FINANCIAL INCLUSION: A CRITICAL REVIEW OF ITS LIMITATIONS AND REMEDIAL MEASURES

Dr. Vinay G. Bhole
Principal, Model College (Autonomous), Dombivli
Email: bholevinay@gmail.com Contact: 9820645036

Abstract: After Independence though the Five Year Plans were implemented on priority basis, the need to revamp banking sector was not much felt by the Government authorities. In 1969 to make banking more and more service oriented 14 banks were nationalized. After this phase in 1980 to support the same policy 6 more banks were nationalized. After Independence it was observed that, most of the Indian people were not aware banking services and banking habits. In those days more than 75% population was rural by nature. Hardly, few people were financially literate. However, they were unable to utilize banking services properly. On the verge of new millennium the term 'Financial Inclusion' became very popular. It has direct co-relation to unemployment and poverty. Still many Indians remained away from banking services due to limited access to banking facilities and lack of knowledge. Due to the rules and compulsion made by RBI many banks have opened branches in village area. They have come forward to assist financially and economically backward masses. The Government of India had plans to establish bank branches all over India in every nook and corner. However, still half of the villages have remained deprived of banking services. To make available banking and other financial services to the rural Indians RBI and Government of India has always tried for. The objective of this research paper is to study the concept of financial inclusion, to review its limitations and to analyse remedial measures.

Keywords: Financial Inclusion, Financial Services, Banking Services.

Introduction: The term 'Financial Inclusion' has become a very significant term. It has become a need of the time. After the year 2000, it has become more prominent. In simple words, financial inclusion, stands for delivery of appropriate financial services at an affordable cost. The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of the society. Lack of access to financial services for small or marginal farmers and weaker sections of the society.

Meaning and Definition: Financial inclusion means a situation in which people do not have access to mainstream financial products and services such as banks accounts, credit cards, insurance policies, education loan, property insurance and so on. Financial exclusion contains savings schemes, pension schemes etc.

As per the report given by the Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan (2008), 'Financial Inclusion may be defined 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'.

Objectives of the Study:

1. To study, analyse and interpret the term 'Financial Inclusion'.
2. To study the objectives of Financial Inclusion.
3. To study banking services available for the needy Indian people.
4. To study and understand the actual challenges faced by the policy of Financial Inclusion.
5. To suggest remedial measures to make effective the policy of financial inclusion in rural India.
6. To find whether financial inclusion is myth or reality.
7. To review the status of current financial inclusion in India.
8. To understand the financial exclusion and inclusion and its importance.
9. To study approaches adopted by banks.

Methodology of the Study: The present research study is based on secondary data. The secondary data is collected through bank reports prepared by bank managers, directors and executives. It is also collected through published research articles, research papers, reports, magazines etc.

Different Approaches to achieve the Financial Inclusion:

Government of India, RBI and Banks have taken efforts to introduce financial inclusion through the following approaches:

1. Product Based Approach: The role played by RBI was always liberal and supportive while introducing financial inclusion. The products developed to apply this approach are as follows:

a) No – Frills Account (NFAs): These banks accounts operate on low cost mode. PAN Card, Adhar Card, any other photo identity proof is not required while opening this account. Banks are expected to apply this policy to encourage banking habits amongst poor masses.

b) Kisan Credit Cards (KCC): Under this KCC scheme banks provide smart cards to the farmers. On that card credit is provided to the farmers. It is operated under single window scheme. In the year 2012-13 about 1.2 million such cards were issued to the farmers.

c) General Purpose Credit Cards (GCC): GCC were issued to the needy farmers in 2005 under the scheme of RBI. Credit up to Rs. 25,000 was provided under this scheme. The credit was provided for non-farming entrepreneurial activities. The cards were named as Artisan Credit Card, Lagu Udyami Card, Swarojgar Credit Card and weaver's Card etc.

d) Savings Accounts with Overdraft Facility: Banks were asked to provide overdraft facility on savings bank accounts. Due to this scheme, needy farmers use to get credit at lower rates with ease and convenience.

2. Bank Led Approach:

a) SHGs: Under this scheme, banks involve themselves with a small group of local people. They are expected to pool up their savings. The banks provide certain amount of credit facility. The bank provides the framework, accounting services and support to the group to manage their deposits and lending.

b) Business Facilitators (BFs) / Business Correspondents (BCs): This model is developed on information and technology. The banks also have started coming up with small branches to provide work of BFs and BCs.

3. Regulatory Approach:

a) Simple KYC Norms: Under KYC a customer has to provide a number of documents. Rural people face problems in fulfilling these norms.

b) Simplified Bank Saving Account Opening: This scheme is launched for the street hawkers, poorer sections of the society and migratory labourers.

c) Bank Branch Authorisation: RBI has allowed banks to open branches without authorization. It was made to speed up the drive of financial inclusion.

4) Technology Based Approach:

a) Mobile Banking: The banks have tied up with mobile operators to provide financial services like bills payments, funds transfer, booking of tickets, online shopping etc.

b) ATM Based Banking: The banks are expected to provide this facility for 24x7. In this activity, the state Govt. has taken the initiative.

c) Branchless Banking: The system includes online chat facility. Customers can do transactions through electronic machines,

d) ADHAR enabled payment services: under this any Indian citizen with Adhar number updates his account.

5) Knowledge Based Approaches:

a) Financial Stability Development Council (FSDC): It has a mandate to concentration on financial inclusion. It also has a target of financial literacy at the same time.

b) Financial Literacy Centers (FLCs): RBI has issued guidelines to set up Financial Literacy Camps at least once in a month. Lakhs of people got benefitted due to these camps.

Government Initiatives for the Financial Inclusion:

1. ADHAR: The unique identification authority of India (UIDAI) has been introduced in India in 2009. The number provided serves as a proof of identity and address anywhere in India. With the help of ADHAR the unbanked population will be able to open an account during enrollment with ADHAR without contacting bank.

2. Mahatma Gandhi National Rural Employment Guarantee Scheme: (MGNREGS): The scheme aims to encourage the livelihood of the rural people. This can happen by guaranteeing minimum one hundred days of wage employment in a financial year.

3. National Rural Livelihood Mission (NRLM): The said mission was established in June 2010. Ministry of Rural Development of Govt. of India established the same. It was established as the Indira Kranti Pratham (IKP) was successful in Andhra Pradesh.

4. Swarnajayanti Gram Swarozgar Yojana (SGSY): This scheme is called as centrally sponsored scheme. The scheme forms SHGs. These SHGs are established for rural poor. These schemes are meant for people below poverty line.

5. Women SHG Development Fund: The Union Budget of 2011-12 initiated this fund. The corpus was Rs. 500 crores. The responsibility to monitor and manage this fund was given to NABARD.

6. SHG 2: NABARD prepared policy to revive the SHG. It was to focus on its limitations.

Remedial Measures:

To implement the financial inclusion in real sense and to help low income groups, the banks are expected to change their approach. They are expected to take the following measures:

1. Convenient and Easy Credit Facility: The basic idea behind financial inclusion is provide credit to rural poor. This is required to create employment, reduce the chronic problem of unemployment and to eradicate poverty.

2. Minimum KYC Norms: To help the needy poor villagers' banks are expected to ask for minimum KYC documents from the villagers like only ADHAR Card or Ration Card.

3. Financial Education: In India still villagers and in city areas too people do not have awareness about financial services. It is necessary for the poor masses to get well versed with the basic financial services provided by the Govt. of India and RBI.

4. Use IT Facilities: Many facilities of banking and finance are provided by using IT services. Banks are expected to use these facilities by providing necessary training to the villagers in their local language.

5. Implementation of 'No-Frill Account' Facility: These banks accounts operate on low cost mode. PAN Card, Adhar Card, any other photo identity proof is not required while opening this account. Banks are expected to apply this policy to encourage banking habits amongst poor masses.

6. Maximum Use of Regional Language: In India very few people understand English language. Other than few states in North India, the national language Hindi is also not used by the people at large. If for the convenience of the needy poor class people the literature of banking facilities is prepared in local languages, they can understand it in a proper way.

General Challenges in Financial Inclusion: Government of India and RBI has tried a lot for the financial inclusion but there are some challenges faced by the policy:

1. Lack of Awareness: Mass poverty, illiteracy, ignorance and dependency on fate the poor Indians do not have awareness for the financial inclusion. Still Indian people believe in investments in Gold and land. They do have awareness about retirement planning. If this is the case with educated people, poor masses are totally unaware of financial inclusion.

2. Mass Illiteracy: In India, still in 2020 a large number of school drop outs due to poverty and agricultural impact, they do not have access to banking services.

3. Documentation: Many Indians do not possess sufficient documents to open a bank account. They do not have basic documents due to poverty, ignorance and priority for the basic requirements as they have hand to mouth condition.

4. Absence of Knowledge: Poor Indian masses do not have knowledge about the banking services out of illiteracy.

5. Absence of Access: Banks face competition in this modern era. They try to provide sophisticated modernized services to their customers. On the other hand, due to this modernization of banking the poor illiterate Indians who do not use social media, emails and other facilities are deprived of modern banking services.

Challenges Faced by Banks:

1. Small value transactions and high transaction cost.
2. Legal constraints.
3. Bureaucratic limitations.
4. Low ROI (Return on Investment) in rural areas.
5. Absence of proper infrastructural facilities.
6. Low business transactions.
7. Lack of assurance to provide KYC norms while taking loans and advances.
8. Banking products on an average are unsuitable to poor people.
9. Problem of clear land titles.
10. Problems in joint ownership of land.
11. Difficulties in finding out unbanked segment.

Conclusion:

Indian economy is still a village economy. Still in 2020 more than 65-70% population in India is the rural population. Villagers though hardworking due to lack of awareness they are still financially illiterate. They are still unable to access financial services. They have remained away from banks. Many of them still trust in the policy of indigenous moneylenders. In the year 2013 Govt. of India had a plan to open bank accounts for the villagers in 6.25 lakh villages. But still more than three lakh villages have no access to banks. India needs to encourage the policy of financial inclusion.

It is necessary to concentrate on less developed states. Not onle financial inclusion is to be made at rural areas but it has to be made at urban areas too. Thus, formal financial institutions and government authorities have to concentrate on rural and urban areas simultaneously. Gender justice also has to be taken into account for the same.

References:

1. A.Thaper, A study on the effectiveness of the financial inclusion program in India, VSRD, International Journal of Business and Management research, 3 (6), 2013, 211-216.

2. Beck, T.A. Demirguc-Kunt and M.S> Martinez Pieria, Banking Services for Everyone? Barriers to Bank Access and Use around the World, World Bank Economic Review 22(3), 2008, 397-430.

3. Chakrabarty, K.C. (2011), 'Financial Inclusion- A Road India needs to Travel', Article Published in www.livemint.com on Sept. 21, 2011.

4. CRISIL (2013), 'CRISIL Inclusix- An Index to Measure India's Progress on Financial Inclusion' June 2015.

5. Dr. R. K. Reddy Financial Inclusion: Road Ahead, The Journal of Indian Institute of Banking & Finance, 2012, 40-45.

6. Mani, N. (2014), 'Micro Finance, SHGs and Poverty Eradication in India.' New Century Publication, New Delhi, ISBN 978-81-7708-390-3, July.
7. N. Meherotra, V. Puhazhendhi, G. Nair G., B.B. Sahoo, Financial Inclusion – An Overview (Occasional Paper – 48), Department of Economic Analysis and Research & National Bank for Agriculture and Rural Development, Mumbai, 2009, 1-24.

8. Planning Commission of India (2007), 'Inclusive Growth _ Eleventh Five Year Plan' 2007-2012, planning Commission of India, pp.2, Retrieved from:
9. http://planningcommission.nic.in/plans/planrel/fiveyr/11th/11_V1/11th_vol1.pdf, Accessed on16-07-2016.

10. Rajan, Raguhram (2014), 'Finance and Opportunity in India', Address delivered at the Twentieth Lalit Doshi Memorial Lecture on 11th August, 2016.

11. RBI (2013), RBI Speeches on: Financial Inclusion in India-An Assessment', RBI, Government of India.

12. Shekhar K.C. & Lakshmi Shekhar. Banking Theory & Practices, Vikas Publications, New Delhi.

13. Tiwari, Rajnish and Buse, Stephen (2007): The Mobile Commerce Prospects: A Strategic Analysis of Opportunities in the Banking Sector, Hamburg University Press.

14. Wikipedia, Free Encyclopedia.

15. World Bank Report (2014): Global Findex Data.'

