1) Access exclusion due to geography and "risk management of the financial system", (2) Condition exclusion “due to conditions that are inappropriate for some people;” (3) Price exclusion due to non-affordability of financial services, (4) Marketing exclusion due to the non-attractiveness of conducting business with certain groups within society (lending risk), and (5) Self-exclusion, due to “fear of refusal or due to psychological barriers. The requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum dwellers. (Thurat 2007)
The Crisil report stated that the three big challenges were high cost, lack of robust technology, and lack of awareness, and while these challenges are significant, other ‘barriers’ in the way of larger financial inclusion include response of the banks and lack of reliable data, it added. It further states that there is a need for greater stakeholder coordination, greater consumer understanding, trust and protection. Modern banking requires literacy skills that are often not present. Potential customers need to invest time and effort in understanding banking opportunities and costs. There may be also a collective action problem. Unless a critical mass of people is willing to invest in banking literacy, everyone else will find that their individual efforts in developing banking literacy will not pay off. Because banking activity is costly in terms of fees and transaction costs, opening a bank account only becomes attractive if the individual has a minimum income (Beck and Demirguc-Kunt, 2008). Due to lack of awareness, low financial education and procedural hassles, many still prefer to borrow money from informal sources like money lenders and also rapid expansion, the number of bank branches in the country is still inadequate (Somashroy Chakraborty & Nupur Anand, 2014). According to a nationwide survey on financial behaviour, India has the highest account dormancy rate even more than countries like Kenya, Tanzania, Uganda, Nigeria, Pakistan and Bangladesh. Only 48 per cent of Indian adults have bank accounts and nearly half of them lie dormant.

According to Ravichandran and Alkhathlan (2009), very few people have access to banking services. There are a number of factors affecting access to financial services by the weaker sections of society in India. Lack of awareness, low incomes and assets, social exclusion, and illiteracy are the barriers from the demand side. Distance from the bank branch, branch timings, cumbersome banking procedure, requirement of documents for opening bank accounts, unsuitable banking products/schemes, language barriers, high transaction costs, and attitudes of bank officials are the barriers from the supply side. The authors discussed bank-SHG, bank-MFI, MFI-NBFC (with non-banking financial companies), and bank-post office linkage models and proposed new models such as rural students banking model and RBI-education institute linkage models.

Geach (2007) studied financial exclusion and mobile phone technology. He found that the use of electronic communication throughout the world has not included everyone. He argues that the vast majority of the world’s population is still unable to gain access to digital technology, especially the Internet. These people are located in rural or poor inner city areas that are less likely to have Internet access. Advances in mobile phone technology could provide the solution to this problem. Medhi et al. (2009) studied the mobile banking adaptation and usage by low-literate and low income users. Due to the increasing penetration of mobile phones even in poor communities, Mobile-phone-enabled banking (m-banking) services are increasingly targeting the —unbanked to bring formal financial services to the poor. However, more research is required to understand the issues that prevent low-income, low-literate populations from meaningfully adopting and using existing m-banking services in order to scale up financial inclusion through technology.

Das (2010) studied the scaling up of technology to build inclusive financial systems in India. The systems that provide connectivity need to be relatively inexpensive if they are to be commercially deployed, given the lower incomes in rural areas compared to those in urban areas. Recently, ICT implementations have emerged as a powerful tool to reduce operating costs, making it viable for financial institutions to expand into rural and low-income areas. Despite the success of microfinance services in many countries, access to financial services in remote rural areas remains a challenge in India.

Chakraborty’s (2009) study focused on technology, financial inclusion, and the role of banks showed that technology can operate on any platform. However, the technology solution to the business needs should be user-friendly without much third-party or IT vendor intervention or support requirement for operating the same.
Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income groups, treating it as both a business opportunity as well social responsibility.

III. Conclusion

The rural population in India is subjected to great deal of indebtedness and is subject to exploitation in the credit market. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas are not sizeable to fit into the consumption needs like education, clothing and household necessities including non-food expenses, they need to rely upon credit (Vallahb and and Chathrath, 2006). Michael Chibba (2009) noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

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