FINANCIAL INCLUSION – A NEW DAY FOR UNDERPRIVILEGED

Dr. Shyamali Dubey

School of Management

Associate Professor BBD University, Lucknow

ABSTRACT

Financial Inclusion may commonly be termed as a mechanism that aspires to involve all the sections of the society in a fair approach so as to ensure an inclusive growth for all. This growth for all can only be achieved by establishing an orderly device with all its resources well allied from top to bottom. It intends to endow with financial help to the economically weaker section of the society, in order to pick up their standard of living and liberate their development. Besides, it is also internationally applauded idea which concentrates upon inculcating and cheering to the banking habits among the rural masses. It anticipates providing the most basic banking and financial services to the intact society in a translucent and fair manner at a logical cost by the main stream players in banking sector. It is a very frequent phenomenon that most of the low income households in India not have access even to the most elementary banking services today. These families find it seriously challenging to save and to plan for a financially protected future. The objective of the paper is to significantly examine the recent picture of the financial inclusion in contemporary India as well as in Uttar Pradesh. Also the paper will highlight the major challenges and bring about suggestions to fortify its growth in the days to come.

Key Words: Financial Inclusion, Financial services, Inclusive Growth, Reserve Bank of India, Uttar Pradesh

INTRODUCTION

The term 'Financial Inclusion' or 'Inclusive Financing' refers to the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. It is the process of ensuring access to appropriate financial products and services needed by all members of society in general and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by mainstream institutional players The committee formed by the Indian government on financial inclusion, explains financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by impecunious and vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008). This process of financial inclusion involves ensuring bank accounts to each family and subscribing their inclusion in the banking system of the country. Stretch and contact to financial services encourages social inclusion, assures financial empowerment and constructs self-confidence. Former Deputy Governor of Reserve Bank of India, Dr. K. C. Chakrabarty once stated that financial inclusion is no longer a policy choice but it is a policy compulsion

today and banking is a key driver for inclusive growth. The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes ,financial advisory services, insurance facilities (life and non-life) etc

RECENT PICTURE OF FINANCIAL INCLUSION IN INDIA

However, over the last decade, India's financial inclusion agenda has seen a paradigm shift from an emphasis on credit to a more comprehensive approach toward financial services, particularly opening bank accounts and offering basic financial products such as insurance. This shift has been partly driven by the need to achieve other public policy goals, such as replacing product subsidies with cash transfers, which requires beneficiaries to have bank accounts for expediting the transfers. The concern regarding growing macroeconomic imbalances, such as a fall in the rate of financial savings that partly reflects a lack of adequate penetration of bank branches, has also been a driver. This new approach necessitates a change in the financial architecture of India's economy. Since bank account creation is an integral part of the agenda, banks must be more directly involved, as regulations mandate deposit taking as their exclusive domain.

India's record of financial inclusion, despite the existence of a large and well-regulated financial system dominated by commercial banks, is poor. Judging by aggregate macro data, the household debt–GDP ratio of 8.9% is among the lowest in the region, contrasted with the People's Republic of China at 36.8% and Thailand at around 83.0%. 4 The absence of inclusion is especially conspicuous in rural India, home to around 60% of the population. In 2013–14, deposits per head were only Rs9,244 (about $154) in rural areas, with credit about Rs6,000 (about $100) per head 3 Experience has shown that the poor repay uncollateralized loans reliably and are willing to pay the full cost of providing them; access is more important to them than cost.

According to NSSO 59th Round Survey Results out of total Farmer households- 51.4% of farmer households are financially excluded from formal /informal sources, 27% access formal source of credit: one third of this group borrowed from non-formal source, Overall, 73 per cent 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 per cent of all financially excluded farmer households in the country.

Financial inclusion and financial literacy have been important policy goals for quite some time. The Finance Minister has emphasized inclusion in the budget speech. At various fora, the Reserve Bank of India (RBI) and senior government officials had been hinting at a "big-bang" action plan for financial inclusion to be announced by Prime Minister Narendra Modi in his Independence Day address to the nation. There were reports of the

authorities getting ready with a Comprehensive Financial Inclusion Plan (CFIP) or Sampoorn Vittiya Samaveshan in Hindi, which will be breathtaking in scope and extremely ambitious.

The Prime Minister did not disappoint. The Pradhan Mantri Jan-Dhan Yojana, which figured prominently in his speech, heralded the new plan of action. It will be based substantially on the CFIP. Details are, however, awaited.

There is a long history of financial inclusion in India. It has traditionally been understood to mean opening new bank branches in rural and unbanked areas. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of the various shortcomings in delivering subsidies, direct transfers using technology have been thought of. The beneficiary needs to have at least one bank account. Since in a logistics point of view it is impossible to open that many physical branches — the brick and mortar type — the accent will be on opening electronic accounts. Technology adaptation would be a key feature in this scheme for financial inclusion.

The RBI has, in the recent past, taken several steps to further inclusion. Very recently, it circulated for public comment two sets of draft guidelines for issuing licences to payment banks and small banks. These niche banks with lower entry-level norms than for normal commercial banks are meant to further inclusion. While it will take a while for these banks to come up, it is obvious that the RBI is betting on them to provide banking services to those who remain outside the purview of formal banking.The RBI will accordingly nudge banks to offer a basic suite of services. While over the years the government has taken several steps to spread the banking habit, formidable tasks lie ahead. Of the 24.67 crore households in the country, 10.19 crore do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account.The government's latest plan of action, as envisaged in the CFIP or Sampoorn Vittiya Samaveshan, hopes to extend coverage of basic financial services all excluded households. In the first phase, the CFIP will endeavour to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA will consist of 100-1,500 families in a cluster of villages and each SSA will be serviced by a BC agent (BCA) whose task it will be to facilitate account opening and smooth banking operation.

CHALLENGES FOR FINANCIAL INCLUSION IN INDIA

There are several issues, challenges and strategies to achieve the target of complete financial inclusion; however, for restricting to the theme of the paper and space constraints, only major issues, challenges vis-à-vis strategies have been dealt with.

Change In The Approach Of Banks: *Only access to credit or banking is NOT the financial inclusion: Achieving complete Financial Inclusion*: It is often noticed that mere opening a Bank Account is taken or claimed as achieving the target of financial-inclusion. Many empirical studies and Usage Analysis reveal that after opening such bank accounts, hardly there are any transactions take place in such bank accounts. Banks must genuinely strive to provide the directed services under the category or scheme of financial inclusion to the rural population,

since they are the main pillars for the desired success. On this backdrop, the claims of policy-makers, banks, etc., the illusions created and mythical success stories spread must be tested on the basis of parameters enumerated on the background of the RBI's norms and expectations, (NABARD, 2012). Basically, though, the financial inclusion is meant to include all the sections of the society, who are mainly out of the net of the financial institutions, (Chattopadhyay, 2011), yet, financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. Every society should ensure easy access to public goods, (Seth, 2011). Therefore, banking service being a public good should also be aimed at providing service to theentire population. However, empirical studies show that :-

(a)Some banks have no desire to achieve the complete financial inclusion;

(b)Some banks have formed opinion that the complete financial inclusion is not possible and/or it is an empty and useless exercise;

(c)The Banks are ready or eager, but their branch employees are reluctant or give lame excuses to implement the scheme of financial inclusion.

(d) Those who, unwillingly and reluctantly implement the scheme of achieving financial inclusion, assume that merely opening a bank account is the implementation of scheme of financial inclusion Affordable credits are made available only as compulsions.Only in rare cases some of the banks make attempts to provide financial advice to the poor or disadvantaged people.

(g)The costs of serving the poor can be significant in the short-term, thereby, impacting profitability.

This attitude or mindset reflects a very narrow approach to tackling the problem of financial inclusion. Bankers should, therefore, change their mindsets, view financial inclusion as a viable business proposition and adopt innovative methods and low-cost delivery models to reach out to the poor. They should study the different markets across India thoroughly and offer region-wise customized products and services riding on the higher levels of trust enjoyed by them over the other financial service providers in rural India. It was in the context of financial inclusion of the excluded and to facilitate the electronic benefit transfer that banks were directed (GoI-FM, 2012), to ensure opening of one bank account per family. In order to accomplish the objective and to have proper monitoring of the progress various modalities have been suggested. One of the vital obligatory modalities is regarding opening of one bank account per family. The Finance Ministry's recent (May 15, 2012) directives regarding opening of one bank account per family to facilitate electronic benefit transfer and financial inclusion, (GoI-FM, 2012), mandate the banks that families must have one account in a bank on Core banking Solution and having NEFT facility.

The statistics given in these directives depict that:-

(a)Nearly 10 crore households were not availing banking services.

(b)As per 2011 census, about 58.7% households, comprising of 54.4% rural households and 67.8% urban households, had reported availing banking facilities.

(c)Out of the 24.69 crore households, 14.48 crore households reported availing banking services.

(d)Under Swabhimaan, over 3.25 crore bank accounts in rural areas have been opened.

Microfinance Crisis-The fact that microfinance institutions (MFIs) operated in under-served areas led to regulatory forbearance in the initial years, leading to excessive lending before the eventual bust.The dangers of reckless credit expansion in the name of financial inclusion should serve as a cautionary tale for policymakers today. Financial inclusion can be a worthy goal only insofar as it helps reduce poverty levels sustainably. Given that the roots of poverty often lie outside the realm of finance, easing access to credit without addressing real economy constraints is unlikely to either boost growth or help fight poverty.The history of the microfinance industry illustrates the limited potential of credit interventions. Studies that assessed the impact of MFIs in recent years found very little impact of microfinance loans on either the growth of microenterprises or on poverty levels. In contrast, the so-called social banking model of yore, involving state-directed credit interventions in developing countries such as India seemed to have had a greater impact both in raising growth and in denting poverty.

Non Performing Assets-NPAs have become a grave concern for the banking sector in couple of years and impacted credit delivery of banks to a great extent.

As per a survey, net NPAs amount to only 2.36 percent of the total loans in the banking system. However, if restructured assets are taken into account, stressed assets account will be10.9 percent of the total loans in the system. As per the International Monetary Fund (IMF), around 37 percent of the total debt in India is at risk. India's largest lender State Bank of India (SBI) reported a massive 67 per cent fall in consolidated net profit at 1259.49 crore rupees in the third quarter of the 2015-16 financial year and classified loans worth 20692 crore rupees as having turned bad.As per an estimate, the cumulative gross NPAs of 24 listed public sector banks, including market leader SBI and its associates, stood at 393035 crore rupees as on 31 December 2015.The Economic Survey 2015-16 also alarmed the policy makers about growing bad debts with the banks and their potential to disrupt the growth prospects in the future.

Reduced Profits: The banking sector recorded slowdown in balance sheet growth for the fourth year in a row in 2015-16. Profitability remained depressed with the return on assets (RoA) continuing to linger below 1 percent. Further, though PSBs account for 72 percent of the total banking sector assets, in terms of profits it has only 42 percent share in overall profits.

Issue of Monetary Transmission-Like reduced profits, this is also an off-shoot of burgeoning NPAs in the system. With the easing of inflation and moderation in inflationary expectations, the RBI reduced the repo rate by 100 basis points between January and September 2015.However, change in the key policy rate was not reflected in lending rates as banks are not willing to transmit the benefits of low interest policy regime due to low-availability of liquidity against the backdrop of high NPAs.

Corruption -Scams in the erstwhile Global Trust Bank (GBT) and the Bank of Baroda show how few officials misuse the freedom they granted under the guise of liberalization for their personal benefit. These scams have badly damaged the image of these banks and consequently there profitability.

Crisis in Management- Public-sector banks are seeing more employees retire these days. So, younger employees are replacing the elder, more-experienced employees. This, however, happens at junior levels. As a result, there would be a virtual vacuum at the middle and senior level. The absence of middle management could lead to adverse impact on banks' decision making process.

RECOMMENDATIONS

- The number of branches of scheduled commercial banks should be increase rapidly while government of India has taken several steps to enhance it.
- The number of rural branches should be increased more and they should cover the small villages also.
- Adequate communication network should enhance in under privilege areas.
- Have interest rate ceilings specified for NGO/MFI for they tend to charge higher rates of interest in a sugar coated form. These legalities can be introduced once an NGO/MFI enters into partnership with a bank.
- Emphasize on financial literacy for underprivileged people.
- Penetration of insurance sector in rural areas also enhances the success of financial inclusion.

CONCLUSION

To address the market failure to provide financial services to low-income clients, India has a huge opportunity. For the first time in the last decade, financial inclusion is at the heart of the policy agenda, and it has been widened to include savings, credit, insurance, and pensions. Technology increasingly affords the opportunity to improve delivery; in particular, there are technologies that enable better targeting and transfer of financial resources to households. Today, India has several strategic assets providing favorable conditions for change-leveraging technology. A strong banking network of 115,000 branches linked to ekuber (i.e., RBI's core banking solution) is spreading into rural areas that lack banks. Indian Post, with 155,000 outlets, has a payment-banking license, and point-of-sale networks and ATMs facilitate cash transactions across the country. India’s vibrant network of almost 1 billion mobile connections, covering 75% of the population, can facilitate the spread of banking services through the business correspondent model and also enable funds transfer over mobile phones. Moreover, Aadhaar, the

national identification system that seeks to cover the entire population by 2016, can provide backend verification and the security architecture.

Banks by themselves cannot make financial inclusion a success. There is a need for a whole ecosystem that is supportive of this mission. The policy makers, that include the regulators and government bodies, must be in sync; the IT solution providers must put on their thinking caps to come out with innovative products and solutions, communication channels such as internet and mobile need to expand their reach, and the media and the public need to play an active part. In conclusion, with the increasingly competitive banking sector facing frequent slowdowns and downturns, the unbanked population presents a huge opportunity for banks to enhance their customer base and fulfill their social responsibility.

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