

Challenges of Financial Inclusion in India

Dr. Sandeep Kapoor¹ and Rocky Sachan²

1. *Department of Business & management Studies, Meerut Institute of Engineering & Technology, India.*
2. *Department of Business & management Studies, Meerut Institute of Engineering & Technology, India*

ABSTRACT

Now days we hear the term financial inclusion almost every day, the basic meaning of this term is to include every one into the net of formal financial services so that all the households of the society can contribute towards the journey of growth of the economy. As it was found by United Nations in the year 2000 that the main source of poverty is that a huge part of our society is not able to avail even basic financial service. India had also started to work on this phenomenon since the year 2005. Today in the year 2018 we have made several benchmarks in almost every field but unable to do "Financial Inclusion". This paper is an attempt to discuss why we are struggling since last 13 years & discuss some challenges of "Financial Inclusion" in India.

Key words: Financial Inclusion, Financial Services, Households, Poverty, Society

1. INTRODUCTION

In early 2000, United Nations found that several people across the globe are not able to avail financial services such as savings or deposit services, payment and transfer services, credit & insurance services apart from that there is a shortage of sound and safe financial institutions and all these services at a reasonable and affordable cost. Thus the situation was named as "financial exclusion" which as assumed to have a direct correlation with poverty, therefore the term "Financial Inclusion" became important. So to overcome the poverty financial inclusion was defined 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.
- 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.

In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then governor, Reserve Bank of India. After that, this concept gained ground and came to be widely used in India. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion.

The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. As a result norms became less strict for people intending to

open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. The Indian Reserve Bank vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.

2. CURRENT SITUATION

In the recent past financial inclusion campaign was re-initiated by the government of India via "Pradhan Mantri Jan Dhan Yojna" as a national financial inclusion mission, on the inauguration day, 1.5 crore bank accounts were opened under this scheme. This activity was appreciated and recorded by Guinness book as "The most bank accounts opened in 1 week, as a part of financial inclusion campaign Rs. 18096130 (1.8 crore) was received by Banks in India from 23 to 29 August 2014". As per GOI the total balances in these accounts till 31-Jan, 2015 was approx 10500 crore (in 5 months). This scheme took 16 months to accumulate balance of Rs. 27283 crore till 31-December 2015, therefore the average monthly inflow of the scheme is somewhere between 1700 to 2000 crore. This data shows that country has covered a big distance to reach its goal of "Financial Inclusion".

3. Challenges of financial inclusion in India

Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking product but also other financial services such as insurance & equity products. Apart from this it is a process of ensuring access to financial services & timely and adequate credit to weaker sections and low income groups. As the access to financial services has been recognized as a factor negatively correlated with poverty, therefore more importance is given to extending financial services to low-income households. The high accessibility of financial services increases the range of services among households and enterprises. Though access to financial services is improving but still there are various challenges have affected the extension of financial inclusion.

3.1 Banks in rural areas

To promote financial inclusion and to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks including Public Sector Banks (excluding Regional Rural Banks) to open branches at any place in the country, without seeking prior approval of RBI. As on 31.03.2016, Scheduled Commercial Banks (SCBs) have 132700 bank branches across the country and out of which 86425 branches (65.12 %) are in rural and semi urban areas. But the foot fall or number of transactions or size of transactions or number of customer attended by the bank in rural areas is quite low in comparison to urban branches. Apart from this due to poor transportation infrastructure, it takes long time to reach at bank. Hence population lives in rural areas find it difficult to access the financial services.

3.2 Hard KYC Norms

Banks are having very strict KYC norms due to this several participants of the society fails to avail the financial services from banks, however after the AADHAAR CARD some of the problems are solved. But still it is very difficult to access financial services for those who are not having any permanent address.

3.3 Poor knowledge of financial services

This is the basic problem of our India, in our country even a well educated person takes several financial services due to the advice of an agent whose interested is vested in that product in the form of commission. In such a scenario it cannot be expected from less or uneducated persons to understand the importance of different financial products. There are so many things which people do not understand at all like debit card, credit card, rupay, master, visa, compound interest, due date, EMI, principal & many more.

3.4 Connectivity of the financial services

As far as rural India is concerned the biggest problem of finances is that they do not have the financial stability to maintain a bank account. After opening of record number of accounts under, “Pradhan Mantri Jan Dhan Yojana”, banks are regularly complaining that it is tough for them to manage these accounts due to zero balances & other account holders have to take the burden in the form of higher maintainable balances or fees. People have opened these accounts but not at all using because they are unable to connect themselves with the offered services, this defeats the purpose of financial inclusion.

3.5 Product Bundling

People are also least interested to avail financial product or services from banks because banks generally bundle the products or services such as “Atal Pension Yojana” or “A insurance policy” along with saving account.

3.6 Size of Business:

Size of occupation is also an important factor in availing the financial services, as banks prefer to deal with one big client rather than ten small clients. Thus will providing financial services banks entertain big accounts or big loans softly than the smaller one.

4. CONCLUSION

Since last thirteen years Indian government is trying various measures for Financial Inclusion, they are successful in inviting a huge number of people to the bank & made a world record of opening 1.5 crore bank accounts within a day. The huge success of this scheme do not ensures financial inclusion. As the objective is not to make the record or put the efforts into limelight but to bring everyone together to create a grand success story, the data shows it is not happening. The cost of this record is being paid by the common tax payer as the biggest public sector bank of India State Bank of India had waved off the penalties for non maintenance of balance in saving accounts way back in 2012 but w.e.f. 1st April 2017 they have brought it back. The State Bank of India collected Rs. 1771 crore during April-November 2017 as charges from customers who did not maintain their minimum monthly average balance (MAB) in their accounts. This is more than the bank's July-September quarter net profit of Rs. 1581.55 crore and nearly half of the Rs.3586 crore it earned as net profit April-September.

Apart from this these accounts were pumping around Rs. 1700-2000 crore per month into the banking system and scheme was assumed to be successful. But after demonetization on 8th November, 2016, during the

first two weeks of demonetization, the total balance in no-frills accounts under the Pradhan Mantri Jan Dhan Yojana increased by 60% to Rs 72,834.72 crore i.e. a jump of Rs 27,198.11 crore in 14 days i.e. around Rs. 1900 crore per day. This surprising hike in the balances of these accounts shows that these accounts were not used by actual users but they have surrogated their accounts to some big bulls.

It seems that to achieve the target country needs to address the basic challenges such as penetration of financial service at rural areas, KYC norm should be soften of certain people, financial literacy mission should be launched, financial services must address the needs of the person, banks should not bundle the financial service with other products of the government of any private company, & banks should strictly follow the priority lending policy of the government.

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