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# Opportunities and Challenges of Financial Inclusion in India

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The process of ensuring access to appropriate financial products and services by weaker sections and low income groups at a cheap cost in a fair and transparent manner by mainstream institutional players is known as financial inclusion. Financial inclusion should include access to financial products and services like no-frill accounts, micro credit, saving products, remittances and payment services, insurance and health care, mortgage, financial services, entrepreneurial credit, pension for old age, business correspondence and self help group, branchless banking, micro finance and micro credit facility and investment plan for child's education.

## Importance of Financial Inclusion

In the most of the developing countries, access to finance is now being understood as a public good which is as important as safe water or primary education. A question that comes in mind is whether financial inclusion can be perceived as a public good. A good is regarded as public good if it fulfil the conditions of non-rivalness in consumption and non-excludability. Financial inclusion has a special importance for a growing economy like India as bringing the large portion of the productive sectors of the economy under formal financial network could release their creative capacities apart from increasing domestic demand on a sustainable basis driven by income and consumption growth from each sectors. Financial inclusion has a multiple effect on the economy as a whole through higher savings pooled from the huge segment of the bottom of the pyramid population by providing access to formal savings arrangements which will result in expansion in credit and investments by banks. Deeper engagement of the under-banked population in the economy through the formal financial system could improve their financial conditions and living standards which will enable them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks. Government also gets extremely benefited by efficient and leakage proof transfer of large amounts of welfare benefits to be targeted, disadvantaged group of the population. From the point of Reserve Bank of India all the economic agents in the financial system greatly participate in making monetary policy more effective and increasing the prospects of non-inflationary growth. It also reduces reliance on the informal sector which tends to dent the impact of monetary policy decisions.

*General Equation* - FI= BC+NFA where BC= Banks + OFIs + MFIs + IT

NFA= No-Frills Saving Banks Accounts

BC= Banks+ Other financial Institutions + Micro Finance Institutions + Information Technology

OFI= Insurance Companies, Mutual Funds, Pension Companies

**Essentials of Financial Inclusion**

Appropriate Technology, appropriate and efficient delivery models, mainstream banks determination and involvement, strong collaboration among banks, technical service provider, BC services and liberalization of BC model.

**Financial Inclusion**

There could be lack of access to financial services due to several reasons such as lack of sources of financial services in rural areas which are famous for universal money lenders but do not have saving deposit and insurance services , high information barriers and low awareness for women in rural areas, insufficient access to formal financial institutions as banks could not extend their outreach to the poor due to various reasons like high cost of operations, less volume and more number of clients among many others, poor functioning of financial institutions are the main reasons of financial inclusion.

**Financial Inclusion: India's position compared with other countries**

The range of financial inclusion in India is found to be higher as compared with other developed and some of the major emerging economies. The vast range of financial inclusion in India is visible in the form of high population per bank branch and low volume of population access to basic banking services like saving accounts, credit facilities, and credit and debit cards. The following table is an outline of India's performance in the area of financial inclusion as compared with other developed and developing countries.

**Indicators of Financial Inclusion- Cross Country Analysis**

| Country | Number of Branches | Number of ATM's | Bank Credit | Bank Deposits |
|---|---|---|---|---|
| | ( per 0.1 million adults) | | ( As per cent of GDP) | |
| India | 10.64 | 8.9 | 51.75 | 68.43 |
| China | 23.81 | 49.56 | 287.89 | 433.96 |
| Brazil | 46.15 | 119.63 | 40.28 | 53.26 |
| France | 41.58 | 109.8 | 42.85 | 34.77 |
| Mexico | 14.86 | 45.77 | 18.81 | 22.65 |
| UK | 24.87 | 122.77 | 445.86 | 406.54 |
| US | 35.43 | 173.75 | 46.83 | 57.78 |
| Korea | 18.8 | 250.29 | 90.65 | 80.82 |
| South Africa | 10.71 | 60.01 | 74.45 | 45.86 |
| Philippines | 8.07 | 17.7 | 21.39 | 41.93 |

Source: IMF, Financial Access Survey, 2011-12

**Opportunities in Financial Inclusion**

The growth trend of the Indian economy over the last few years appears to indicate the beginning of new phase of higher growth. From an average growth rate of around 6.0% for a quarter of century, growth rate has increased 8.1% from last few years. Along with declining population growth it shows high growth rate in per capita income in excess of 6% in recent years and perhaps reaching 7% which would lead to


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doubling of per capita income every ten years. Most importantly the current growth rate is not a flash in a pan so through the financial inclusion we will achieve the inclusion growth and access of credit facility will help to enhance the entrepreneurial skill of people and solve the problem of credit crunch among the developed people.

There is a general consent among economists that financial development incites economic growth. Financial development creates enabling conditions for growth through supply lending (financial development spurs growth) or a demand following (growth generates demand for financial products) channel. And it will lead to the growth of different financial products in India.

### Challenges in Financial Inclusion

The RBI circular on Business Correspondent Model allows, NGOs / MFIs set up under societies / Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or Cooperative Societies Acts of States , section 25 companies and post offices to act as Business Correspondents. Most organizations included in these forms have social mandates with less emphasis on business model. The present guidelines exclude NBFC and MFIs from the ambit of being a Business Correspondent. The current experience of MFIs outreach in India shows high growth rate and outreach to the poor and at the same time limitations on the type of financial services that can be offered by them. The BC framework allows for this to be corrected. However currently the legal form that allows MFIs to grow in size and scale and access greater resources is not permissible as a Business Correspondent. Most MFIs includes under other legal forms permissible under the BC framework aim to register as NBFCs to attract capital for expansion and scale of business. Non Banking Finance Companies should be brought under the ambit of Business Correspondent framework as they not only serve the need of scale through their outreach but also have access to resources for professional management of an enhanced responsibility through the BC model.

From the point of view of banks providing such services would have various risk associated with it. The major risks to the banks are legal, reputation and operational risks. These risks are to be managed with tight and regular monitoring, developing systems and procedures and by developing effective risk mitigating tools and matrix. The banks can consider evaluating these institutions through various bench mark indicators and procedures like capital adequacy, governance, liquidity of the institution and placing minimum liquidity at banks concerned in the form of deposit, systems and procedures, regular inspection of the BC either through in house or external auditors.

### RBI Efforts on Financial Inclusion

The Reserve Bank of India has introduced branchless banking by facilitating the business correspondent model, enabling non-government organizations, micro -finance bodies, co-operative societies, grocery shops, PCOs and individuals to collect small deposits, disburse and recover certain loans and also sell other financial products like insurance , pension and mutual funds and to handle small remittances and payments. But it is also true that while a large number of no-frills accounts have been opened those that are operational have yet to reach a meaningful level? On its part the government has also unveiled a number of initiatives to mainstream the marginalized like small borrowers eligible for another loan issuing them credit cards without security asking banks to adopt one district for 100% financial inclusion and establishment of the financial inclusion fund and financial inclusion technology fund. This is a part there are over 83 million Kisan Credit Cards. Similarly there are over 5 million Self Help Groups having saving of almost Rs 40 billion. The Reserve Bank of India also said that financial inclusion is not restricted merely to opening of bank accounts and should imply provision of all financial services like credit, remittance and overdraft facilities for the rural poor.

### Conclusion

Notwithstanding the regulatory, operational and other aspects in focus, financial inclusion is a complex issue which cannot be solved by any factors in the system. Formal financial institutions such as banks, insurance companies, mutual funds, pension companies will have to join hands with small NGO-MFIs, larger NBFC -MFIs and technology providers to enable inclusion. The strength of these institutions will have to be put together through sound collaborations for financial inclusion. Local and national presence organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability and impact. This is a collaborative model will have to tackle exclusion in two ways. By ensuring that there is a supply of appropriate and affordable services available to those that need them and by stimulating demand for appropriate financial products services available to those that need them and by stimulating demand for appropriate financial products, service and advice with appropriate delivery mechanism. These different sets of institutions have to appreciate the power of this model and collaborate to deliver and to reach and to reach the large number of masses by providing comprehensive financial services and financial advice. Such collaborations will also ensure that financial inclusion is not looked upon as a social obligation but viable business models over time.

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