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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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FINANCIAL INCLUSION: CHALLENGES AND OPPORTUNITIES IN INDIA

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ABSTRACT

Bottom of pyramid individuals are the strong pillars of banking system today. Accordingly, various committees are formed to bring inclusive banking in India. Rangarajan Committee recommendations, 2008 has brought a sea change in the financial inclusion that made India to stand at 15th position across the Global Financial Inclusion Index in Asia Pacific Region which is still lagging behind the countries such as Brazil, Bangladesh and China. The present study is an attempt to study the challenges of financial inclusion and the opportunities stem from them. The measures to spread the financial inclusion were also presented in this study.

KEYWORDS

Banks, Mor Committee, Regulation, Technology.

JEL CLASSIFICATION

G20, G21, G28.

INTRODUCTION

"*Financial inclusion remains a distant dream for a majority of Indians. Even after 20 years of banking sector privatization, today only 35% of the Indian population has formal bank accounts compared to an average of 41% in developing economies. In a country where nearly 70% of the population lives in villages, a significant segment of about 6, 50,000 villages do not have a single bank branch*". (Muthoot, 2014)

The above statement presents abysmal condition of the penetration of bank branches in spite of the recommendations of RBI to Commercial banks to tie up with the other conventional and non-conventional channels of distributions. The partnerships with the distribution channels such as Self-help groups, Micro Finance Institutions, Regional Rural Banks, NABARD, NGOs, Joint Liability Groups, Non-Banking Financial Institutions, Insurance companies and Mutual Funds can be seen as win-win perspective from both the sides of bankers and the needy. (Mukherjee and Chakraborthy, 2012).

Financial inclusion can be described as the mechanism to deliver the financial services at affordable costs to the disadvantaged and low income sections of the society. Divya (2013) argued that there should be no discrimination in offering the banking and financial services and it should be the prime objective to the policy makers. The Indian Government in joint effort with the State Level Bankers Committee formulated the strategies to offer financial services overcoming the price or non-price barriers such as savings, credit and micro insurance products to all the sections of the people in the villages with the size of population above 2000 by March 2012. (Divya, 2013).

NEED OF THE STUDY

Banking system in India is still an emerging system because of non-availability of financial services to vast number of people of our country. Access of banking system especially by poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Access to banking system will give an opportunity to save and invest, thereby facilitating the nation to break the chain of poverty. Banking system through its structure should lead to increase the population under financial inclusion, which is much required in a country like India. Financial inclusion is much needed in India because of huge population below poverty line, income level disparity, high levels of unemployment, poor banking system, inefficient infrastructure and low level of literacy. Although Government of India has come up with various plans like No Frills Accounts, Easier Credit facility, simpler KYC norms, bank branch and ATM expansion, financial literacy and credit counseling to increase the number of people in financial inclusion, yet a lot of work is required in order to reduce the level of financially excluded people.

OBJECTIVES OF THE STUDY

The study is conducted with the following objectives.

1. To study the challenges of financial inclusion in India.
2. To study the opportunities for financial inclusion in India.
3. To suggest suitable measures for widening the financial inclusion in India.

FINANCIAL INCLUSION: THE PRESENT STATUS

It is a known fact that finance is the blood of any economic unit and any shortage of it deteriorates the economic conditions of vulnerable sections of the society more miserable. Financial inclusion as a 'Quasi –public' good expected to herald the excluded sections of the society participated and be benefitted from the financial system (Gupte, Venkataramani and Gupta, 2012). The economic reforms paradoxically increased the rich and poor divide and the objective of making the egalitarian society was not achieved due to the lack of access to credit. Islamic banking as a substitute to the present banking system is not fit due to the basic philosophy and the legal constraints in India (Fasih, 2014). The Reserve Bank of India (RBI) has initiated several measures to enhance the financial inclusion in India. The impetus came from schemes like relaxed KYC norms, no-frills' accounts and "General Credit Cards" for small deposits and credit since 2005-06 (Gupte,Venkataramani and Gupta, 2012). In spite of many efforts of RBI millions of people in our country are still under-served from banking services (Rathod and Arelli, 2013).

Financial inclusion can be described as the mechanism to deliver the financial services at affordable costs to the disadvantaged and low income sections of the society. Divya (2013) argued that there should be no discrimination in offering the banking and financial services and it should be the prime objective to the policy makers (Divya, 2013). The Indian Government in joint effort with the State Level Bankers Committee to formulate the strategies to offer financial services overcoming the price or non-price barriers such as savings, credit and micro insurance products to all the sections of the people in the villages with the size of population above 2012 by March 2012 (Divya, 2013).

Various Committees have been set up by RBI to conduct a study on the framework and implementation of financial inclusion mechanism in the country. Among them, Khan Commission (2004) was set up to look in to the financial inclusion and the recommendations were incorporated in the mid-term review of policy. In the year 2008, "Committee on Financial Inclusion" under the Chairmanship of Dr C Rangarajan submitted its report recommending setting up two funds such as "Financial Inclusion Fund (FIF)" and "Financial Inclusion Technology Fund (FITF)".

Since 2006 banks were allowed to appoint Self-help groups, non-governmental organizations, MFIs and other civil society organizations as intermediaries for providing financial and banking services and act as business facilitators. States and UTs such as Puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. In spite of many efforts millions of people in our country are still under-served from banking services (Saikumar Rathod, Shiva Krishna Prasad Arelli, 2013). RBI's vision to open 600 million accounts by 2020 is hampered due to maladies in the system such as lack of literacy, low savings and lack of bank branches in the rural areas. Later in the year 2013, RBI constituted The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households chaired by Nachiket Mor to recommend the framework to deepen the financial inclusion in the country which submitted its report in the month of December, 2013.

FINDINGS OF MOR COMMITTEE (Tarapore, 2014)

1. The formal financial structure is still far away for 90 per cent of small businesses whereas 60 per cent of the population has no accessibility for functional bank account.
2. The bank-credit – GDP ratio is around 70 percent of GDP, but the regional and district wise disparities are registered in some states.

RECOMMENDATIONS OF MOR COMMITTEE (Tarapore, 2014)

The committee has set certain ambitious targets to achieve by January1, 2016. Some of them are:

1. Each district should have a credit-deposit ratio of a minimum of 10 per cent which should be raised rapidly by 10 percentage points each year to reach a minimum of 50 per cent by January 1, 2020.
2. There should be a minimum total deposits plus investments to GDP ratio of a minimum of 15 per cent which should be increased by 12.5 percentage points each year to reach a minimum of 65 per cent by January 1, 2020.
3. Every resident Indian over the age of 18 years should have a Universal Electronic Bank Account and every low income household and small business should have 'convenient' access to formally regulated lenders for credit products at an 'affordable' price.
4. The Committee envisages the setting up of payments banks which will provide payments services and deposit products to small businesses and low income households with a maximum deposit of Rs 50,000 per customer.

The Indian economy over the years since the liberalization scenario started recording the impressive progress in various sectors and the future projections lure the socio-political and regulatory bodies to devise strategies deepen financial inclusion (Kapoor, 2014). The economic reforms in the economy paradoxically should reduce the rich –poor and rural-urban divide but the objective of making the egalitarian society is not yet achieved (Fasih, 2014). Fasih (2014) opined that the Islamic banking which follows social-banking policy (Satya R Chakravarty and Rupayan Pal, 2013) can be a substitute to the present banking system to foster the objective of financial inclusion. In fact the pace of financial inclusion is affected by the pro-market strategies followed by the companies and regulatory bodies. Kapoor (2014) opined that the up trends in the Indian economy combined with the changes in the socio-political environment also influenced the pace of financial inclusion.

Raghuram Rajan (Rajan, 2014). in an interview with Economic Times opined that with huge masses for around 900 million mobile connections, there is a huge scope for mobile banking which support the wide spread of financial inclusion in the country. Saikumar Rathod and Shiva Krishna Prasad Arelli (2013) also suggested the cellular technology is another viable option to deliver the financial services at low cost and packet wise transactions to the low income households. Vishal Mishra and Shailendra Singh Bisht (2013) highlighted that the mobile infrastructure is developed as a top-to-bottom approach while mobile banking solutions required for offering low cost financial services needs bottom-to-top approach.

CHALLENGES IN FINANCIAL INCLUSION IN INDIA

India's financial inclusion when compared with the other nations still lagging behind with its counter parts due to the challenges mentioned below.

IMPLEMENTATION

Government of India initiated flagship programmes Community Development Programmes such as health insurance schemes, free education, minimum common programme and food for work programme. Financial inclusion is given an equal importance to other developmental programmes ((Nathanion, World Bank's financial inclusion myopia, 2014)). On the other hand, the suggestions as made by Nachiket Mor Committee are found to be in theoretical (Saha, 2014) and in fact the policy makers are still in perplexion of settling the road map for the implementation.

INFRASTRUCTURE

India recorded a low global financial inclusion index below to countries such as Bangladesh, Malaysia and China. Reports of RBI presents that the country's 157 banks have 1, 04,647 branches, less than 40,000 of which are rural banking branches and there are a total of 95,686 ATMs. Out of India's 6, 28,000 villages, just 2,68,000 have access to formal financial services. As per Census 2001, there are 3,976 villages that have population sizes more than 10,000. But there are also 2,36,004 villages that have a population less than 500. There are villages that have a population less than 50 (Debroy, 2010). These figures press the complexity of the task , given the physical and IT infrastructure available in the rural areas and further it is herculean task to achieve the desired target of implementing the financial inclusion in the present state of villages.

ROLE OF NBFCS

The role of Non Banking Financial Institutions which were scattered every nuke and corner of the country is a good idea in financial inclusion. In fact, NBFCs are not adhered to the norms of RBI for Cash reserve ratio and statutory liquidity ratio (Saha, 2014) . Receiving convergence in ideology of bringing NBFCs under RBI bracket need the consensus among the policy makers and regulators which is another challenge for the penetration of financial inclusion.

BANK LICENSING

One of the key challenges for the financial inclusion is with the number of banking branches spread across the country. In its attempt to reconcile the gap between demand and supply of existing branches, RBI initiated to license to new banks. However, the regulatory regime considered the market entry of banks rather considering the requirement of businesses and preparedness of applicants (Chakraborty, 2014)

TECHNOLOGY

Technology is a key factor in the successful implementation of financial inclusion in the country supported by an effective delivery model. The model is proved to be successful when it is able to cater the needs of large numbers through the transactions at low cost that meet the suitable needs of the large masses. The availability of technology in rural India works as a big challenge for banks to increase number of unbanked in financial inclusion. Technology need to enable the provision of a host of services from depositing money into various government schemes to micro loans and micro insurance. Some of the technology solutions being implemented today are Smart Cards, Biometric ATMs, Point of Service Devices and Mobile Phone Applications. But making available the above mentioned technology is a challenge because of high cost involved and lack of infrastructure in India (Chakraborty, 2014) . Accessible network in interiors of India is technology challenge for Telecom companies to implement initiatives for financial inclusion.

The initiative of banks to startup White Label ATMs is also a matter of concern for the bankers as there has a huge gap in the costs incurred in metro, urban and rural, which counts as hits (per-day use of ATMs). High cost per transaction in ATMs/branches in rural villages dampens the rationale of opening up new branches and installation of ATMs by banks which needs more concern.

CREDIBILITY OF BANKS

The entry of new corporate houses in to the banking sector raises various concerns. The blue print for the implementation of financial inclusion is unambiguous at the regulators end. In fact, the dilemma is whether these business houses would be fit in to the criterion of financial inclusion? Do these business houses are capable of collection and disbursement of people's money? Is there any mechanism to check the credibility of new licensed banks in the short term?

ATTITUDE OF THE UNBANKED

In spite of wide spread of banking branches, increased literacy rates and linking the sanctions and disbursements of finances through banks for Central and State Governments, many people in rural villages still feel excited in visiting the bank (Kumar M. , 2014). It is the responsibility of the local personnel of bank to make feel home for the unbanked to conduct the transactions. The simple economic principle to be followed as cost of transactions per client will decline with increased number of transactions. However, meeting the operating expenses in the low density rural villages is quite a big challenge to the bankers. Containing the financial stress is need of the hour for the bankers due to appreciated cost of delivery of services in time to the unbanked in rural villages.

REGULATORY CONSTRAINTS

The Mor Committee recommendations to set up differentiated banking structure such as payment banks and whole sale banks in the country is criticized by the various sections of society. The argument from one section is that unless Non Banking financial companies are allowed to operate in the banking sector without the obligations of CRR and SRR to be fulfilled, the banking is exposed to the higher cost of delivery of the products and services. In addition, the supervisory and control measures become diluted followed by soaring NPAs will be observed in these segments.

OPPORTUNITIES

There is a saying, every challenge throw opportunities to update the prevailing system. The challenges in financial inclusion provided the regulatory body and the bankers to create opportunities to explore various alternatives for wider financial inclusion.

- Financial inclusion is a unique model provided to the bankers to extend and sustain their service entity till they are financially viable after meeting all their cost of service delivery. 'Door-step delivery' kind of services which were implemented by Mann Deshi Mahila Shakti Bank is a role model for the banking sector to deliver the services at low cost to the financially excluded segments.
- Direct Benefit Transfer Scheme, a flag ship programme of Government of India is being implemented through Banks which motivate the financially excluded to visit and use the banking services is an opportunity.
- The wider penetration of mobile and internet connectivity even in the remote villages of the country emphasized the huge potential of digital finance and role of Post offices is enormous. As said by Sandhya Rani, Postmaster General of the Andhra Pradesh state in India, "*we are able to effectively deliver a variety of financial services, including banking, insurance, and remittances even in the most remote areas of the country"* tie-ups of banks with post-offices will enhance the financial inclusion.
- Huge spread of Banking Correspondence registering around 2,21,341 empanelled by banks, it is a preferred means to banks rather to branches to deliver the services to door step of remotely financially excluded segment.
- Initiatives of mobile service providers for mobile money such as Airtel, Vodafone, and other companies towards mobile banking are an innovation which can be successful model that could catalyse the financial inclusion. Infact, there is a challenge in this model as the individuals who use these services need to be educated which is a misnomer expecting 100 per cent literacy in India.

MEASURES FOR FINANCIAL INCLUSION

- Mere establishing the banking branches and render services to low income households and rural segments will not end up the game. The people are to be educated with the financial products and services and their usage benefits. This practice still lies in the hands of bankers to promote a range of financial services like credit, pension, insurance, remittances and micro loans in an ethical manner.
- Weighted importance need to be given to all the parties of the bank transactions. The unbanked shall not be considered as mutually exclusive one rather they should be treated as rationale customer to attain the economies of scale. Further, micro, small and medium enterprises need to be prioritised in attracting the capital and lending formalities be liberalised.
- Tie-ups with insurance companies by banks as a bancassurance model is welcome initiative. As such tie-ups need to be encouraged among the banks and with NBFCs, Cooperative banks, MFIs (Micro Financial Institutions) and telecom operators. However, this requires clarity and longevity of the regulations from RBI.
- Financial literacy also needs to be given more importance. Without knowing of how to use money and how banks are the appropriate medium of exchange in their spending and investments, opening an account in a bank carries no meaning at all. In fact this is a challenge for the financial inclusion in India.
- Usage of technology will surely reduce the transaction cost of services delivery. However, the 'technology with human touch' will retain the existing customers. The technology should make the transactions easy and understandable but it should not make the poor man run away from the bank.
- All the receipts and payments through Government schemes need to be done through banking services.
- Women being a major contributor to their households through the savings and investments, pro-women banks need to be encouraged. However, pro-women schemes need to be designed to bring women in to the banking net.
- Banking regulators need to be proactive in curbing the NPA (Non-Performing Assets) menace at the corporate level, which influence the credibility of banks upon the minds of banking customers, especially in rural areas.
- In spite of presence of banks in the rural areas, yet the rural farmers depend on indigenous bankers for speedy loans at higher rates. This makes the farmers distant to the banking premises. Even though the farmer or rural household is account holder, he prefers to take a loan from the private money lenders. This situation needs to be addressed by the bankers to reduce the gap between banker and customer.
- In some instances, bankers while issuing the loans to the individuals insist the person to take various products and services at the conflicted interest of the customer. The regulator needs to focus on such issues to increase the credibility on the banking system.

CONCLUSION

Financial inclusion is indeed a worthful effort by RBI to bring unbanked to the banked. The consistent effort of the banking system has brought the cheers in the lives of low income households being as a medium of exchange for various Government schemes to bring sustainable development. In fact financial inclusion has brought many unbanked under banking net. However, the saga of financial inclusion is not an exception from the challenges. The regulators and policy advocates need to create the opportunities from these challenges. The measures to spread the financial inclusion are highlighted in the study.

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