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International Journal of Current Research
Vol. 6, Issue, 12, pp.10753-10756, December, 2014

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

REVIEW ARTICLE

FINANCIAL INCLUSION: TAKING BANKING SERVICES TO THE COMMON MAN

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ARTICLE INFO

Article History:
Received 25th September, 2014
Received in revised form
10th October, 2014
Accepted 19th November, 2014
Published online 27th December, 2014

Key words:

Information Technology,
KYC, Financial Inclusion,
Inclusive Growth

ABSTRACT

After a long period of Indian Independence, a large section of Indian population (particularly poor section and in rural areas) still remain unbanked. To cover the all population under the financial inclusion is the government objective. Financial inclusion mainly supply credit to all even they are poor, which further boost up saving habits among the common people and finally reduce leak in subsidy and welfare distribution. Along with inclusive growth the financial inclusion has the key role to provide financial services at affordable costs to vast sections of disadvantaged and low income groups who have no frill accounts. Financial inclusion may be the next revolution of growth and prosperity.

INTRODUCTION

Even after independence we have passed a long period though a large section of our population still remain unbanked. This led to the generation of financial instability among the lower income groups who do not have access to financial products and services particularly in rural areas where near about 68% of our population live. These rural common people do not have any habit for savings. By means of capital formation through financial inclusion move away the common people from traditional mode and to save them in land, building etc. Also a classic example of credit availability to the poor is the micro-finance sector and also by means of public subsidies and welfare programmes. Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups who have no frill accounts. Financial inclusion may be the next revolution of growth and prosperity. Inclusive growth has been the main objective of 11th Plan. Inclusive growth means including all sections of the population in the growth process. Financial inclusion is a way to achieve Inclusive growth. Rangarajan Committee was appointed by the Government of India in 2006 to recommend a strategy to achieve higher financial inclusion in the country. The committee defines financial inclusion as follows; "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."

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According to World Bank study (April 2012) that half of the world population held accounts with formal financial institutions. But unfortunately, India has poor financial inclusion when compared with the global average. In India only 35% have formal accounts whereas the same figure is 41% for developing countries. Hence the RBI suggested an urgent need for financial inclusion for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 KM.

The present Prime Minister Narendra Modi addresses the nation in his Independence day speech for a Comprehensive Financial Inclusion Plan (CFIP) or Sampoorn Vittia Samaveshan for its breath taking scope. In his Pradhan Mantri Jan-Dhan Yojana figured a new plan action. The beneficiary needs to be one electronic bank account. For this more banks branches in unbanked areas to take formal financial services across the whole country. Technology adoption would be a key role in this case. The IBI takes some positive for financial inclusion and for public two sets of guidelines for issuing licensing for payment banks and small banks. The RBI governor R. Rajan in his conceptual terms outlined that simplicity and reliability in financial inclusion in India, though not a cure all can be a way of liberating the poor from dependence indifferently delivered public services and from venal politician. He said further in order to draw in the poor, the products should address their needs-a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy way to understand life and health insurance and an avenue to engage in savings in the old age.

While the government has taken various steps for Financial Inclusion a huge task is lagging behind. Of the 24.67 crores of households in the country 10.19 crores do not have access to banking services. In rural areas, 44% households and in urban areas 33% still do not have a bank account. For this a Smart Card (Ru Pay Card) will be issued to enable customers to operate their accounts even without BCs and simultaneously to create awareness among the financially excluded. Financial services refer to a whole range of services offered by the financial intermediaries between the surplus spending units and the deficit spending units. Banka insurance companies, mutual funds, and non-bank finance companies are examples of such financial intermediaries. The financial services offered by these financial intermediaries are: deposits, loans, insurance, payment facilities etc. By providing these services to vulnerable groups and weaker sections the aim is to help they came out of poverty. As banks are the gateway to the most basic forms of financial services, banking inclusion/exclusion is often used as analogous to financial inclusion/exclusion.

Reasons for Financial Inclusion

There is variety of reasons for financial inclusion. The states/regions with low level of financial inclusion indicate that the first major constraint may be the geographical or physical access when clients are required to visit a branch. In remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. Average distance of a bank branch from household and cost involved in terms of fare and time to reach a branch/ATM is an important determinant of financial inclusion. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barrier. Banks have minimum account-balance requirements or fees that may be out of reach of many potential users. Low level of income with more than 25% families below the poverty line may still remain as a barrier. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion.

All these result in higher transaction cost apart from procedural hassles on the other hand the case of availability of informal credit sources makes these popular even though they are costlier. The requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum dwellers.

Extent of Financial Inclusion

Let us consider the extent of financial inclusion in India taking only the banking sector. Mandira Sarma (2007) has evolved the concept of index of financial inclusion. This index is based on three aspects of financial inclusion: penetration of the banking system, its availability to users and its actual usage. Penetration is measured by the number of bank accounts per 100 populations, availability is measured by the number of bank branches per 1000 population and usage is measured by the size of bank credit and deposit relative to the GDP.

In India there are three types of banking agencies-scheduled commercial banks in public and private sectors, regional rural banks and cooperative banks. S. S. Sangwan (2008) in his study considered state-wise deposits and credit accounts of commercial banks as in March 2006. This study reveals variation of financial inclusion among the states. The study shows that percentage of adult population having saving bank account is 63 for all India. Among the regions, it is the lowest, 42%; in North eastern region and highest, 86% in the Northern Region. The Co-efficient of Variation (CV) is 55% across the states. It is found that there is no visible positive association between inclusion in terms savings and credit accounts. It is also seen that states with lower per capita income have more inclusion in terms of credit accounts, which may be due to more financing under central and state governments subsidy scheme.

Indirectly financial inclusion of low income people in terms of credit accounts has taken place through various government sponsored schemes like SFDA/MFDA in early 1970's, IRDP since 1978 to 1999 and SGSY since 1999. The Kishan Credit Card is another big success in linking farmers with banks. Artisan Card and General Purpose Credit Card are the latest schemes to link low income people with banks. One common weakness of these credit schemes has been the absence of saving/ current account in general and taking a loan from banks has been one lifetime event for majority of such borrowers. It is doubtful whether such onetime credit contract with banks can really be termed as financial inclusion on sustainable basis.

Role of Information Technology (IT)

In the present day context, IT solutions for providing doorstep facilities hold the key to enlarging financial inclusion. 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. Some state governments are routing social security payments as also payments under NREGs through such smart cards. The same delivery channel can be used to provide other financial services like low cost remittances and insurance. IT can reduce cost and time in processing of applications, maintaining and reconciliation of accounts and enable banks to use their staffs at branches for making the critical minimum effort in sustaining relationship especially with new account holders.

In rural areas customers cannot be expected to come to branches in view of opportunity cost and time and hence banks will have to reach out through a variety of devices such as weekly banking, mobile banking, satellite offices, rural ATMs and use of post offices. In urban and even in rural areas while mobile phones have penetrated, banks could mobile technology for facilitating banking transaction. There are more than one crore mobile users today. The number of mobile phones currently is more than the number of borrowers from the banking system. Mobile phones are used to transfer funds real time from and to bank accounts and to make remittances and payments at very low cost. Once the data base and track record are established, a multiple of financing services can be offered including saving remittance, receipt of salaries, pensions, and payments for utilities, loan insurance and mutual fund products. Financial inclusion offers a huge potential for business in terms of resources and assets and banks therefore need to take aggressive steps to use technology, business process and personnel to be able to exploit this potential in innovative and creative ways. In a branch banking model, local community based organizations or respected persons could be used to deal with the information asymmetry problem by leveraging the knowledge about customers available with such entities/ persons to reduce credit risk and transaction costs. Even in post offices and postmen are not used for actual delivery of services, they can be used for the invaluable information and data they possess for direct marketing. There are a number of such organizations and delivery channels-including retired bankers and school teachers-who can be used for such credit enhancements in the form of reliable information.

For active pension payments and disbursals under NREGS through use of smart cards linked to bank accounts and for social security programmes as also banking transactions can act as a unique identifier card. All relevant details relating to the person can be stored on the card with bio-metric identification. Experiments are underway for low cost ATMs with bio-metric identification for withdrawal of cash that could be enable a low cost and therefore more sustainable way of financial penetration while ensuring safeguards against foul play. RBI has set up an advisory group on IT solution for financial inclusion and it is hoped that collaborative effort among banks, governments and post offices will be facilitated by the deliberations of this group.

SHG Approach and Financial Inclusion

The self help group (SHG) approach was introduced in 1982 to link poor people with bank credit. Under this programme, about 40 million rural families have been linked with banks up to March 2007. The main features of this approach as compared to other sponsored credit schemes is the learning of management of own money by the poor before availing bank loan. Moreover, the SHG approach does not involve any subsidy. Hence it is sustainable with its own strength. A number of studies have found that SHG approach reduces the transaction cost for banks and loan saving cost of borrowers. The main objective of the SHG approach is the economic inclusion of women in terms of savings as well as credit accounts.

The SHGs with dominance of women (86%) and the poor sections of population are linked with banks through one or another facilitator. The banking education is the philosophy of the SHG approach and hence it is apt to the objective of financial inclusion. However, all the members may not be having the individual saving accounts due to lack of awareness about benefits of bank account and the constraints like illiteracy, higher cost in assessing the branch, no surplus to pay initial deposits. The central and state governments can contribute in minimizing some of these constraints by providing initial matching grant for opening saving account and technological support to access through public phones and increasing number of rural ATMs in government establishments like post offices, schools and hospitals.

Measures for Financial Inclusion

Several measures have been adopted in recent years to increase Financial Inclusion.

Two recommendations of the Committee on Financial Inclusion have been accepted by the government. They are: (i) to advise commercial banks including RRBs to add atleast 250 rural household accounts every year at each of their rural and semi-urban branches; (ii) to allow individuals such as retired bank officers, ex-servicemen etc to be appointed as business facilitator or business correspondent or credit counsellor.

RBI in its 2005-06 credit policy issued guidelines to make available ‘no frills’ account with nil or very minimum balance and charges.

All printed bank materials have to be made available in regional languages.

KYC and Adhar card procedures have been simplified for low-income persons.

Banks have tied up with common service centres. For mobile banking greater co-ordination between mobile telephone companies and banks will be necessary.

According with the central government the state government support will be crucial. For the success of Financial Inclusion commercial viability is required.

Micro-finance may be taken as an important role for Financial Inclusion.

Conclusion

Financial Inclusion of the unbanked masses is a critical step that requires political will, bureaucratic support and dogged persuasion by RBI. It is expected to unleash the hugely untapped potential of the bottom of the pyramid section of Indian Economy. Financial inclusion may be the next revolution of growth and prosperity. Financial inclusion along with the government developmental programmes as well as financial and economic development in our country extending the banking technological services to every common mass will play a key role towards an inclusive growth.

Acknowledgement: In preparation of this paper I deeply acknowledge my respected sir Prof. Jaydeb Sarkhel, Department of Commerce, Burdwan University, West Bengal, India, e-mail: jaydebsarkhel@gmail.com.

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