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FINANCIAL INCLUSION IN INDIA- IMPACT & CHALLENGES

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Abstract : The government of India & RBI has out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population.

The benefit from these initiatives. As Reserve Bank of India data shows that as many as 139 districts suffer from massive financial exclusion, with the adult population per branch in these districts being above 20,000 and only 3 percent with borrowings from banks. On the assumption that each adult has only one bank account (which does not hold good in practice, so that actual coverage is likely to be worse) on an all India basis, 59 percent of the adult population in the country has bank accounts. 41 percent of the population is, therefore, unbanked. In rural areas the coverage is 39 percent against 60 percent in urban areas. The unbanked population is higher in the poorer regions of the country, and is the worst in the North-Eastern and Eastern regions.

This paper seeks to provide evidence on impact of financial inclusion in India, the various issues of financial exclusion, and present status of financial services of India. This paper studied secondary data to draw the conclusion.

The study found that with this initiative the poorer section of the society will get benefit for their development and growth.

INTRODUCTION

Objective of the Paper :

- Highlight the issue of financial exclusion
- Impact on Indian economy of financial inclusion
- RBI initiatives & guideline
- Scope & challenges of financial inclusion in India

Meaning of Financial Inclusion :

"The process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players."

Financial Inclusion should include access to financial products and services like-

- No frill Bank accounts – check in account
- Micro Credit
- Savings products
- Remittances & Payment services
- Insurance - Healthcare

- ❖ Mortgage
- ❖ Financial advisory services
- ❖ Entrepreneurial credit
- ❖ Pension for old age
- ❖ Business correspondence & self help group
- ❖ Branchless banking
- ❖ Micro finance & micro credit facility
- ❖ Investment plan for child's education

General equation :

- ❖ NFA + BC = FI Where, BC = Banks + OFIs + MFI + IT
- ❖ NFA = No Frills Saving Bank Account
- ❖ BC = Banks + Other Financial Institutions + Micro Finance Institutions + Information Technology
- ❖ OFI = Insurance Companies, Mutual Funds, Pension Companies

Pre-requisites For The Success of Financial Inclusion :

- ❖ Appropriate Technology
- ❖ Appropriate and Efficient Delivery model
- ❖ Mainstream banks' determination and involvement
- ❖ Strong Collaboration among Banks, Technical Service Provider, BC Services
- ❖ Especially the state administration at grass-root level
- ❖ Liberalization of BC model

Financial Exclusion :

Financial exclusion could be looked at in two ways:

1.Lack of access to financial services which could be due to several reasons such as:

Lack of sources of financial services in our rural areas, which are popular for the ubiquitous money lenders but do not have (safe) saving deposit and insurance services.

High information barriers and low awareness especially for women and in rural areas . Inadequate access to formal financial institutions that exist to the extent that the banks couldn't extend their outreach to the poor due to various reasons like high cost of operations, less volume and more number of clients, etc. among many others.

Poor functioning and financial history of some beleaguered financial institutions such as financial cooperatives in many states which limit the effectiveness of their outreach figures.

2.Some Attributes of Informal Financial Services, Due to which there is Exclusion, are

High risks to saving: loss of savings is an easily discernible phenomenon in low income neighborhoods in urban areas. High cost of credit and exploitative terms: credit against collateral such as gold is even more expensive than the effective interest rates, similarly, rates paid by hawkers and vendors who repay on daily basis are very high. High cost and leakages in money transfers: the delays in sending money home through all informal channels add to these. Near absence of insurance and pension services : life, asset, and health insurance needs Scope of financial Inclusion can put into effort .

Recent developments in technology have transformed banking from the traditional brick-and-mortar infrastructure to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc.

The Reserve Bank of India (RBI) has enabled branchless banking by facilitating the business correspondent/facilitator model, enabling non-government organizations, micro-finance bodies, co-operative societies, grocery shops, PCOs and individuals to collect small deposits, disburse and recover certain loans, and also sell other financial products, like insurance, pension and mutual funds, and to handle small remittances and payments. But is it also true that while a large number of no-frills accounts have been opened; those that are operational have yet to reach a meaningful level? On its part, the government has also unveiled a number of initiatives to mainstream the marginalized, like making small borrowers eligible for another loan, issuing them credit cards without security, asking banks to adopt one district for 100 per cent financial inclusion, and establishment of the financial inclusion fund and the financial inclusion technology fund. This apart, there are over 83 million Kisan Credit Cards . Similarly, there are over 5 million self-help groups (SHG) having savings of almost Rs 40 billion.

The Reserve Bank of India (RBI) today said that financial inclusion is not restricted merely to opening of bank accounts and should imply provision of all financial services like credit, remittance and overdraft facilities for the rural poor.

Regulatory challenges

The RBI circular on Business Correspondent Model allows, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, and Post Offices to act as Business Correspondents. Most organizations incorporated in these forms have social mandates, with less emphasis on business model. The present guidelines exclude NBFCMFIs from the ambit of being a Business Correspondent. The current experience of MFI outreach in India shows high growth and outreach to the poor, and at the same time, limitations on the types of financial services that can be offered by them. The BC framework allows for this to be corrected. However, currently, the legal form that allows MFIs to grow in size and scale and access greater resources is not permissible as a Business Correspondent. Most MFIs incorporated under other legal forms, permissible under the BC framework; aim to reregister as NBFCs to attract capital for expansion and scale of business. Non Banking Finance Companies (NBFCs) should be brought under the ambit of Business Correspondent framework, as they not only serve the need of scale through their high outreach, but also have access to resources for professional management of an enhanced responsibility through the BC model.

Associated challenges :

From the perspective of the banks, providing suchservices would have various risk associated with it. The major risks to the banks are legal, reputation and operational risks. These risks are to be managed with tight and regular monitoring, developing systems and procedures and by developing effective risk mitigating tools and matrix. The banks can consider evaluating these institutions through various bench mark indicators and procedures like

- ❖Capital Adequacy
- ❖ Governance
- ❖Liquidity of the institution and placing minimum
- ❖ liquidity at banks concerned in the form of deposit
- ❖ Systems and procedures

Regular inspection of the BC either through in house or external auditors NBFC-MFIs, registered with the RBI could be monitored with appropriate and tight controls, systems, procedure and risk mitigating tools and other bench mark norms like CAR and liquidity, including penalty and withdrawal as business correspondents.

Advantage of Financial Inclusion :

1- Economic Growth :

The growth trend of the Indian economy over the last few years appears to indicatethe beginning of a new phase of higher growth. From an average growth rate of around 6.0 per cent for a quarter of a century, the growth rate has accelerated to 8.1 per cent over the last few years. Along with declining population growth, this suggests high growth in per capita income in excess of 6 per cent in recent years, and perhaps approaching 7 per cent, which would lead to doubling of per capita income every ten years. Most importantly, the current growth process is not a flash in the pan so through the financial inclusion the we will achieve the inclusive growth And access of credit facility will lead to increase the entrepreneurial skill of people and short out the problem of credit crunch among the less developed people.

2- Financial deepening :

There is a general consensus among economists that financial development spurs Economic growth. Theoretically, financial development creates enabling conditions for growth through either a supplyleading (financial development spurs growth) or a demand following (growth generates demand for financial products) channel. And that will lead to the growth of different financial product in India

Financial Institution & their recent contribution towards financial inclusion

TINERI :

Punjab National Bank made a model way of financial inclusion that is not only to open the bank accounts but also free them from the clutches of the money lenders. The local Pradhan has helped villagers with the procedure of opening the bank account. Now they have started saving whatever little they can

BRANCHLESS BANKING - CORPORATION BANK :

Corporation Bank developed a business model for each of the beneficiary, whereby these villagers don't commute to the bank for any kind of transaction. Corporation Bank appointing one of the villagers as a business correspondent, so that there is more comfort level and there is more empathy. So, they are dealing with their own people. This is how this business model and operative model of the central piece of this financial inclusion called Branchless Banking.

Way Forward :

Notwithstanding the regulatory, operational and other aspects in focus, financial inclusion is a complex issue which cannot be solved alone by any actors in the system. Formal financial institutions such as, banks, insurance companies, mutual funds, pension companies will have to join hands with small NGO-MFIs, larger NBFC- MFIs, and technology providers to enable inclusion. The strengths of these institutions will have to be put together through sound collaborations for financial inclusion. Local and national presence organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability, and impact. This collaborative model will have to tackle exclusion in two main ways:

1. By ensuring that there is a supply of appropriate and affordable services available to those that need them
2. By stimulating demand for appropriate financial products, services and advice with appropriate delivery mechanism

These different sets of institutions have to appreciate the power of this model and collaborate to deliver to and reach the large number of masses by providing comprehensive financial services and financial advice. Such collaborations will also ensure that financial inclusion is not looked upon as a social obligation, but viable business models over time.

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