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Financial Inclusion for Inclusive Growth of India

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ABSTRACT

India is one of the largest and fastest growing economies of the world, but what has been the most disturbing fact about its growth is that its growth has not only been uneven but also discrete. It has been uneven in the sense that there has been no uniformity in its growth performance and it has been discrete and disconnected with regard to growth and distribution of growth benefits to certain sectors of economy. Thus, the need for inclusive growth comes in the picture of Indian economic development. However, for attaining the objectives of inclusive growth there is a need for resources and for resource generation and mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. The present paper focuses on to understanding inclusive growth phenomenon its need and financial inclusion as an instrument to attain it.

1. Introduction

Financial inclusion is new paradigm of economic growth which plays a major role in driving away the poverty. Lack of access to financial services in most of rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension service create the need and scope of financial inclusion. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. Financial inclusion is integral to the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population deposit mobilization and credit intermediation.

2. Objectives of the paper

The Specific Objectives of the Research Paper are as follows

- To study & understand the meaning and need for inclusive growth.
- To study the role of financial inclusion in inclusive growth.
- To know the extent of financial exclusion/inclusion in India.

3. Methodology

The objective of the paper is to access the Indian experience in the field of Financial Inclusion. The secondary data has been used from various sources to analyze the role of promoting Financial Inclusion. The descriptive and empirical studies are used to analyze role achieving full financial inclusion in India by 2015. Special references of some articles have been also used to find out the need and role of financial inclusion in India.

4. Review of literature

A research article published in 2009 titled ―Financial Inclusion And Its Determinants: Evidence From State Level Empirical Analysis In India by **Nitin Kumar** . The study utilizes state-wise panel data spanning over a period from 1995 to 2008 in an attempt to asses s the behaviour and determinants of financial inclusion in India. In line with the economic intuition, increase in bank branch network (captured by average population per branch) is having a beneficial impact on deposit and credit penetration. Overview of financial inclusion and micro credit- is a work by **D.T. Pai** in January 2010.the paper deals with global concerns of financial inclusion and policy initiatives taken in developed and under developed countries and their experiences. Special coverage is given for the policy initiatives in India. Factors Affecting Access to Financial Services in North East India is paper presented in National Seminar on Financial Inclusion for Economic Development in North East India- Issues and Challenges‖ under the Programme sponsored by UGC at Dibrugarh University on March 7, 2013. The paper prepared by**ChaniniLokho& Manav Saurav** under the guidance of Dr.PujaPadhi, IIT Bombay.

5. Financial inclusion

The term financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people. Financial inclusion include micro credit, branchless banking, no - frills bank accounts, saving products, pension for old age, microfinance, self help group, entrepreneurial credit etc.

In short Financial Inclusion is:

NFA + Banks+ OFIs+ MFI+ IT = Financial Inclusion
Where, NFA-No frills bank account

OFIs- Other financial Institutions
MFI - Micro financial Institutions
IT– Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, inclusive growth, economic development, social development and business opportunity.

6. Need for inclusive growth

India needs inclusive growth in order to attain rapid and disciplined growth. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is important and is one of the biggest challenges for India. The challenge is to take the levels of growth to all section of the society and to all parts of the country. Rapid growth in the rural economy, sustainable urban growth, infrastructure development, reforms in education, health, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves. The main thrust areas for need of inclusive growth can be summarized as below:

- Removal of poverty and unemployment
- Removal of income inequalities
- Agricultural Development
- Reduction in regional disparity
- For social sector development
- Protecting environment

Attaining the objectives of inclusive growth there is a need for resources, and for resource generation and mobilization financial inclusion is required. It plays a very crucial role in the process of economic growth. Financial inclusion through appropriate financial services can solve the problem of resource availability, mobilization and allocation particularly for those who do not have any access to such resources. Thus, in the current paper an effort is made to study the role of financial inclusion in inclusive growth. Financial Inclusion, we mean the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. Rangarajan Committee (2008) viewed financial inclusion 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-incomegroups at an affordable cost".

Financial inclusion in India can be facilitated by following ways:

1. Restructuring financial architecture fitting to the needs of inclusive growth
2. Usage of Mobile Banking
3. More use of Business Facilitator and Business Correspondent
4. Micro Finance Institutions
5. Active role of educational institutes for furthering financial inclusion

In this way financial inclusion is necessary for inclusive growth in India. Financial inclusion is the need of the hour which is possible through coordination between banks, government and others to facilitate access to bank accounts.

7. Extent of financial inclusion in India

Several countries across the globe now look at financial inclusion as the means for a more comprehensive growth, wherein, each citizen of the country is able to use their earnings as a financial resource that they can put to work to improve their future financial status and simultaneously contribute to the nation's progress. Financial inclusion has always been accorded high importance by the Reserve Bank and Government of India to aid the inclusive growth process for the economy, the history of financial inclusion in India is actually much older than the formal adoption of the objective.

Essential Contents of Financial Inclusion

***Source**: Rangarajan Committee Report*

8. Role of financial inclusion

Financial Inclusion is imperative for inclusive growth of India, with more than 25 % of its population living in abject poverty government's onus towards their growth. Inclusive finance is one such measure which if targeted and attained in right manner will provide an apt solution to the severe problems of poverty and unemployment. Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty. Financial inclusion promotes thrift, develops culture of saving, enables efficient payment mechanism and strengthening the economy.

9. Shortcomings

- **Lack of Financial Literacy:** Low literacy rate has been a great impediment for financial inclusion as ignorance caused low levels of awareness causing difficulty to communicate the necessity for banking habits and what savings can do to enrich their living standards.

- **Gap in Technology:** Next generation of banking is era of technology, an inevitable source to improve branch infrastructure in terms of usage, increase outreach and help in scaling up activities. Technology can be leveraged to increase delivery channels at lower cost, have better internal controls, augment the competency, safety and reliability of the payments and remittances system and develop a credit information system for future requirements. IT can reduce cost and time in processing of applications, maintaining and reconciliation of accounts and enable banks to use their staff at branches for making that critical minimum effort in sustaining relationship especially with new accountholders.

- **Language Barrier:** One of the major hitch in financial inclusion being non availability of printed literature in regional vernaculars which is otherwise a prerequisite for reaching the masses. Thus a barrier is immediately created for communicating the need for inculcating banking practices. As most of the literature in the banking industry are in bilingual mode, with large demographic spread are habitually jeopardize by the ignorance of language which creating a fear psychosis. Every possible effort should be made to present printed literature in regional languages so that the message can be delivered in a larger vein thereby attracting people from all walks of life. Though the procedure will attract lot of man-hours, language authenticity and expensive printing expenditure but in the long run it will be highly beneficial in cutting across the myth and create a social relevance of inclusion and contributing to nation's development.

- **Trained and Compassionate Manpower:** Human resource has been the crux for successful endeavors. In all counts trained manpower is a versatile asset which can be harnessed to achieve visionary goals. This has been the void that needs to be plugged from the grass root level as found most of the staff are either semi-skilled or trained only for performing regular banking activities, but what needed is versatile manpower with a human touch who can feel the pulse of the consumers and shifting gears as according to circumstances.

- **Statutory Documental Requirements:** The necessity for simplifying the documentation procedures in opening a SB account is utmost prerequisite (KYC Norms) as people from both urban and rural belt with low incomes face problem when they approach banks or in turn are approached by the banks or financial service provider for opening accounts. RBI should set guidelines for alternative mode of identification as the essence of Know Your Customer is to identify a person by profession and class and second prevent any unforeseen event harming the interest of the nation.

- **Lack of Customized Products:** As people differ in their perception, opinions and thoughts so the banking industry has to understand this basic philosophy and develop customer centric innovative products. The whole banking industry is offering generic products matching the needs of urbanized population and arsenal of other services.

- **Infrastructural Requirements:** With the liberalization branch opening under new branch authorization policy of RBI which encourages the opening of branches in under banked or unbanked areas. Infrastructural deployments are not that enthusiastic to run even a satellite operation which requires power, telecommunication services and roads for geographical access. Though, under RIDF scheme government has been raised a corpus for partly funding the rural roads and bridges components of the Bharat NirmanProgramme.

- **Transaction Cost Too High:** The assumption offering basic banking services to under privileged and low-income group will not be viable and incur additional burden for up-scaling and capacity building is a myopic vision the experiences of banking industry. The transaction cost can be averaged among the people and technological innovations in IT services will help to build low cost service modules to support the backend operations.

- **Lack of Interest / Involvement of Big Technology Players:** It is highly disappointing that big technological vendors showing meager interest in joining hands with banks to evolve business solution which has universal application. The challenge will lie in developing low cost alternatives for mass markets. With participation from biggies with superior technology can easily blend with the constraints can develop platform for mass scale operation and as for the cost involved for research and development which can be shared by forming a consortium were Government of India can also be participant. Strong Collaboration among Banks, Technical Service Provider is very essential in this direction.

10. Recommendations and suggestions

- **Technological Intervention:** Technology will open new frontiers for financial inclusion and offer a huge potential in terms of business and banks therefore need to take aggressive steps to use technology, as a mechanism to exploit potentials in innovative and creative manner. In fact, technology is critical block for future endeavors apart from providing operational support, to building massive database for referrals, reducing the transaction cost and valuable man hours.

- **Efficient Delivery Mechanism:** The use of intermediaries will only augment the process of financial inclusion by connecting people to banks. And the involvement SHG, community leaders and especially the state-level administration at grass-root level (PRIs) in India would booster the concept of door step banking and enable effective penetration into under-served areas. Banks should enter into agreement with postal authorities to use their wide area network and reach of post offices as business correspondents to outreach the masses by leveraging the proximity of the postman to the local population, intimate knowledge of their backgrounds and the trust reposed on him. Proactive involvement of RBI is required when such unconventional mode operandi is facilitated. RBI should set framework on use of business correspondents and facilitators as outsourcing agents and review the process in regular basis to provide solidity. The use of MFIs as indirect mode for credit disbursals to large segment of poor and needy customers can add another dimension one helping banks to minimize credit risk and the second social upliftment.

- **Spreading Financial Literacy:** An aggressive drive is recommended to raise literacy standards to spread financial literacy "which is a mechanism by which an individual can understand the concepts and risks embedded in a financial product and develop skill to build confidence and identify the potential financial hazards and prospects to make informed choices to improve economic standards". Financial education involves understanding the behavioral and psychological factors which is innate to an individual. Thus, promoting intensive awareness by adult education programme, enacting village stage shows, public campaigns, usage of mobiles phones, using electronic media for promoting innovative advertisements, village panchayats, local school masters, can provide extra edge to reach the goal. Banks should avail the support of social organizations and village leaders who are well informed and undergone schooling to spread the need of joining the mainstream and remove any unnecessary fear housing in their minds.

- **Product Innovation:** Financial inclusion is not limited to only opening saving bank account with zero balance facility but it means to offer a wide array of financial services from credit counseling, offering insurance and MF products, remittances facility etc. There is dearth in innovation in developing tailored made products to appeal various classes according to their individual requirements. Product innovation will help in great way in spreading financial deepening as it will be easy to approach masses and provide easy solutions.

- **Appropriate Business Model Yet to Evolve:** Appropriate strategies and business model needs to be developed as penetration in rural belts and low income urban and semi urban population is altogether a different challenge. Here traditional mode of banking will be highly unsuccessful first owing to the fear psychosis, lack of financial literacy, low propensity to save among low income group but not saving with financial institutions or practically no saving habits, seasonal employment or unemployment, lack of proper credentials to support KYC norms etc. Unconventional business modeling needs to be advocated which will require attitude, will power and support from government machineries.

- **Regulatory and Policy Interventions:** RBI cannot just remain a regulatory body but has a huge responsibility in Indian context with respect to financial inclusion. Necessary legislation and guidelines can be enacted at any point of time but implementing those measures with other participants is where the challenge lies. RBI needs to regularly monitor whether the financial institutions are adhering to the commitments made both to Government and the public. Single minded focus, diligent efforts and involvement of all is the prerequisite for financial inclusion. Setting standards and bench-marking for target achievement and rewarding the institutions for their excellent delivery in way motivate others to join the social and economic cause.

11. Conclusion

Financial inclusion is one of the most crucial opportunities which need to be equitably distributed in the country in order to attain comprehensive growth. It needs to be understood by the state that in order to bring orderly growth, order needs to be developed with regard to inclusive finance. The percentage of financial inclusion in the different states of the country varies differently. Financial literacy and level of awareness continue to remain an issue with regard to usage of financial services/products. It calls for coordination of all the stakeholders like sectoral regulators, banks, governments, civil societies, NGOs, etc. to achieve the objective of financial inclusion. For deepening financial system and widening its reach is crucial in terms accelerating the growth and achieve equitable objectives. With sudden burst in entrepreneur drive across the country will require additional financial support to nurture them. With pressure for credit delivery will need to mobilize additional resources from a wider deposit base. Thus, financial inclusion will help strengthen financial deepening and enable resource mobilization for extending and broadening credit leading to economic development and accelerate growth.

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