Urban Financial inclusion–A descriptive study

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Abstract
Financial inclusion is a necessity both in the urban and rural areas of a country. Urban financial inclusion becomes important because of the bulging urbanisation of the economy. This paper is a study on the concept of urban financial inclusion.

Key words: Urban Financial inclusion

Financial inclusion refers to the rendering of financial services to those who do not form part of the formal financial sector mainly the disadvantaged and low income groups. The key players in financial inclusion are Banks, NBFC's, Insurance companies, Market players, Pension funds and postal systems. Of these banks have a primary and major role to play on account of its regulatory system and the multiple and vast services they render. The regulators in the process are the Reserve Bank of India(RBI), Insurance Regulatory and Development Authority(IRDA), Telecom Regulatory Authority of India(TRAI) and the Securities Exchange Board of India(SEBI),institutions and think tanks and certainly the Government.

Economic and inclusive growth is the most effective way to reduce poverty. However economic growth can still leave many people in persistent poverty if they do not have the capacity to participate in and benefit from the growth process. Financial inclusion offers incremental and complementary solutions to tackle poverty to promote inclusive growth and to address the Millenium Development Goals(2000). Access to financial inclusion allows the poor to save money outside the house safely. This brings prosperity over a period of time.

Objective of Financial inclusion

The objective of financial inclusion(FI) is to extend financial services to the large and unserved population of the country to unlock its growth potential. In addition it strives to achieve inclusive growth by making finance available to the poor in particular. FI enables Banks to channelise the savings of the unserved population of the country and offers new business avenues for lending to this group. Banks were identified as the key drivers in bringing the excluded sections to the formal financial sector whether it be savings, credit, insurance, pension, social security schemes and remittance platform.

Review of literature

Financial exclusion in general

Lammermann, Stefanie(2010) stressed on the role of European Union in tackling the issue of financial exclusion. A list of basic financial services is considered essential to daily life viz. a bank account to receive income, a transaction account to make payments , a savings account to store money, and access to unsecured credit to manage temporary cash shortages and unexpected expenses. Having a banking account is understood as a basic necessity in developed countries. There are supply factors such as banks high credential requirements from a client that prevent them from access. Further demand factors such as self exclusion, savings exclusion and cultural context of the people can lead to financial exclusion.

A picture of Financial exclusion in India

Kumar(2013) analysed the financial exclusion among the scheduled tribes in terms of bank account credit,insurance and pension. Scheduled tribes were noted as the most disadvantaged group in the society. The extend of exclusion among the tribes is as low as 5% owing to the strong financial inclusion measures perceived by the Government of India and RBI. The bank account which the tribes have opened is inoperational and the other services in connection with a bank account is not utilised. The informal sources of credit are very much prevalent among the tribes.

Financial inclusion and practices

Anoop, V., (2012) studied on the efforts towards Financial Inclusion and usage access among low income workforce. The effectiveness was measured using the Financial Inclusion index. The study identified lack of financial knowledge as the main reason for financial exclusion. It reiterated on product innovation, process simplification, financial counselling, financial literacy and a total change in the attitude of internal staff to include the participation of low income group to foster the financial inclusion drive.

Financial inclusion initiatives by banks

Bruntha , P. and Indirapriyadarshini, B.(2015) examined the socio economic profile of street hawkers, their banking habits and their awareness of financial inclusion initiatives of banks. Financial inclusion is viewed as more of a governance issue and less of a financial issue. Street hawkers influence the day to day life of the people of Tamilnadu and vend both in urban and rural areas. The lengthy process in opening bank accounts has been found as the main reason for not having bank accounts. The study has highlighted that the street vendors are unaware of the no-frills account, KYC norms, Vann Banking, Bio metric cards, regional languages and convenient outlets and stressed on the steps needed to be taken to financially include the street hawkers.

Financial inclusion in practice

Vijayalakshmi (2015) analysed the reality of Financial Inclusion as to whether Financial Inclusion is happening in the true sense or a name sake one. Banks were directed through policy guideline to issue loans to rural residents with relaxation in the need for collateral security. But banks in reality turned down applications from low income groups. It was noted that banks should consider financing a framework to low income group on a different perspective other than the one designed for a legitimate salaried person. Furthermore a new repayment model should be designed for the poor in addition to treating the process as a social engagement. The study concluded that Financial inclusion can never be obtained without credit inclusion of the poor.

Significance of the study:-

Financial inclusion is the delivery of financial services to the vast sections of the disadvanted and low income group. It involves participation in savings, credit, remittance and insurance services of the bank. Financial inclusion is not merely confined with inclusive activities in the rural and semi urban areas of the country. There is a general perception that financial inclusion is targeted in the rural areas and not much of a necessity in the urban and metro centres. But in reality a large number of people in the urban areas too lack proper access to banking facility and its services. Hence urban financial inclusion is also essential for inclusive growth.

Objectives of the study:-

1. To study the concept of urban financial inclusion

Methodology of the study:-

The study has been mainly conducted with the help of secondary data. Books, journals websites and Research Thesis has been probed into for the purpose of the study.

Urban Financial Inclusion

Bulging urbanisation can be felt while travelling within any city. Increasing number of telephone towers , crowd in markets, shrinking parking slots in markets, increasing shops and markets alla are proof of bulging urbanisation. Urban boundaries are spreading embracing the villages located in the outskirts of the cities. The urban growth is the outcome of the combination of natural growth, urban immigration, and addition of new urban branches. This urban immigration refers not only to rural urban shift but also encompasses shift from small urban centres towards big urban centres. The evolution of inclusive banking concept is through the interface between the bank and the ultimate user. These interfaces are available in the form of individual business correspondents, section 25 companies providing business correspondent among others. The financial services to the poor and low income households in India has revolved around the rural population since the banks were nationalised for the first time in the country. Financial intermediation was concentrated towards the rural areas. The tendency among microfinance intermediaries to move towards urban centres came only after finding that rural markets have reached near saturation point. A large number of people residing in urban areas are financially excluded and do not have access to formal financing channel because of financial and non financial barrier. It would be commercially wise on the part of banks to canvass such accounts into formal banking. For bankers it makes sense to inculcate banking habits among them and their inclusion will result into better CASA figures, increases in profits, more footfalls in ATM's more priority sector lending, cross selling opportunities and so on.

Urban financial inclusion refers to the financial inclusion in the urban centres. Urban centres are characterised by good infrastructure facilities, earning opportunities, entertainment opportunities, financial opportunities, educational opportunities and many more. Onus to provide financial facilities to the desirous people residing in urban centres lies on formal financing channels. Urban financial inclusion can be subdivided into two categories: Commercially viable financial inclusion and commercially unviable financial inclusion in urban centres.

Commercially viable financial inclusion refers to that type of financial inclusion opportunities where the average balance maintained in the new account is sufficient to cover all three costs:

- Account opening cost
- Annual account maintenance cost
- Per transaction cost

Commercially unviable financial inclusion refers to that type of financial inclusion opportunities where the average balance maintained in the new account is sufficient to cover all three costs:

- Account opening cost
- Annual account maintenance cost
- Per transaction cost

Unbanked sections in Urban India

The unbanked section of the society in urban centres comprises of the following:

Relatively unbanked sections geography wise:

The unbanked section geography wise comprises of people in unauthorised colonies,urban slum dwellers, residents of colonies in the outskirts of the cities,villagers of the villages which has been submerged in the urban areas, and domestic servants residing in posh colonies

Relatively unbanked sections profession wise:

The unbanked section profession wise comprises of fringe bread winners(drivers, fruit and vegetable seller, milk suppliers, pan shop owners, rickshawpullers, domestic servants), self employed service providers(carpenters, plumbers, gardeners, electricians),Petty shopkeepers(pavement shop keepers, weekly bazaar shop keepers, street vendors, street eateries), Transporters(Three wheeler owners and pliers, taxi operators and drivers, drivers of short distance commercial vehicles) and Private sector(particularly working at shops working with professionals, at doctors clinic, at petrol pumps, at auto repair shops)

Obstacles to urban financial inclusion

The major obstacles to urban financial inclusion are as follows:

1. **Managerial mindset**

   Staff in most of the bank branches is busy to serve clients and the same set of staff is supposed to strive for taking pains for inclusion of financially excluded persons. The managers/management need to understand that in addition to stationary staff they need to have moving staff who spends atleast six hours out of the branch and is involved primarily in bringing new business to the branch.

2. **Mindset of potential account holders**

   The potential account holders have many wrong notions that by introducing accounts they may become default guarantors, account opening being a lengthy exercise, Having PAN card exposing them to income tax authorities and not understanding the need for having insurance

3. **Commercial viability**

Most of the bankers do not see any commercial rationale in opening accounts with bleak potential. Rather they see it as a hinderence in serving their creamy clientele.

4. **Compliance of Know your customer norms**

   Name of the person itself may be a problem with differently spelt names in driving license, ration card, electricity bill, water bill and so on. Also financially excluded migrated urbanites do not have Date of Birth proofs.

5. **Language barrier**

   Among prospective account holders language barrier creates hesitation in entering the banking premises, fear of filling forms wrongly, expectation that public relation officer shall fill the form for them , limited verbal interaction, failure in conveying their peculiar requirements, impression among the bankers that they are dealing with less fortunate, false impression about financial capabilities and so on.

6. **Cost of going to a bank**

   To operate a bank account, the customer needs to bear two types of costs. The direct costs are on terms of expense in conveyance and indirect costs are in terms of loss of wages.

7. **Limited facility with a no frills account**

   The facility of a no frills account is limited to either cash withdrawal or cash deposit. Deposit of cheque is also not possible in a no frills account.

8. **Cost of opening a No frills account**

   The average cost of opening one account comes to about Rs.200 and this charge is quiet un affordable for the bank in the case of zero balance account

9. **Annual maintenance cost of a no frills account**

   Dormant no frills account costs to the bank on an average Rs.10 per year. This will be a big challenge for banking industry to convert these dormant or inoperative accounts into active accounts.

10. **Lack of banking awareness and literacy**

    The people lack awareness on banking and allied services and literacy programmes designed to educate the vulnerable group and yet to catch up with the masses.

Viable Opportunities in Urban India

The viable business opportunities in urban India are as follows:

1. **Business loans to small businesses**

   Opening a small business is a leap of faith. Making it successful is usually much more difficult and involves a lot of time, energy and passion. Securing a loan to buy equipment and services can often be difficult. The small entrepreneurs like bakery owners, snack makers printers including screen printers, dhaba owners, restaurateurs, scrap dealers, fabricators, glass house owners, carpenters making doors and windows etc may be having accounts in the bank but credit facility to them is unavailable and formal financial channels rarely offer them the funds when they need it most. Formal financial channels shy away and don't offer loans to then.

2. **Micro lending to petty shoppers**

Petty shop owners need micro credit which is lent by the moneylenders. Banks have no provision to render micro credit which is in fact a profitable proposition as far a moneylender is concerned

3. **The case of street vendors**

The street vendors provide a vital link between the producer and the consumer. As per the National Policy for street vendors 2.5% of urban population is involved in street vending and hawking and provides livelihood to almost a crore urban people. Their financial cycle is quiet different and all earnings are in cash .

4. **Transfer of funds by migrants**

Indian cities are occupied by migrants from far off villages, nearby villages and smaller towns. The male earning member may be living in a bigger town whereas other members of the family are living in a smaller town/village with joint family, the needs of whom can be yet another viable opportunity for banks.

Consequences of urban financial exclusion

1. **Loss to banks**: Banks continues to lose viable business opportunities due to lack of opening of bank accounts
2. **Divided loyalties**: Financial excluded people in urban centres feel that despite migrating to urban centres they are left outs and un welcome guests in the urban set ups
3. **Higher financial costs**: Financially excluded people loose chances of safe custody of their savings and opportunity to borrow at interest rates of formal financing channels
4. **Government grants and social benefits**: Absence of bank account results into many notional losses in the form of refunds from insurance, payment of compensation, grant, relief and social schemes.
5. **Other bank instrument**: People who do not have bank accounts may not go to banks as far as possible. So they lack basic financial; auxiliary services like DD, Insurance cover, payment through cheques etc.

Findings of the study

The findings of the present study are as follows:

1. Urban financial inclusion can deliver much business potential to banks
2. There exist many obstacles to urban financial inclusion such as mindset of the manager which can deter people from being included into the formal financial sector
3. The opening of bank account is not seen as viable by bank managers
4. The no frills account has less of facilities which makes it a hindrance to poor customers to access other services
5. Dormant accounts create much cost to a bank.

6. The people excluded in urban centres lack awareness and financial literacy
7. There are many viable business opportunities in urban centres in the form of micro credit, lending to street hawkers and petty shoppers.
8. Transfer of funds to native places by the migrants can be undertaken by the banks in a viable manner
9. Urban financial exclusion can be much costly to a bank in the form of loss of profitable business opportunities
10. The prospective account holders are denied access to many services such as DD, insurance cover payment through cheques etc and they are susceptible to high costs for funds.

Conclusion

Financial inclusion leads many excluded people to the gateway of formal financial services . Financial inclusion is not confined to rural areas but involves inclusion in urban centres as well. Urban financial inclusion can lead to profitable business opportunities if tapped judiciously. The bank managers have a very big role to play in identifying the financially excluded and dealing with them, addressing their needs. The management of banks can device products suitable to meet the financial needs of the excluded sections. Urban poor too are in need of basic banking facilities. They are also not literate about the banking products and services and hence are forece to depend on informal sources of financing. Hence urban financial inclusion should also be seen as important and at par with rural financial inclusion for achieving inclusive growth which is one of the main objectives of financial inclusion programmes as propagated by the Reserve Bank of India and the Government of India

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