Financial Inclusion in India – Major Issues

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Abstract. The aim of financial inclusion is to empower the marginalized and underprivileged sections of the society in economic and social sense so that they contribute to the national agenda. Though a lot of focus has been given on this and many policies has been formulated and implemented, the results from these drives are not as per the expectation. The study delves into issue which ails the policies or the stakeholders who are at the fore front of implementation for the FI drives. Use of appropriate technology and financial viable business models are extremely necessary for the suitability of the financial inclusion programs. A relook is required at the present regulatory framework which can work cohesively with the issuers and consumers of such schemes. A combination of viable business strategies targeted towards the population at the bottom of the pyramid, taking care of transaction cost by leveraging technology and appropriate regulatory environment would ensure much needed success of financial inclusion and help the country achieve inclusive growth.

Key Words: Financial Inclusion, Economic Growth, Financial Access, Poverty

JEL Classification: G2, G18, O43, I3.

1. Introduction

Financial Inclusion have become a buzz word in the development of nations where the priorities are to transfer the benefit of development to the common masses and excluded society. Financial inclusion may be defined in the words of Dr. K. C. Chakrabarty, the Deputy Governor of the Reserve Bank of India as - "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players"(www.rbi.org.in). Financial inclusion drives focus on the "delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society" (www.wikipedia.com).Financial inclusion is emphasized for its contribution to elevation of poverty which is one of the prime national agenda of governments in developing countries like India.

In India, the process of financial inclusion can be described in three phases. Phase I reflects a period of 1960-1990 where the focus of the government and regulators was to promote the credit spread to the weaker sections of the society. Phase II followed till 2005 where reforms were introduced like linkage of Self- Help Group (SHG) with banks and issue of Kisan Credit Cards (KCCs) to farmers. The current undergoing Phase focusses on the inclusion drive through bank accounts called as ‘no frills’ accounts and channelizing of savings in these accounts.

We find use of Business Correspondents (BCs) model for dispersal of financial services and design of products like General Credit Cards (GCC) apart from Kisan Credit Cards (KCC) that suits to the excludedsegments. Microfinance spread and spread of banking services through policy and integration are recent moves. Reserve Bank of India (RBI) has recently being promoting the financial literacy programs on all India basis. The financial inclusion schemes in vogue in India include - “Pradhan Mantri Jan Dhan Yojana (PMJDY), Atal Pension Yojana (APY), Pradhan Mantri Vaya Vandana Yojana, Stand Up India Scheme, Pradhan Mantri Mudra Yojana, Pradhan Mantri Suraksha Bima Yojana (PMSBY), Sukanya Samriddhi Yojana, Jeevan Suraksha Bandhan Yojana, Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs), Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives and Varishtha Pension Bima Yojana (VPBY)”(bankbazzar.com, 2018).

Three schemes as highlighted by Aiyer (2017) are said have a strong impact on the financial inclusion drive of the government- “*Direct Benefit Transfer (DBT)* - ensures that money under various developmental schemes reaches beneficiaries directly and without any delay. Banks play a key role in its implementation. RuPay card: It is a new card payment scheme offering a domestic, open-loop, multilateral card payment system which will allow all Indian banks and financial institutions in the country to participate in electronic payments.

RuPay - symbolizes the capabilities of the banking industry to build a card payment network at much lower and affordable costs to the Indian banks so that dependency on international card schemes is minimized. The RuPay Card works on ATM, point of sale terminals, and online purchases and is therefore not only at par with any other card scheme in the world but also provides customers with the flexibility of payment options.

USSD-based mobile banking - This offers the facility of mobile banking using Unstructured Supplementary Service Data (USSD). Basic banking facilities including money transfer, bill payments, balance enquiries, merchant payments, etc., can be availed of on a simple GSMbased-mobile phone, without the need to download any application as in the IMPS-based mobile banking". According to the statistics of MF 'Financial Access Survey' 2017, there is a significant improvement in the access and use of financial services (Exhibit 1).

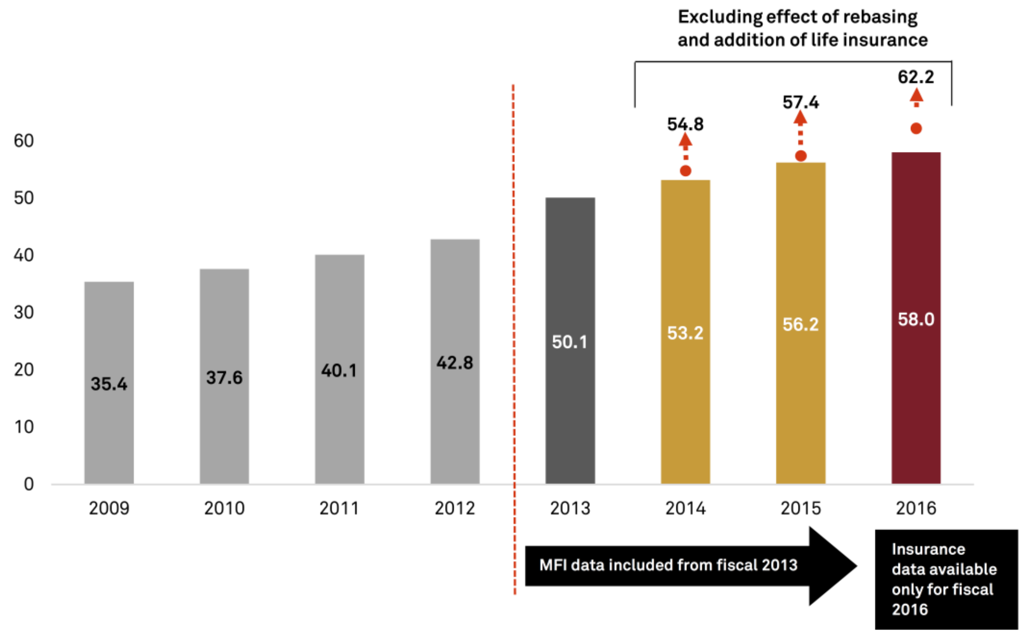
Exhibit 1 – Statistics of Financial Access Survey 2017

Indicator	2013	2014	2015	2016
Automated Teller Machines (ATMs) per 100,000 adults	12.87	17.80	19.70	21.24
Branches of commercial banks per 100,000 adults	11.85	12.87	13.54	14.06
Deposit accounts with commercial banks per 1,000 adults	1,160.72	1,337.41	1,541.79	1,731.27
Loan accounts with commercial banks per 1,000 adults	142.48	151.27	154.45	170.77
Mobile money transactions: number per 1,000 adults	36.32	117.21	273.05	635.22

Source: http://vikaspedia.in/social-welfare/financial-inclusion/financial-inclusion-in-india#section-9

An All-India financial inclusion index developed by CRISIL called as INCLUSIX shows that after 2012 the financial inclusion has been growing steadily. However, in their statistics they have taken MFI and Insurance data into account starting from 2013(Exhibit2).

Exhibit 2 – CRISIL Inclusix 2009-2016



Source : Crisil Inclusix Report, 2018

In the same report, we find that the initial impact of the financial inclusion drive have been successful (Exhibit 3).

Exhibit 3 – Cause and Impact of Financial Inclusion Drives

Cause	Impact
Jan-Dhan Yojana	Led to 60 crore new deposit accounts or twice the number opened between fiscals 2010 and 2013. Half of the 42 crore new deposit accounts opened between fiscals 2015 and 2016 were under Jan-Dhan
Focus on financial inclusion	Over 2 crore new credit accounts opened during two years ended fiscal 2016
Insurance schemes	Wide agency network benefited insurance penetration in the south and the west
APY	Over 75.2 lakh subscribers were added to the National Pension System (NPS) between fiscals 2013 and 2016. Three-fourths of this pertained to the non-government segments, largely driven by APY

Source : Crisil Inclusix Report, 2018

It is observed that some progeress has been made on the fromnt of financial inclusion in india, but the rate is slowing down in the last three years. Theere is uncl;iaty and wnwillingeness on part of some bankers to fully implment the schemes. In this paper, we are motivated to highlight the issues realted to fiancial inclusion in India and somes suggestions to handle them.

2. Some Research Studies

Financial inclusion has become an area of academic research recently and in India we find financial inclusion became popular as a jargon after the Reserve Bank of India (RBI) credit policy announcement for the year 2006-07. The Rangarajan Committee (2008) on financial inclusion stated that: "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." Financial services are broader in scope including the provisions of loans, insurance and payment facilities. The aim is reduction of poverty. The need to develop the financial system has been highlighted in the literature since it contributes to economic growth (King and Levine , 1993; Levine and Zervos, 1998; Rajan and Zingales, 2003). It is established by researchers that provisioning of financial services is positively linked to poverty reduction (Waller and Woodworth, 2001; Khandker, 2003; Arun *et al.*, 2006) and is therefore and important concern in developing countries. In the recent past we find that some studies on benefits of financial inclusion to India have been conducted. A short description is included in the following paragraphs.

Ghorude (2009) indicates that "India's problems are diverse, pervasive and multidimensional, further microfinance bristles with problems, difficulties and constraints. Being single instruments, it may not be able to solve the problem of object poverty merely by distributing loans to a certain section of the population and attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion". In another study on affordable financial services the presence of unorganized sector is said to constraint the growth of financial inclusion programs (Manoharan and Muthiah, 2010). To ensure financial inclusion in all the segments of the Indian society, "both rural and urban areas banks should give wide publicity to the facility of no frills account and further efforts must be made to move from the concept of *anytime, anywhere banking* to *anytime, anywhere and to everyone banking* (Sendhilvelan and Karthikeyan, 2006).

Authors like Chandawarkar and Kulkarni (2006)and Amilan (2006)have expressed the need for pronotong SSIs. Thorat (2007) have focused on the need for national literacy campaign and forging the linkages with the informal sources with suitable safeguards via suitable legislation. The need for IT development and low cost remittance has also been highlighted. Prasad and Raju (2011) have placed emphasis on the need for collaborative work of all the agencies involved in the financial inclusion drive. Swamy and Vijayalakshmi (2012) argue that "the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded". Ahmed *et. al*.(2011) concluded that mobile banking was a very important tool in bringing about the financial inclusion. Financial inclusion is essential to economic growth (Jain, Bohra and Mathur, 2012).

These studies show case only the positive side of financial inclusion, but lesser number of studies have been attempted to examine the implementation and the result of financial inclusion initiatives. The parameters for success of the initiative need to be analyzed so that parameters can be graded as per their applicability in the success of the financial inclusion success story.

It is observed that inspite of the financial inclusion initiatives continuing long since and a host of government machinery deployed to implement it, results have not been encouraging(Kumar, 2011). This accentuates the need to examine the fact why the financial inclusion initiates have been suboptimal. *In this paper we attempt to answer the research gap that points out to examine the causes of the failure of financial inclusion drive and critical success areas of achieving the success.*

3. Major Issues and Problems

Our initial analysis of the issues relating to financial inclusion in India outline the problems of communication and a host of factors on the demand side and supply side. There is possibility that these barriers may vary across regions.

First, we findthat there is a lack of information and financial literacy levels causing information mismatch between the service providers and ultimate consumers. The discrimination on the base of Age and Gender is huge. The exclusion levels for young and women are relatively more than other sections of the society. The income levels of people are erratic and low thus falsifying the need for a financial inclusion product.

Second, the use of technology is meager in some parts of the country and products that are primarily based or built on technology may have no relevance to the target segment.

Third, the delivery side of the drive i.e. the banks might not have been trained or are unwilling since these initiatives do not add to the kitty of the offering bank.

Fourth, there are arguments as to whether the issuance of such financial inclusion products may affect the stability of the banking and financial services sector.

Fifth, a comprehensive regulatory framework seems missing in the whole process of financial inclusion.

We argue that the banks need to think differently and evolve innovative models for realizing the aim financial inclusion drives. Of these the prime most requirements is the efficiency and robustness of the payments systems. Product innovations and delivery follows next. The awareness need to be generated in the masses by well-defined structured programs.

There is also a lack of studies that throw light on the implementation dynamics of the financial inclusion drive in India.

4. Conclusion and the way forward

The aim of financial inclusion is to empower the excluded sections of the society in economic and social sense and creating an equal opportunity environment so that they contribute to the national agenda. Use of appropriate technology and financial viable business models are extremely necessary for the suitability of the financial inclusion programs. A relook is required at the present regulatory framework which can work cohesively with the issuers and consumers of such schemes.

A combination of viable business strategies targeted towards the population at the bottom of the pyramid, lower transactions costs with technological innovations and appropriate regulatory environment would ensure much needed success of financial inclusion and help the country achieve inclusive growth and would also become profitable business proposition.

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