Research Paper Management

Present Status and Challenges of Indian Financial Inclusion Initiatives

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ABSTRACT

In recent decades, economic and social inequalities have increased along with high growth rates in India. It is not possible for us to sustain our growth process if we fail to include a huge number of vulnerable groups in our mainstream society. As a result, Inclusive growth has become a national policy objective of our Government and it is possible only through Financial Inclusion. It has been unanimously and globally recognized as one of the key elements for eliminating poverty and narrowing down the glaring urban-rural economic disparity, but it is quite difficult for the formal financial institutions to penetrate into every nook and corner of India to financially include our huge unbanked population. In this back drop, this paper highlights the innovative use of ICT which can deliver cost-effective and efficient services at the door step of the target groups.

KEYWORDS Financial Inclusion, Equitable Growth, ICT, Door-step banking

According to World Bank report, India's per capita income doubled between 1995 and 2010 but the report titled "Global Hunger Index 2012" released by three organizations, stated that India has lagged behind in improving its Global Hunger Index score despite economic growth. The report states that India ranks 65th out of 79 countries on a global hunger index, even she lags behind the neighbouring Pakistan and Sri Lanka in reducing hunger level. Thus, in recent decades, economic and social inequalities have increased alongside high growth rates. On the one hand, our country is shining with the ever increasing middle class with their increasing buying capacity. On the other hand, there is poor class which is languishing. Hence, it is not possible for us to sustain our growth process if we fail to include a huge number of vulnerable groups in our mainstream society. As a result, Inclusive growth has become a national policy objective of our Government. Inclusive growth aims at reducing the lopsided regional development and also the disparities that are steeped in the economy and society, between the upper and the lower class, the rural and urban population. Current policy objective of inclusive growth with stability is not possible without achieving universal financial inclusion. Financial inclusion has been unanimously and globally recognized as one of the key elements for eliminating poverty and narrowing down the glaring urban-rural economic disparity in India.

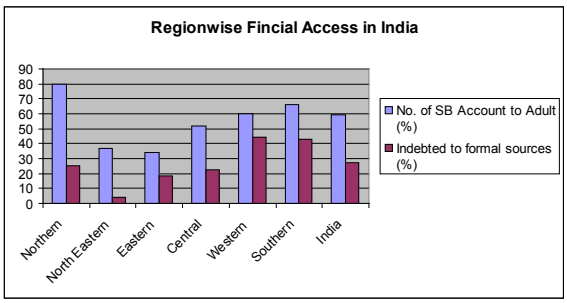
It is evident that a country where the number of the financially excluded people is higher, there the number of persons below poverty line is also higher and vice versa (Mandira Sharma & Jesim Pias, 2008).

Table-1 shows India's position in providing financial access from demographic and geographical perspective: (Source: Financial access survey-World Bank)

	India	Sri Lanka	Maldives	High income OECD Countries
Demographic branch penetration (branches per 100000 people)	6.6	8.84	10.37	10-69
Demographic ATM penetration (ATM per 100000 people)	3.28	5.69	13.04	47-167
Deposit account per 1000 people	467.35	1304.31	965.02	976-1671
Loan account per 1000 people	89.03	240.37	141.97	248-513
Geographic branch penetration (branches per 1000 Km2)	25.49	18.28	103.3	1-159
Geographic ATM penetration (ATM per 1000 Km2)	12.68	15.00	130.00	1-437

If we compare the performance of Indian economy with other south East Asian countries in terms of efficiency, financial stability, capital market development, market capitalization and savings mobilization, India is ranked one but in terms of providing financial access to the masses, India is lagging behind the other South East Asian countries and far behind in comparison to high income OECD Countries. For instance, as per a recent survey commissioned by British Bankers' Association, 92% to 94% of the population of UK has either current or savings bank account. Most of the populations in developed countries (99 per cent in Denmark, 96 per cent in Germany, 91 per cent in the USA and 96 per cent in France) have bank accounts.

On further analysis of access to financial services in India, we see glaring disparities from one region to another. Graph: 1-shows the region wise distribution of access to financial services: (Source:RBI)



The above data depicts the extent of exclusion from the formal financial services. For instance, the ratio of access of formal financial services for the state of Kerala is as high as 89% while Bihar is marked by a low coverage of 33%. In the North Eastern States like Nagaland and Manipur, the coverage was a meager 21% and 27%, respectively. There are many parts of our country where more than 95 per cent of the farm house-

holds do not get any credit from institutional or non-institutional sources. Thus, apart from the fact that exclusion itself is large, it also varies widely across regions, social groups and asset holdings.

There are a variety of reasons for financial exclusion. From the perspective of demand, lack of awareness, low incomes, illiteracy and exclusion from the society are impediments. From the perspective of supply, geographical distance from the branch, timings of the branch, cumbersome documentation and procedures, unsuitable products, problem of language and attitudes of the staff are common reasons for exclusion. The supply side problem can be solved with the initiative of the Government and already the Government took much zeal in opening banks in remote areas. Also for reaching the masses; zero bank accounts were opened so that even very poor people can open their bank accounts in absence of money. The problem however is deeper. Just by opening branches of the bank in the rural areas is not sufficient. It can only fulfill the supply side, but if we view the things from demand side perspective, in villages besides poverty, there is illiteracy, ignorance and fear of refusal. These psychological barriers exist even amongst the urban poor where there is no dearth of bank facilities. The income of the urban poor is also somewhat greater, as compared to their rural counterparts but the psychological barriers are equally relevant here. The Government normally does not take into account this demand side perspective. In these circumstances, technology is the only answer to these problems. With the massive growth of ICT we can look forward to its penetration in the remote areas to cater to the supply side and technology alone can make the cumbersome procedure easier to overcome the problems of demand side like ignorance, illiteracy and hesitation to avoid facilities.

Suggestion and Conclusion:

Though the Government and RBI took some serious steps to reach the target of 100% financial inclusion drive but the result is not up to the mark. In light of the challenges of financial inclusion programme we shall make some suggestions:

1. It is seen that the Government set goal of financial inclusion to be implemented by bank. Banks however, take it as a burden some responsibility to reach the goal of financial inclusion in rural areas which are not considered commercially viable by the banks. So only formalities are fulfilled by the banks and though an area may be declared as 100% successful in the arena of financial inclusion but actually this may not be the case. It is similar to situation where an area may be declared hundred percent literate but in reality this not always the case. What lacks here is the zeal for the responsibility, which is often looked upon as an imposition from above. What is required is zeal from the staff of the bank and joint attachment of the banks with the local administration in carrying out the goal of financial inclusion. People repose more faith in Government than in any institution like bank.

2. In compliance with the financial inclusion programme for the unbanked and disadvantageous people huge numbers of no-frills accounts were opened, however the objectives were not fulfilled with which such no-frills accounts were opened. Because a study reveals that only eleven percent of such accounts with meager Rs.200 to 300/- balance is operative. The reasons for this inactiveness are many. In the first place rural people do not understand the utility of such accounts. Secondly they have to travel a long distance to reach brick and mortar bank which are normally located at a distance of 10 to 15 kilometers from their areas. It also means losing work of one day. Thirdly, due to strategy and mindset of the banking authority, such people regarded as commercially unviable and at the same time illiteracy and ignorance of these people deter them from availing the services of the bank because a fear psychosis prevents them from doing so. To overcome these difficulties certain measures can be taken:

a) The banking services should be taken to the doorstep of the people. For this bank should use common service centers, BC/BF model and point of service (hand held device) option for providing banking services to the remote areas. For this purpose banks have to improve their technological infrastructure. The RBI and Government is giving too many incentives to bank but at the same time the Government should make it compulsory for the banks to invest certain percentage of their profit to advance technology for making banking services available to the underprivileged people.

b) The data (source:RBI) reveals that more than 87% of no-frills accounts are opened by the PSUs that means private sector banks operating in India are, lagging far behind in implementing financial inclusion agenda, whereas they are more sound on technological front and also their profitability is higher than the PSUs. So stricter rules are required for the implementations of financial inclusion by the private banks.

c) Even if the issues like technological infrastructure and providing banking services at the doorstep is resolved, still there will be very few transactions on those accounts opened for the under privileged people. Thus, it will be financially burdensome for the banks because the banks have to incur expenses from opening to maintenance of such accounts. However if direct cash under the social security funding schemes are transferred to the bank accounts of beneficiaries then at least some more transactions will take place and they can draw money as per their requirement. In this way the poor people whose spend all their incomes learn to save and banks also gradually recover their losses.

d) In the next place due to the illiteracy of those people there is a possibility that those people may be cheated by the banking agents. The poor people also suffer from fear psychosis regarding use of technology. Thus, massive awareness programme for those people is required by the bank with local government authority. The programme should preferably be visual in nature and in such programme; they should introduce the banking agents who will work in those areas.

In conclusion it can be said there are three hindrances in the way of implementation of financial inclusion projects. Firstly, in a vast country like India with so many geographical barriers, penetration into every nook and corner is a big problem. Secondly, for the financially excluded people to be included fulfillment of KYC norms is a hindrance. Thirdly, the problem remains whether the target group can actually reap the benefit of such projects. To tide over these hindrances the use of Aadhaar enabled identification card can solve the problem of fulfilling the KYC norms. The use of mobile phones along with the new technology can solve the problem of penetration and payment of money to the ultimate target group in a cost efficient manner. Our Government has already started EBT scheme for making payments to the workers involved in various public welfare schemes and for this the Government has taken the responsibility of providing such technology enabled mobile phones to the poorest of the poor.

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