
Financial Inclusion: Triggers and Barriers in Rural India

Ms Tina Sachdeva* & Dr. Smita Gupta**

**Research Scholar, AISECT University, Bhopal, India*

***Director, Career College of Management, Bhopal*

ABSTRACT:

Growth with equity is the main objective of Financial Inclusion. Poverty is not only inadequate income, but somewhat the absence of extensive range of capabilities, including security and competence to participate in economic and political systems. Financial Inclusion emphasizes on delivery of financial services at a reasonable cost to the huge vulnerable sections of society. Banks and other financial service players are largely expected to moderate the supply side constraints that prevent poor and underprivileged groups from gaining access to the financial system. This access is mainly affected by lack of awareness, high transaction costs, inconvenient and inflexible procedures, and standardized products which cannot be customized as per the customers' requirement. However, we must keep in mind that every coin has two aspects, apart from the supply side factors there are demand side factors as well, which includes lower income and financial literacy etc. This paper is based on an exploratory research which will address some of the supply side and demand side triggers and barriers of financial inclusion in Rural India.

Keyword: *Financial Inclusion, Poverty eradication, Rural Development, Banking, Financial Institutions, Inclusive Development*

I. INTRODUCTION

“Financial exclusion has direct correlation to poverty”, is the driving force to Financial Inclusion. History of financial inclusion in India can be tracked back since 2004. Goals of financial inclusion as defined by the United Nations are as follows:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.

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- Sound and safe institutions governed by clear regulation and industry performance standards.
 - Financial and institutional sustainability, to ensure continuity and certainty of investment.
 - Competition to ensure choice and affordability for clients.

Financial inclusion or inclusive financing is the delivery of financial services at reasonable costs to sections of underprivileged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. Even after six decades post independence Poverty and exclusion continue to dominate socio-economic and political discourse. Poverty reduction and reduction in rural-urban divide has always been a priority in independent India. As a result of continuous emphasis on various programmes targeting poverty reduction and employment generation the Indian economy recorded impressive growth but its impact has not percolated adequately to the underprivileged groups. India is one of the ten fastest growing economies of the world but is still home to one-third of the world's poor which is continuously getting concentrated in the poorer states.

Banks play a very critical role in developing countries in India. They play a role of mobiliser of savings and also as allocators of credit for production and investment. Banks also identifies entrepreneurs and allocates credit to them and hence contributes to economic development. At a minimum, all retail commercial banks also provide remittance facilities and other payment related products. **Thus, theoretically, the banks act as a change agent and ensure redistribution of wealth in the society provided all of us have access to these banks and their services.**

The importance of financial inclusion, based on the principle of 'growth with equity', has been engaging the attention of policy makers globally. Although, global objective of financial institutions is achieving universal financial inclusion but there is no one way of doing it. Each constituency will have to execute a plan suitable to their region but of course they can take a. idea from other regions and also can learn from others mistakes.

II. OBJECTIVE

Nobel Laureate Prof. Amartya Sen has also noted, "the thrust of developmental policy in India has undergone a paradigm shift from an exclusive focus on efficiency to one on equity;

from the rate and pattern of growth, and on inequalities, distribution of income and wealth to the extent to which people are deprived of the requirements for leading a fulfilling life and suffer ‘capability deprivation’.” However, even after introduction of financial inclusion through measures like cooperative movement, creation of regional banks, nationalization of banks etc the number of people who have access to banking services is very limited. As per the World Bank Findex Survey (2012) following are some of the shocking results:

- only 35% of Indian adults had access to a formal bank account.
- In the last 12 months only 8% borrowed from banks.
- Only 2% of adults used an account to receive money from a people living in another area.
- 4% used an account to receive payment from the Government.

In the light of above statistics and the direct correlation of financial inclusion to poverty reduction and growth this paper argues to explore the demand side and supply side of financial inclusion and also to find out the triggers and barriers of financial inclusion in rural India.

III. ANALYSIS

India’s lack of financial inclusion is well known but that slightly more than 50% of population is just has saving account is worrying. Now Financial Inclusion has been foremost on the mind of policy makers and the government. In fact the financial inclusion has the key critical parameter by which the new bank license are expected to be issued. But now the trend is improving at the grass root level. Financial Inclusion is tremendously lower than desirable. As per the study done by the CRISIL, ‘just one in two of the Indians has access to a saving bank account and just one in seven Indian’s has access to bank credit facilities’. There are merely 684 million bank accounts in the country with the population of 1.2billion. Financial Inclusion penetration is highest in the southern region with the level of 62.6 while the western region is 38.2 only.

The study also notes that there is a wide disparity in basic banking services in India, for instance India’s six leading cities have 11% of the countries bank branches. There are four districts in northern region of India which have just one branch per district. Southern states however raced ahead in Financial Inclusion. India’s level stands at 40.1 in 2011. Southern

states have score 62.2. The top five districts with the highest score are from the southern region among which four of them are from Kerala.

Financial Inclusion has still a long way to go. Lack of awareness, low income, poverty and illiteracy are a few reasons for low demand of financial services and consequently to exclusion. No wonder the government of India has been focusing on improving the education of FI. While RBI recent guidelines has for new branches licenses has for insisted that 25% of the branches have to be opened in unbanked rural part of India.

IV. TRIGGERS OF FINANCIAL INCLUSION

There are triggers that can be helpful for the penetration of Financial Inclusion and attracting the client to take an advantage of Financial Inclusion.

- **Prevent Over-indebtedness:** Financial institution with this practice carefully established borrower's ability to afford the loan and repay it. Client should be able to handle debt service payments without sacrificing their basic quality of life. The credit decision making procedure and supervision function promote sales force. Standardized procedure and supervision help to prevent over-indebtedness.
- **Transparent Pricing:** Financial institution ensuring that complete information is made available to customers in clear language that is not misleading. Senior management creates a culture of transparency within the organization and develops systems to support it. Terms and conditions of financial products are fully disclosed to the customer, including interest charges, insurance premiums, minimum balances required on savings and transaction accounts, all fees, penalties, and whether those can change over time. Reasonable efforts are made to ensure customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities.
- **Appropriate Collections Practices:** Maintain high standard of ethical behavior even when clients fail to meet their contractual commitments. The code of ethics requires all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. Collections staff receives training in acceptable debt collections practices and loan recovery procedures. Practices and procedures are followed widely in the organization and monitored by the internal audit department.

- **Ethical Staff Behaviour:** Financial institution value high ethical standards among staff and ensuring safeguards the interest of customers. These institutions are in place to detect and prevent corruption and also mistreatment of clients. Managers and supervisors review ethical behaviour, professional conduct and the quality of interaction with customers as part of staff performance evaluations.
- **Methods of Complaints handling and Resolution:** Financial institutions have automated systems for complaint registration, timely responding the complaints and addressing these complaints for their clients. A ready mechanism to handle customer complaints, problems, and feedback is in place and accessible to customers. Complaints are fully investigated and decisions are made consistently and without bias. Internal audit or other monitoring systems check that complaints are resolved satisfactorily.
- **Privacy of client data:** Financial institution in respect to the privacy of client data ensuring the integrity and security of client information and looking for the client's permission to share information with outside parties prior to doing so. The banks offer information, orientation and educational sessions to clients and guide them on how to safeguard their interest.

V. BARRIERS OF FINANCIAL INCLUSION

There are certain barriers that prevent the penetration of Financial Inclusion. These cover a range of issues including:

- **Financial Illiteracy:** Social exclusion of low income families results in illiteracy, poor physical access and inhibition. It also limits their awareness level and their ability to overcome.
- **High Cost of Operation:** The small value of accounts and transactions expected by the banking system from financially excluded families results in high cost of operations and limits the incentive to serve them. With this limitation banks generally not preferred to function on this platform.
- **Access:** The lack of understanding about the products and services which suits the needs of low income group has resulted in static approaches like the no frills account. Now it has become apparent that mere availability is not the issue.

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- **Limited Experience:** Limited experience with business models that is suitable for small value accounts and doorstep service delivery results in the slow adoption of mechanisms such as the business correspondent model (BC Model).
 - **Others:** Historical problems such as the governance issues facing the cooperative credit system needs substantial efforts to correction and re-thinking on issues. Measures such as financial literacy programmes needed to make a difference. The introduction of these programmes has been a creditable effort and it has the potential to reform the financial service environment.

VI. CONCLUSION & SUGGESTIONS

It is obvious that there is a huge task ahead that helps overcoming discussed barriers to financial inclusion. Most efforts are concerned with enhancing the supply side without adequate recognition of the long term potential of demand side measures such as effective financial literacy programmes. The government of India constituted a committee on Financial Inclusion which made a wide range of recommendations on the strategies for building and inclusive financial sector and gave up national rural financial inclusion plan.

There are the few suggestions that can be helpful to overcome the barriers on Financial Inclusions such as;

Postal Network: To promote financial inclusion government of India can make use of already existing massive P&T (Postage & Telegraph) network, which is also the most widely distributed network in the world.

- **M-Banking:** Mobile banking can also be an answer for the problem, as more than 50% of Indian population is now connected to mobile network. Mobile banking can reduce the transaction cost as well.
- **e-Governance Role:** Achievement and evolution of the FI edge is largely dependent on the effective collaboration among the private and public sector. Governance policy and framework is absolutely required platform for these players to interact in a progressive manner. e-Governance can be very useful because the progress will be cost effective and efficient manner, with reducing corruption and delays.
- **Ubiquitous Technology:** Rural banking requires extremely ubiquitous technology, that which has an innovative Geographical User Interface (GUI) to deliver an easy

user experience. The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the FI initiatives. Pilot projects have been initiated using smart cards for opening bank accounts with bio-metric identification. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis.

- **Adult education system:** Adult education system run by NGOs with the help of government of India for rural population can be a very good platform to spread the awareness regarding the use and benefits of Financial Inclusion and also to motivate people to take advantage of Financial Inclusion for their upliftment and also for the growth of Rural India.
- **Regional languages:** Use of regional language should be promoted to facilitate the financial inclusion services in vulnerable remote regions.

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