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Bringing Financial Services to the Ordinary Man – Financial Inclusion

*Mr. M. Ganesan

* Assistant Professor & Head, Department of Commerce, Maharaja Arts and Science College, Coimbatore, Tamil nadu -641407.

ABSTRACT

Full Financial Inclusion is a state in which all adult people have access to a full range of quality financial services at an affordable cost with convenience and dignity. In India financial inclusion at present includes even those who have savings bank account. But in international level it has been viewed in a much wider perspective. Having an account in bank is not considered as an accurate indicator of financial inclusion at the international level. There are multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify those people who are "super-included". At another extreme, there are people who are "excluded" even from the very basic financial services. In between there is yet another category which uses the financial services only for deposits and withdrawals of money. In India one survey indicate that 45.9 million farmer households in the country out of total 89.3 million households do not have access to credit from any source and as per census 2001, only 59 persons per 100 adults have demand deposits in banks. Therefore there is an urgent need to address the issue of financial exclusion. In this connection, this paper aims to bring out the suggestions to the decision makers for taking full financial services to the people at all extremes with suitable models and strategies.

Keywords : Financial Inclusion, Super-included, Financial Inclusion Score Card, Inclusion Models & Strategies.

What is financial inclusion?
International Perspective

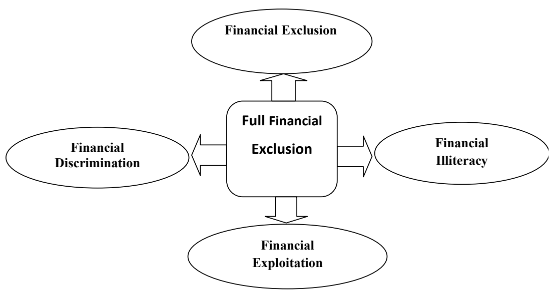
Meaning of Financial inclusion is viewed differently in different countries; their views differ based on their economic status. In the International perspective, financial inclusion is a state in which all people of working age have access to a full suite of quality financial services that includes payment services, savings, credit, and insurance. These services are provided at affordable prices, in a convenient manner, and with dignity for the clients.

Indian view

In Indian context financial inclusion means the availability of basic financial services to the needy people. In India even the people who have savings bank account are considered as financially included but in the global view it is not so. As per Dr. Rengarajan Committee Report, Financial inclusion is the process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."A

Financial Exclusion

Financial exclusion means a working age group not at all accesses even the basic financial services from the formal financial companies such as, banks in all category, financial institutions and insurance companies. The term financial exclusion includes not only quantitative but also qualitative i.e. financial illiteracy, financial discrimination, and financial exploitation. The following graph explains the term Financial Exclusion.



In India, the extent of financial exclusion is so highly compared with other developing and developed economy; still only 5.2 per cent of villages in India have the complete banking branches. In India out of 119 million farmers 97.7 farmers lack access to even the basic financial services. The National Sample Survey Organization data reveals that 45.9 million former households in the country out of 89.3 million households do not have accessibility to credit from any source, further, as per census 2001; only 59 per cent of adults have demand deposits in banks. The Rangarajan Committee report shows that 73 per cent of Indian households are not indebted to formal financial institutionsB. The following table exhibits the extent of financial exclusion in India.

Financial Exclusion in India

S.No	Particulars	Extent of Exclusion (Percentage to total Population in India)
1	Check in Accounts	60%
2	Life Insurance Products	90%
3	Non Life Insurance Products	94%
4	Credit Card	98%
5	ATM-Debit Card	87%
6	Banks In Villages	94.8%*
7	Farmers –Check in accounts out of 119 million	97.7 million

Source: The Analyst, ICFAI University Press, Oct-2009 (*Percentage to Total Villages in India.)

Financial Exclusion draws more concern in the community when it applies to lower income consumers and/or those are in financial hardship. As per Dr. K. C. Chakrabarty, M.D. of Indian Bank, financial exclusion is more concern among the Poor, Socially under privileged, Disabled, Old as well as children, Women, Uneducated, Ethnic Minorities and Unemployed. These people can't access to financial services, it leads to slow and uneven growth in the financial service sector. Generally, they are not able to manage their money securely, which increases their vulnerability to economic shocks and inability to contribute in the economic development of the country.

Need for Financial Inclusion:
Financial inclusion is of great magnitude to entertain the funds from unorganized financial sector to fruitful organized sector. In order to help the economy to grow, channelize of the surplus money to those who can put in productive use and encash the available opportunity is needed. On the other side low income group and weaker section of the society can be provided the credit facility to uplift their living condition. Based on the Indian and international views about financial inclusion, it can be predicted that the public as well as the economy of any nation will get benefited out of financial inclusion. So it can be envisaged that the exclusion in the long run may have a negative impact in the economic development of any country. Therefore, there is urgent need to address the issue of financial exclusion with all seriousness.

Indian Action for Financial Inclusion:
Indian government and RBI have taken immense number of actions for bringing financial inclusion among lower and weaker sections of people to its point out in the following paragraph.

- Co-operative Moment
- Setting up of the SBI in 1956.
- Nationalization of Banks (14 banks) in 1969 and (6 banks) in 1980.
- Lead bank Scheme.
- Incorporation of Regional Rural Banks.
- Encouragement to formation of Self Help Groups.
- Service Area Approach.
- Introduction of General purpose Credit Card.
- Banks have allowed to BC as their agents, supporting IT enabled financial inclusions.
- Allowing RRBs, Co-operative banks to sell financial products.
- Facilitate the opening of No-Frill accounts with ready-made overdraft facilities, etc.,

Even though, the policy makers and other stake holders know that to despite such measures, a considerable magnitude of people has still no access to the institutional financial services. The major reasons for this failure are inappropriate strategies and technologies. Therefore the policy makers want to frame exclusive strategies for each and every segment of people.

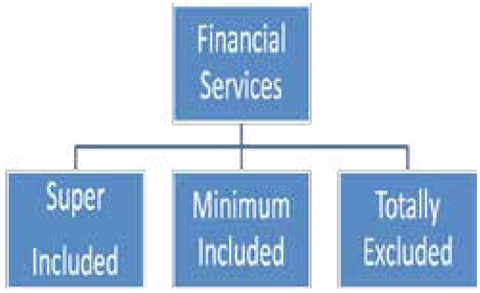
Score Card for Financial Inclusion
Table.1
Full Range of Financial Services
Relevant for Low-Income Households & their Enterprises
(Italicized services are the basis for the Financial Inclusion Scorecard)

PAYMENTS	SAVINGS	INSURANCE	CREDIT
Money transfers International transfers Bill payment Government transfers and benefits ATM/debit cards e-Payments	Savings account Checking/current account Certificate of deposit Pension Youth savings Program savings	Life Health Property Disability Agriculture/crop Credit life	Personal Consumer Credit card Education Mortgage Home improvement Micro enterprise Business fixed asset Leasing

In case of full financial inclusion all the people of working age have access to a full range of financial services which includes payment services, savings, credit, and insuranceA. These services are provided at affordable prices in a convenient manner with dignity to the clients. Here aim to the end goal of full financial inclusion is —unlocking the social and economic potential of all who are currently excluded from the formal financial system.

Researchers have included basic services in four categories to construct our Financial Inclusion Scorecard. The four core services address common financial needs experienced by households of all income levels and by small and micro enterprises. Access to a full range allows these households and businesses to make the best use of their resources. Concentrate on the basic core products in each category and take a necessary first step toward developing a wider range. These products are already available on the market in a form suitable for all people.

In this context it is necessary to take into account the three categories of people who are super included, who are excluded and who have only minimum access to financial services. Also, it is important to convert the people who have minimum access into super included and who are excluded to be brought to the minimum access status. Categories of people are classified under three types; it is illustrated in the following chart.



Strategies for bringing into minimum inclusion:
- People who carry any transaction in the country worth of Rs.500 & above should be through the negotiable instruments.
- Micro-finance companies can be permitted to raise capital through capital market
- Private & public sector banks may be allowed and insisted to start more number of branches at rural & under developed areas by fixing low CRR and SLR.
- Both public and private sector commercial banks may extend their financial catering services to the rural areas where financial exclusions are more.
- Shelf Help Groups to be included in the financial transactions in the rural areas.
- Strengthening the co-operative banks in respect to its technological and infrastructure facilities.
- Rehabilitation of existing dormant RRBs and Setup more RRB's in the areas where financial and social exclusions are more.
- Bankers may have tie-up with postal department towards better financial services to the rural and financially excluded people.
- Creation and enhancing of self-employment opportunity for youth in rural area.
- Smart cards may be introduced by financial institutions & Post offices.
- To effectively implementing the "No Frill Accounts", and simplify the KYC norms.
- Utilization of Intermediaries (Business Correspondent i.e. NGO, SHG).

Strategies for converting the minimum included into super-included:
- Enhancing of Mobile Banking services i.e. financial products information, accounts balance information and information about new services, to the account holders.
- Strengthening of Net Banking facilities in respect of its technology and features.
- Conducting special promotional programmes towards educated people about the importance of financial services to them.
- Introduction of general Credit Card, Tourist Purchase Card and Traveling Card etc.,
- Offering Credit Counseling, and encouraging to the entrepreneurs to offer financial services (Consultancy).

Strategies for keeping them under super included:
- Offering of loans with special interest rates.
- Offering of fixed deposits with insurance coverage's.
- Credit card services for fixed deposit holders.
- Credit and Debit card services for any type of account holders.

Conclusion

A large amount of strategies are introduced for brining the full financial inclusion but still which are not fully implemented, it is because of the adverse interest of the financial institutions adverse interest, preferences and attitudes for allowing to open bank account by poor people and other excluded people. Moreover all these strategies and polices are commonly framed for all kind of people, so the excluded segments of the population require products which are customised, taking into consideration their varied needs. The products and services offered at present do not effectively meet these needs. Therefore policy makers are needed to frame financial inclusion policy which is suitable for each group of excluded segments of people.

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