AN ANALYTICAL STUDY OF FINANCIAL INCLUSION

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Abstract : 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. This paper is an attempt to understand the barriers of financial inclusion, analyzing various initiatives by the Reserve Bank of India, the extent of financial inclusion in City of Ambarnath and suggest some measures for financial inclusion.

Keywords: Financial inclusion, Financial services, Inclusive Growth, Banks.

1 INTRODUCTION

India which was a socialist economy at the time of independence did away with the socialist policies after the economic liberalization in 1991 and by the turn of 21st century, India's GDP has grown at a very high rate peaking at 10.1 percent in 2010. This level of economic growth has led to huge economic inequality, to negate this inequality it was understood that inclusive growth is necessary. Inclusive growth can be possible only through financial inclusion. The term financial inclusion can be defined as deliver of financial services at affordable costs to sections of disadvantaged and low income groups. Although the term gained importance in early 2000's, the beginning of financial inclusion in India can be traced back to 1969 when Indira Gandhi, the then Prime Minister of India nationalized fourteen major commercial banks and in 1980 another six banks. This brought 91 percent of banking sector under government. After the nationalization, Indian banking sector expanded in an unprecedented rate. Still, only 58.7 percent of the Indian population are availing banking services with the formal financial sector

OBJECTIVE OF THE STUDY:

a)To identify the extent and nature of financial inclusion.
b)To analyse the reason for financial exclusion.
c)To determine the level of awareness in various financial products.

RESEARCH METHODOLOGY:

The study is descriptive and analytical in nature. The required material for the study is collected through primary and secondary sources, though primary data becomes the main thrust of collecting information. In order to collect primary data 50questionaires was distributed to households randomly selected out of which 30 belonged to urban households and 20 belonged to rural households to identify the extent of financial inclusion.

FINANCIAL INCLUSION:

The definitional emphasis of financial inclusion varies across countries depending on the level of economic, social and financial development of the economy.

The Report of the Committee on Financial Inclusion in India (Chairman C. Rangarjan 2008) “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”.

ADVANTAGES OF FINANCIAL INCLUSION:

Financial inclusion is beneficial from the point of view of consumers, regulators and economy

a)Consumers: Holding an account in banks can help the customers in availing the benefits of variety of financial products. Bank accounts can be used for multiple purposes like making small value remittances at low cost and making purchase on credit.

b)Regulator: Audit trail is available and it will lead to greater accountability and transparency.

c)Economy: It will lead to greater availability of financial resources which can be optimally utilised leading to higher returns.

BARRIERS OF FINANCIAL INCLUSION:

DEMAND SIDE BARRIERS:

Complexity: The excluded sections of the society find financial services complex in nature. They see no reason to go to the banks for conducting small transactions, which in their opinion, are time consuming and perplexing

Place of living: Generally commercial banks operate only in commercially profitable areas and it would not be viable for banks to open branches in the remote villages. People who live in under developed areas find it very difficult to reach the nearest bank due to transportation cost and wages lost in travelling to the bank.

Limited literacy: Financial illiteracy and lack of basic education are prohibiting factors leading to non-access of financial services.

Convenience and affinity towards informal sector: The excluded section of the society finds informal sector (such as the money lender or the pawn-broker) more user-friendly and accessible and as such, they develop an affinity which always drives them to approach this sector for their credit needs.

Cultural Factors: Women are often disadvantaged by credit requirements such as collateral since in most of the cases property is registered under their husband’s name and they have to seek male guarantee to borrow

Level of Income: Greater percentage of the population living below the poverty line results in lower demand for financial services as the poor may not have savings to place as deposit in saving banks

SUPPLY SIDE BARRIERS:

Legal identity: Inability to provide a legal identity such as voter id, residence proof, birth certificates, etc. often exclude women and migrants from accessing financial services.

Outreach Issue: Very often, even if a person is bankable, the distances are too long for services & supporting the accounts at reasonable costs.

Financial viability of MFIs: The conflicting objectives of MFIs i.e. profitability and stimulating local economic development leads to difficulty in financial viability of MFIs.

RBI’s Efforts for Financial Inclusion

No frills accounts: In many banks, the requirement of minimum balance and charges levied, although accompanied by a number of free facilities, deter a sizeable section of population from opening / maintaining bank accounts. In this context, with a view to achieving the objective of greater financial inclusion, all banks were advised to make available a basic banking ‘no-frills’ account either with ‘nil’ or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population.

Easier credit facility: RBI asked banks to introduce a General Credit Card (GCC) facility up to ` 25,000, for their constituents in rural and semi-urban areas, with a view to providing credit card like facilities in rural areas with limited point-of-sale (POS) and limited automated teller machine (ATM) facilities, based on the assessment of income and cash.

Simpler Know Your Customer (KYC) norms: In a country, where most of the low income and poor people do not have any identity proof or proof of address, it is very difficult to have KYC norms that insist on production of such documents. In order to ensure that people belonging to low income group in urban and rural areas do not encounter difficulties in opening bank account, the KYC procedure for opening accounts was simplified for those accounts with balances not exceeding ` 50,000 and credit thereto not exceeding ` 100,000 in a year.

Bank branch and Automated Teller Machines (ATM) expansion liberalization: In the October 2009 Policy Review, RBI took a further big step by freeing branch opening in towns and villages with population below 50,000. Domestic scheduled commercial banks (other than RRBs) are now free to open branches in towns and villages with less than 50,000 population and are enjoined to ensure that at least one-third of such branch expansion happens in the under banked areas.

BUSINESS CORRESPONDENT (BC)/ BUSINESS FACILITATORS (BF) MODEL - BRANCHLESS BANKING:

With the objective of ensuring greater financial inclusion and increasing outreach of the banking sector, the Reserve Bank, in January 2006 permitted banks to use intermediaries as Business Facilitators (BF) / Business Correspondents (BC) for providing financial and banking services leveraging upon the Information and Communication Technology (ICT). The BCs were allowed to conduct banking business as agents of the banks at places other than the bank premises. The categories of entities that could act as BCs were also specified.

The Business Facilitators (BFs) may be used for facilitation services which may include identification of borrowers, collection and preliminary processing of loan applications, creating awareness about bank products and education and advice on managing money and debt counseling, processing and submission of application to banks, promotion of Self Help Groups/ Joint Liability Groups, post sanction monitoring, follow up for recovery, etc. No approval of RBI is required for using business facilitators for the services mentioned above.

Individual BCs / Institutional BCs, apart from the above services can disburse small value credit, recover principal/ collect interest, collect small value deposits, sell micro insurance/mutual fund products/ pension products/other third party products, receive and deliver small value remittance / other payment instruments.

ANALYSIS OF THE SURVEY:

Household having one bank account:

83%of the urban household were having one bank account while only 40%of the household in the rural area had one bank account. This reinforces the belief that financial exclusion is widespread in rural areas than urban.

Household having more than one account:

65% of the urban household were having more than one bank account while only 25%of the household in the rural area had more than one bank account.

Household with chequebook facility:

66% of the urban households were having bank account with cheque book facility while only 30%of the households in the rural area were having this facility.

Reasons for opening an account:

For receiving payment from Government: 43% of the households in rural areas cited this has the reason while in urban area it was 17%

For receiving remittance: 30% of the households in urban area cited this while in rural area it was 10%

For savings: 73% of the house hold in urban area cited this while 30% in rural areas

Request for loans: 42% of the house holds in urban area cited this while in rural areas it was10%.

REASONS FOR NOT HAVING AN ACCOUNT:

No money or too little money: 65% of the households in urban area cited this while in rural areas it was88%.

Too many charges: 20% of the households in urban area cited this while in rural areas people said that they

are not aware of this.
Lengthy process: 36% of the households in urban area cited this while in rural areas it was 68%.
Tried to open an account but was refused: 5% of the households in urban area cited this while in rural areas it was18%.
Awareness regarding no frills account: Only 20% in urban households were aware of it and it was shocking to note that only 5% in the rural area was aware of this facility

SOURCES OF AVAILING LOANS:

60%of urban households availed loan from institutional sources while 80% of the rural households availed loan from non institutional sources.

TYPE OF LOAN AVAILED:

In urban households 30% of loan was for housing, 23% was for business ,3% was for education, 15% was for vehicles and 29%was for personal loans.
In rural households 80% was for personal, 15% was for business, 5% for vehicles and zero % for education.
Use of ATM facility: 70% of the bank account holders in urban area used this facility while in rural area it was 20%
Use of debit cards: 30% of the bank account holders in urban area used this facility while in rural area it was 5%.
Use of credit cards: Only 2% in urban area and zero% in rural areas
Use of insurance policy: 28% in urban area used insurance policy and 8% in rural areas.

SUGGESTIONS:

a)Providing wide publicity to financial inclusion through electronic and print media public gathering, village panchayat meetings.
b)Reducing paper work and documentation.
c)Opening financial advice centres.
d)Sensitising the bank staff about financial inclusion.

CONCLUSION:

Though various initiatives have been undertaken by the government and RBI to promote for the cause of financial inclusion, no mass sensitization has yet taken place. There is an urgent need to provide financial literacy. Once people are made aware of the various schemes of financial inclusion that are launched and drawn in their favour, in the benefits of these schemes will reach people in true sense and will lead to percolation of benefits of economic growth to one and all.

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