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FINANCIAL INCLUSION: RECENT EXPERIENCE AND CHALLENGES

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Abstract

Financial inclusion has gained growing attention among developing countries policymakers and central bankers from around the world. Building Financial Inclusive systems as improving access to finance, access to capital, and resources is a relevant goal to economies at all levels of development. The Reserve of Bank India (RBI) adopted the broad approach to financial inclusion aiming at connecting people with the banking system and not just giving credit, but also people access to payments system and exposes financial inclusion as a viable business model and opportunity. All the banks continue to change direction from rural to urban in India, thus the number of rural bank branches has been reduced in size even as urban branches grow, and then the government pays lip-service to financial deepening and economic inclusion. With the consideration of the above approach, RBI emphasized the need for promoting greater financial inclusion and financial literacy. The RBI formulated regulation with framework covering employment intensive; strengthening of the rural cooperatives; and restructuring of regional rural banks, which cater predominantly to the rural areas. In view of the growing importance of the financial inclusion, there is need to study the concept of financial inclusion and it challenges.

Key words: - Financial inclusion, Reserve of Bank India, Rural development, financial institution.

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INTRODUCTION

According to the World Bank report (2008), Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services. It also asserts that financial inclusion does not necessarily provide for borrowing of unlimited funds for all households and firms for a nominal fee. In order to deal with the issues of financial inclusion, the Government of India made a Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan, it defined that Financial Inclusion 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. United Nations defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society.

Financial Inclusion is important for improving the living conditions of poor farmers, artisans and rural non-farm enterprises. Financial Exclusion, in terms of lack of access to credit from formal institutions, is high for small and marginal farmers. Apart from formal banking channels, the role of Self-Help Group (SHGs), Micro-Finance Institutions (MFI) adopting of business facilitator (BF) Business Correspondents (BC) Model; and emphasizing the simplification of the procedures and processes for lending to the agriculture and Micro, Small and Medium Enterprises (MSME) sectors is important to improve Financial Inclusion. Banks need to take bold decisions and reach out to rural India with strategies and Business models which are beyond the realm of conventional thinking. They need to identify the emerging opportunities in rural India and innovate with low cost platforms, lean branch models, low cost subsidiaries, cost effective technologies, leverage on Aadhar, shared Infrastructure and build collaborative business models to serve in Rural India.

OBJECTIVES OF THE STUDY

The purposes of the study are:

- To study the concept and need of Financial Inclusion in India
- To understand the challenges of rural Financial Inclusion.

REVIEW OF LITERATURE

Reviews of earlier studies on financial inclusion is presented here in order to obtain greater insight into the subject, and to take the bearings of the present study.

Dev (2006) conducted a study on financial inclusion issues and challenges. It revealed that financial inclusion is important for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. Financial exclusion, in terms of lack of access to credit from formal institutions, is high for small and marginal farmers and some social groups. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, the role of the self-help group movement and microfinance institutions is important to improve financial inclusion. This requires new regulatory procedures and depoliticisation of the financial system.

Kamath (2007) tried to study the financial inclusion vis-à-vis social banking. It is found that the banking sector in India is making a concerted effort to increase the degree of financial inclusion in the system. It shows that how financial inclusion differs from social banking and suggests how, today, it can do more for the poor than social banking did in the past.

Ghosh (2004) made a study on micro finance and the challenges of financial inclusion for development. It provides a review of the recent literature on microfinance in developing countries and a critical assessment of its effectiveness. It examines the experience of India, which has one of the largest microfinance sectors in the world, and particularly the unfolding of the microfinance crisis in Andhra Pradesh. It concludes that microfinance cannot be seen as a silver bullet for development and that profit-oriented microfinance institutions are problematic. To fulfill even some of its progressive goals, it must be regulated and subsidized, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.

Srinivasan (2007) examined the policy issues and role of banking system in financial inclusion. It stressed that financial exclusion remains a major issue in the unorganized sector. Expansion of services in this area by banks will not be very easy because of the special situation and needs of the unorganized sector. This article suggested that while structural solutions are expensive and nevertheless must be pursued, banks should think of designing a process response to the problem, drawing on the experiences and practices of the traditional lenders to the unorganized sector.

Chavan (2007) enquired about earlier policy of social and development banking has given way to one of financial inclusion, albeit without compromising commercial opportunities. Rural households are thus turning to more burdensome informal credit channels, with dalit rural households facing greater marginalization due to financial exclusion from the formal credit system.

Karmakar (2007) conducted a study on emerging trends in micro finance. The study highlighted to enable the transition of microfinance to a well functioning and mature industry so that financial inclusion has a better social impact; the existing system needs to be strengthened by addressing certain core issues. The self-help group-bank linkage programme needs up scaling and structured financing to microfinance institutions is required if they are to get wide access to funds for a better approach that will enable them to deliver on their potential to reduce poverty.

Rangeswara reddy (2016) studied the role of financial inclusion, in strengthening the India's position in relation to other countries economy. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analyzing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Data source:

Study is mainly based on secondary data collected from various sources such as Unpublished PhD thesis, Books, Journals, Research articles and Internet websites.

NEED OF FINANCIAL INCLUSION IN INDIA

Financial Inclusion clearly emphasized to ensure a range of appropriate financial services that should be made available to every individual and also enable them understand and access those services. Banking facilities has not reached to rural and unprivileged sector of the society. This led to financial gap and instability among the rural people. Now a day's Govt. and RBI are formulating various policies to build the financial strength in Rural India through Financial Inclusion.

- India needs to be conscious on poverty alleviation, especially among vulnerable groups.
- Equitable economic growth through improvements in livelihoods, decent employment opportunities, food security.
- Financial Inclusive (FI) mobilizes savings that promote economic growth through productive investment.
- FI promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.

- This helps the weaker sections to channelize their incomes into buying productive resources or assets.
- In the situations of economic crisis, the rural economy can be a support system to stabilize the financial system. Hence, it helps in ensuring a sustainable financial system.
- Financial inclusion support both economic efficiency and equity and self-reliance
- Unrestrained access to public goods and services is an essential condition of an open and efficient society.

The banking services are in the nature of a public good and it is essential that the availability of banking services to the entire population without discrimination is the prime objective of public policy and finally, increased levels of maintaining growth momentum, especially in developing countries.

Due to absence of proper banking avenues, people in rural India are not able to channelize their savings. Through Financial Inclusion saving habit can be developed by educating people to utilize their funds in various Financial Instruments rather than investing in building, lands and bullion etc. Absence of formal credit channels, farmers and deprived section of society are dependent mainly upon the private money lenders who charge exorbitant interest rates. This type of money lending does not result in increase in GDP in the country. By providing easy finance through formal channels like banks, micro-finance institutions and co-operative credit societies entrepreneurial spirit of the population can be developed that will bring prosperity in the society.

FINANCIAL INCLUSION AND RURAL DEVELOPMENT

The majority of the rural population was far from the credit market due to high interest rates and the lack of convenient access to credit. Therefore, the rural people need credit for investing in agriculture and consumption purpose. The majority of people are small and segregated from main revenue villages and town, these rural households naturally tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. as the existing financial institutions not able to provide them with credit at lower rates and at reasonable terms. So the traditional money-lender has the opportunities to prevent them from formal finance institutions and trap them in an easy way. Finally, it leads to financial exclusion and become the cycle of the excluded population. In India, it has to focus on the majority who are excluded and try to initiate various schemes, in the formal financial sector.

Financial access provides an environment where the common people have access to the formal financial institutional system and thereby are able to access various financial products such as deposits, credit, and micro-insurance/pension safe funds transfer at affordable prices and with ease of access. The access should be to any financial instrument. Thus financial inclusion is the process of facilitating the access of those sectors/segments of the population which are denied these facilities to become a part of the formal financial system, either as individuals or as groups.

CHALLENGES OF FINANCIAL INCLUSION

Major constraint in achieving Financial Inclusion in India is lack of technology i.e. Non-functional hand-held device, unavailability of power, network and limited number of technology service providers to cover the unbanked villages. Inadequate outreach in many regions, delays in opening of SHG accounts and disbursement of loans, impounding of savings by banks as collateral. More focus on voluntary savings, Cash credit system of lending over three to five years cycle, to minimize the problem of inadequate finance and non-availability of repeat loans, Enabling creation of Joint Liability Groups (JLGs) within SHGs, to scale up economic activities by more entrepreneurial members, Improving risk mitigation systems by bringing in third party audit, Building second tier institutions, Strengthening the monitoring mechanism and Addressing training requirements.

Some of the policy changes to improve financial inclusion were hurriedly executed without setting up an appropriate regulatory authority and proper consumer education. RBI launched National strategy for financial Education on July 16, 2012 with a vision to build a financially empowered India with the goals to create awareness and educate consumers on access to financial services, availability of various types of products and their features, change attitude to translate knowledge into practice and to educate consumers regarding the various financial services. Therefore keeping all these aspects in mind, a variety of innovations can be done in rural India.

CONCLUSION

The progress in rural India and emerging developments are providing banks an immense opportunity to grow their business and bring prosperity to the aspiring poor through financial inclusion. Number of initiatives was taken by RBI, with the aim of lending to the priority sectors with emphasis on enhanced flow of credit to rural sectors of the economy which impact large segments of the population. Rising rural incomes, growing consumption, public policy focus on inclusive growth rollout of several Government schemes aimed at rural India. Payment of wages, social security payments, other benefits through EBT directly into bank accounts creating several opportunities for banks to play an active role in the rural India. Thus banks should take a step forward to formulate specific plans to enhance financial inclusion of unbanked section of the society. At the same time they should device the strategies to reduce their transaction cost to actively participate in the process of financial inclusion treating it as business opportunity and corporate social responsibility.

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