VOLUME-7, ISSUE-5, MAY-2018 • PRINT ISSN No 2277 - 8160

Original Research Paper

Management

A STUDY ON CHALLENGES AND OPPORTUNITIES OF FINANCIAL INCLUSION FOR SUSTAINABLE DEVELOPMENT – A LITERATURE REVIEW.

D. Mahalakshmi Research Scholar, Department of Business Administration, Annamalai University. Annamalai Nagar-608002.

Dr. K. Rukmani Assistant Professor, Department of Business Administration, Annamalai University. Annamalai Nagar-608002.

ABSTRACT This paper aims to assess the current opportunity and challenges of financial inclusion on the development of Indian economy by analyzed the state bank group and private sector banks. The Bank growth rate in terms of number of bank branches, offsite and onsite ATM, usage of debit card and credit cards were analyzed. It was observed from the study that the usages of cards and other bank services has increased tremendously throughout the study period and banks focused more on rural and semi-urban areas, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited, even years after introduction of inclusive banking initiatives in the country, like cooperative movement, nationalization of banks, creation of regional rural banks, etc. also focuses in the challenges and opportunities.

KEYWORDS : Bank, Opportunities, challenges, Growth and Indian economy.

Introduction

Financial inclusion enhances the economy. In the contemporary era of running for economic power and self-reliance. It is important for any regime to create congenial conditions for individuals, households and private institutions for the availability of banking services. The availability of banking facilities and more bank branch network are the major facilitators of developmental and expansionary activities. A strong financial system is a pillar of economic growth, development and progress of an economy. A financial system, which is inherently strong, functionally diverse and displays efficiency and flexibility, is critical to our national objectives of creating a market-driven, productive and competitive economy. A mature system supports higher levels of investment and promotes growth in the economy with its coverage. The economic agents facilitate in growth and one of the important facilitator is Financial Inclusion.

United Nations defined the main goals of inclusive finance as access to a range of financial services such as saving, credit, insurance, remittance, and other banking payment services to all bankable households and enterprise at a reasonable cost. The concept of financial inclusion can be traced back to the year 1904 when co-operative movement took place in India.

Even after all these measures a sizable portion of the population of the country could not be brought under the fold of banking system. In fact, there is a severe gap in financial access which needs special attention. It is found that lack of inclusion or rather exclusion from the banking system results in a loss of one percent to the GDP. Thus, financial inclusion is not just a socio-political imperative but also an economic one. Realizing the gravity of the problem, Reserve Bank of India in its Mid Term Review of Monetary Policy urged the banks to make financial inclusion as one of their prime objectives.

The positive impact of financial inclusion is wide-spread across the globe. Most of the literature on banking sector outreach focus on its effect through cross-country evidence. World Bank has also done a study on this subject for rural India and found that about 40 percent of households have deposit accounts, 20 percent have outstanding loans and only 15 percent have any insurance.

Review of literature

Sangwan (2007) studied financial inclusion and self-help groups and found that over the last 15 years, India has witnessed unprecedented growth in financial services unfolded by liberalization and the globalization of financial services due to the adoption of information technology and the unlocking of the regulatory framework. The study concludes that this positive development, there is evidence that the formal financial sector still excludes a large section of the population.

Mandira Sarma and Jesim Paise (2008) suggested that the issue of financial inclusion is a development policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socio-economic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage also play positive role in enhancing financial inclusion.

Charkrabortys (2009) focused on technology, financial inclusion and the role of banks showed that technology can operate on any platform. However, the technology solution to the business needs should be user-friendly without much third-party or information technology vendor intervention or support requirement for operating the same. This study banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income groups, treating it as both a business opportunity as well social responsibility.

Joseph Massey (2010) said that role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

Oya Pinar Ardic, et, al., (2011) explained that using the financial access database by CGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services.

Objective of the study

To review the challenges and opportunities of financial inclusion for sustainable development in Tamilnadu.

To understand the financial inclusion and its importance.

Importance of Financial Inclusion

The Financial Inclusion is defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost.

If customer is financially educated, he will make better financial choices, for example what kind of financial products can fulfil his individual needs? It will help in improving overall growth of the country. Access to financial services at an affordable cost will improve life of the poor, Rangarajan Committee report (2008).

Financial inclusion is a long term strategy, but to achieve its objectives, there is following factors:

- It should provide access to basic financial services like banking etc.
- The usage of financial services should be address needs of the poor.
- The financial product should be affordable.
- Quality of product and services must be enhanced.

Recent development has shown that technology plays an important role in improving financial inclusion because of the following reasons:

- It helps to reduce cost of the product.
- Reduces transaction cost.
- Improves quality of the product.
- Helps in increasing choices and flexibility to customer.

Opportunities of Financial Inclusion

Financial inclusion helps to encourage banking habits irrespective of regions, gender, income and age. It is also to provide funding facility to the poor and the weaker section of the society for more productive purpose and providing access to easy finance. It paves way for growth and development of an economy by ensuring timely and quick availability among the needy sectors. It will also attract global market player which results in increasing business and employment opportunity.

By saving small amounts over time, the poor people can arrange funding for the lump investment needed in businesses like for purchasing equipments or buying goods at a wholesale price.

Financial inclusion encouraged saving habits and it can also provide funds for searching more productive sources of employment by providing access to easy finance and banking services to even in rural areas.

Financial inclusion help the poor in meeting various needs with the help of a wide range of financial services which are readily available and affordable. Financial services will provide tools which will help in providing easy financing facilities in many fields like microenterprises investments in new production technologies, helping in agriculture purchasing productivity-enhancing inputs such as fertilizers, labourers search for better job opportunities or childrens education and to mitigating peoples exposure to large Lifecycle events or unpredictable risks.

Challenges of Financial Inclusion

The Indian economy is growing at a steady rate of 8.5 percent to 9 percent in the last five years or so. Most of the growth is from industry and services sector. Agriculture is growing at a little over 2 percent. The potential for growth in the primary and SME sector is enormous. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, financial inclusion imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence financial inclusion is considered to be critical for achieving inclusive growth, which itself is required for ensuring overall sustainable overall growth.

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc.

The main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks.

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 and offering debt counselling etc. by banks. Every society should ensure easy access to public goods. Therefore, banking service being a public good should also be aimed at providing service to the entire population.

Most of the rural people depend on informal borrowing than formal. Because, rural people do not have basic education. They are not able to understand financial literacy and various documents to open a bank account. Lack of infrastructure discourages rural people not to use bank transactions because of long distance between residence and bank. Less income is also another problem as their earnings are barely utilized for their sustenance and savings is a distant dream. Many customers do not have knowledge in banking services like cheque facility, insurance, bank accounts, etc.

Financial services are used only by a section of the population. The excluded sections are rural, poor areas where it is difficult to provide these financial services which are mainly relying moneylenders etc. for availing finance that is usually at high interest rates. The main challenge of financial inclusion is to include the rural and poor people in the coverage area.

Poor living even in urban areas does not fully utilize the financial services as they find them costly and unaffordable which divide the poor from accessing them. Access to formal financial services requires various documents of proof regarding persons identity, income, birth certificates, etc. But poor people generally lack these documents and hence, they are avoid of these services.

Many financial institutions not able to justify on commercial grounds the establishment of broad-based infrastructure to serve poor households so they sometimes pull back to their physical presence in rural or poor areas and also place some restrictions to discourage the custom of poor people (e.g. high minimum account balances). Hence, they also pass the access cost on to customers, who had to travel to distant branches and face long queuing time. As a result, many poor people reject financial institutions that serve the middle and upper classes.

Recommendation

Financial inclusion is still a long road ahead. Innovations in the field of branchless banking and banking business model are making their way towards this goal. It is suggested that product plays a very important role in creating a financially inclusive ecosystem.

- Government should increase number of banks branches in rural areas.
- Banks should focus more on products which should be simple, affordable and should have high utility.
- RBI should frequently check whether the financial products are actually utilized by customer effectively, if not it should be analyses the reasons.
- Banks should do regular surveys in villages for understanding the financial needs of the customers.
- NGOs and other not for profit organization/ social organizations / Non-Governmental organizations etc. may be involved more to propagate the financial services to the remote and non-accessible areas.
- Banks should allow customers to provide feedback about the product services.
- R B I should allow service providers to provide better mobile banking products at affordable price.
- Micro Finance Organizations/ Non-Banking Financial organizations may be given permissions to do limited financial services in remote areas.
- Enlist many intermediaries/ agents with incentives to facilitate popularizing Financial products in remote areas.
- Opening of Bank Accounts without minimum balance condition should be allowed at all branches and especially in rural places.

Conclusion

In India, Financial Inclusion is at moderate level when compared to the developed countries. In view of ATMs, branches, credit and outstanding deposits, the RBI has adopted various models and strategies such as BCs model, no-frills account, simplified KYC Norms etc., are essential to strengthen financial inclusion. To cope up with the challenges to expand financial services, there is a need for viable and sustainable approaches, business models for affordable products, process for efficient handling of transactions and appropriate regulatory work and risk management policies to ensure financial inclusion.

Financial inclusion enhances to the economy. It will grow faster and will be more stable. It will increase the quality of life of the people of the country and also ensure an orderly growth. It will also reduce the gap between the rich and the poor. This is what Mahatma Gandhi visualized our India should be.

References.

1. Mandira Sarma and Jesim Pais. (2008) Financial Inclusion and Development: A Cross Country Analysis, Indian Council for Research on International Economic Relations, 1-28.
2. Chakraborty (2009) Technology and Financial Inclusion and the Role of Urban Cooperative Banks,,RBI.
3. Joseph Massey (2010) Role of Financial Institutions in Financial Inclusion, FICCIs Banking and Finance Journal.44-53.
4. Sangwan, (2007) Financial Inclusion and challenges and opportunities, Remarks at the Bankers Club, 63-72.
5. Nitin Kumar,(2003) Financial Inclusion and its Determinants: Evidence from State Level Empirical Analysis in India.
6. Rohit Sarkar (2001) Vision 2020 for India: The Financial Sector (Planning Commission Report).
7. Nagaraja, Dr. Pallavi and Kusugal (2006) Financial Inclusion and Rural Development.
8. Leeladhar, (2005) Taking Banking Services to the Common Man – Financial Inclusion, 112-121.
9. Anupama Sharma and Sumita Kukreja,(2004) An Analytical Study: Relevance of Financial Inclusion for Developing Nations.