

Financial Inclusion : A SWOT Analysis In Context Of India

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Abstract

Indian economy has a sound and robust banking system as this sector has shown significant improvements in all the areas relating to financial viability, profitability and competitiveness. The government is also supporting the banking industry. In spite of all these endeavours banking services have not reached a vast section of the population, especially the vulnerable groups of the society. The reasons of financial exclusion in Indian economy are low level of financial literacy, lack of infrastructure, vast population, high transactional cost etc. Hence the purpose of this paper is to do the SWOT analysis of financial inclusion in context of India. The strengths of the financial inclusion in India are the existence of the large section of the population considered middle income group, whose spendings and savings are significant to the economy. The weaknesses are less financial literacy level, unattractive salary to the business correspondents, lack of technology and non availability of suitable financial products in remote areas etc. The opportunities include the majority of educated unemployed people who can be utilized for promoting financial inclusion in the economy, large amount of remittances which can provide a good business to the banks etc. The threats include existence of the informal sector, dormancy of Jan Dhan accounts, limited service centre for serving devices etc. The study is secondary data based. The study concluded that all the stakeholders have to join hands to accelerate the growth of financial inclusion mission in India.

Key words: Vulnerable groups, financial exclusion, financial literacy, SWOT analysis, financial inclusion, business correspondents, financial products, dormancy.

Introduction

A sound financial system brings poor people into the mainstream of the economic growth. 'Franklin.D. Roosevelt has rightly said, "the test of our progress is not whether we add more to the abundance of those who have much, It is whether we provide enough for those who have little." On account of this approach 12th five year plan (2012-2017) is envisaged with the objective of more inclusive growth and the key to inclusive growth is financial inclusion which is emerging as the new paradigm of economic growth. The process of financial inclusion is an attempt to bring the weaker and vulnerable sections of society with in the ambit of the organized financial system. It may, therefore, be defined as the process of enabling access to timely and adequate credit and other financial services for vulnerable groups such as the weaker sections and low-income groups at affordable cost (Karmakar, 2007). Financial inclusion carries several benefits for poors. First, it provides them with opportunities to build savings, make investments and access credit. It also enables them to successfully handle income

shocks and tide over unforeseen emergencies such as illness or loss of employment. (Collins *et. al.* 2009)

This research paper analyses the financial inclusion and its factors using SWOT. SWOT analysis provides suggestions on handling the weakness and threats, which identifies the demand and issues lying behind financial inclusion implementation.

Objective of the Study

The objective of the study is to identify the key internal (strengths & weaknesses) and external (opportunities and threats) factors, that are important to achieving the financial inclusiveness in India through SWOT analysis.

Research Methodology

The study is based on secondary sources of information available from RBI bulletins, journals, books, newspapers and internet.

Literature Review

Dr. K.C. Chakarvarthy, Deputy Governor RBI, at the financial Inclusion Conclave (2013), explained the approach of RBI towards financial inclusion. There is a need on the part of banks to develop new products and deliver models customized

to the unique needs of financially excluded population both in rural and urban areas.

Damodaran A. (2013), stated that vast segment of India’s population exists on the margins of India’s financial system. There is a growing concern about people being ‘under-banked’. Financial inclusion is an important priority of the country in terms of economic growth and development of society and poor. It helps to channelize money-flow to the economy; it ensures people who are unable to access financial system so far can access it with ease.

PMJDY Mission Document (2014), launched with sole motive to bring 100% financial inclusion in India. It has been divided into two phases. The first phase had range from 15th August, 2014, to 14th August 2015 in which universal access to banking facilities, providing basic banking accounts for saving and remittance, Rupay debit card with inbuilt accidental insurance of Rs. 1 lakh and training on financial literacy was provided. The second phase was ranged from 15th August 2015 to 15th August 2018 in which an overdraft facility of upto Rs. 5000/- after six months of satisfactory performance of saving/credit history, creation of credit guarantee fund for coverage of defaults in overdraft a/cs, micro-insurance, unorganized sector pension schemes like swavalamban etc. was taken care of.

Ramasubbian H. and Thangavelu A. (2014), attempted to analyze the people who belong to vulnerable groups and issues related to implementing of financial inclusion in two regions of Tamilnadu State. For testing of formulated Hypothesis, 100 samples were taken from each region and analyzed using SPSS. Different age groups varying among 25 to 65 the issues of utilizing financial inclusion and factors behind implementing financial inclusion were analyzed using SWOT. The results, carried out from primary data and SWOT analysis, indicated that there is a relationship exists between income level, saving habit of respondents and no-frill account.

Ms. Shalini Choithrani (2015), has made an effort to do SWOT analysis of Indian economy in term financial inclusion. In conclusion the study suggested that the government has to undertake this drive at a large level to bring the financially excluded

in the scope of banking to foster the growth of the country.

Need for the Study

As the implementation of 12th five year plan of sustainable and inclusive growth is in progress. One of the best ways to achieve inclusive growth is through financial inclusion. The Indian financial system is considered to be one of the finest systems in the world. In spite of having such a strong financial system it has been evident that financial awareness has not been able to penetrate into the rural India. This is a matter of concern. So the present study aims at doing the SWOT analysis of financial inclusion in context of India to find its strengths, weaknesses, opportunities and threats which may lead to more financial inclusiveness.

SWOT Analysis

SWOT is an acronym for strengths, weaknesses, opportunities and threats. SWOT analysis for financial inclusion highlights the strengths and opportunities of financial inclusion programme in India and provide suggestions on landling the weakness and threats lying behind financial inclusion implementation.

	Helpful To achieving the objectives	Harmful to achieving the objectives
Internal Origin	Strengths	Weaknesses
External Origin	Opportunities	Threats

Financial Inclusion Swot Analysis framework

Strengths

1. Strengths of financial inclusion include RBI’s simplified norms of opening no-frill a/cs among all members of vulnerable groups.
2. Nearby 70% of Indian population inhabited in rural areas and majority of the population still do not have access to formal financial system. This situation can become a win-win situation for both public and private sector banks.
3. The root of the society is the majority of the society. If the root of the society is integrated to the financial institution then the

growth of the country will be unstoppable. In India the integrating agencies are certainly rural and urban area's bank, co-operative societies, NGOs, Civic bodies, Panchayat insurance companies and government agencies, which are working effectively and give a strength of FI.

4. India has a huge banking network with over 1.3 lakh bank branches of public and private sector banks. Out of which 63% branches (as per RBI data) in rural areas. Hence the existence of these bank branches who already deal with rural people can easily increase the growth of financial inclusion.
5. The Indian middle class doubled in size over an eight year period from 300 million in 2004 to 600 million in 2012, along with Indian household saving rates have also leapt which provide a strength for the economy in form of their increased purchasing power and savings.
6. India has a strong banking sector with a wide range of financial products to meet the financial demand of various sections of the society especially for underprivileged.
7. Pradhan Mantri Jan Dhan Yojna, with the aim of universal access to banking facilities, providing basic banking accounts for saving and has remittance and financial literacy programme, has become a strength for financial inclusion.

Weaknesses

1. A large section of the population in the country has remained outside the formal banking channel. As a result, these people have neither been able to participate nor enjoy the fruits of economic growth.
2. In spite of many efforts a large number of accounts opened under PMJDY are dormant and 79% of the households already had a regular bank account. Only 1.5% account holders have sanctioned loans and around half of the account holders did not even avail the loan.
3. Less financial literacy level and lack of awareness about banking services and different financial product among vulnerable people in rural and urban areas, is a weakness of the economy.
4. Digital financial inclusion, can be a game changer for un-served and underserved low income households is based on technology. Non availability of handheld devices, cards, network penetration and limited number of technology services providers are the weaknesses of financial inclusion mission.

5. The business correspondents (BCs) appointed by banks in rural areas aren't making enough money. Therefore many of them quit after a few month in the job.
6. There is no transparency in respect of commission to be paid to the Business Correspondents and they have less freedom to work because they have to work in specific terms and conditions and deal with limited products and services as per instructed by the bank.
7. The rural people are not willing to deposit huge amount of cash with the business correspondents, as for them banking services simply mean a brick and mortar branch. Hence they cannot receive trust and good response from the rural people.
8. Many of the generic financial products are unsuitable for the vulnerable groups of the society.

Opportunity

1. India has a majority of educated unemployed people who can be helpful to promote financial inclusion in the form of business correspondents (BCs) and business facilitators (BFs). Along with, providing banking services they can spread financial literacy and advice on managing money and debt counseling.
2. The Government of India has set up Aadhar enabled payment system (AEPS) across the country to provide basic financial services at low cost. It provides opportunity to indulge a bank customer in the mainstream of financial inclusion.
3. Indian Government has taken an initiative namely Direct Benefit Transfer to route the social security payments through the banking network. It promote financial inclusion as eligible beneficiaries will have to open a bank account and will give a large business to banks.
4. A large amount of remittances take place across the country, predominantly from migrant labour and over half of this happens through non-formal channels. Hence there is the opportunity of capturing remittances for the banks of enhance their business.
5. There are large number of self help groups (men & women) formed in rural and urban areas of the country. Many opportunities are available of financial inclusion as increased activities of self help groups can create more motivation among rural people to utilize other financial services and products.

6. The Indian Post has such a big network to reach to the bottom of population (rural population) as no other financial institution has. It can provide many financial services and products to unserved and underserved rural people at an affordable cost as they have huge customer data base, and no need to incur heavy on infrastructural investments.

Threats

1. Existence of the informal sector & such as money lenders etc. in the rural areas, is a big threat of financial inclusion.
2. People who live in under developed areas find it very difficult to reach the nearest bank due to transportation cost and wages lost in traveling to the bank.
3. There are some ground level threats of financial inclusion as non functional hand held machines, smart cards, network connectivity, non availability of power and limited service centre for serving devices which resulted in banking operation coming to halt in many villages.
4. The sub division of land and small size of rural non-form activities require the provision of small sized loans in large numbers often raising the operational costs for banks.
5. As one-fifth of Jan-Dhan accounts are dormant. Hence the dormancy, zero balance. The dormancy of Jan Dhan accounts as one-fifth of accounts are dormant, zero balance accounts and Rs. 5000/- over draft issue without having credit history of borrowel may put unnecessary burden on the banks if these are not taken care of timely.
6. Spreading financial inclusion over a population of approximately 1.3 billion is a challenge and threat being faced from the demand factors and supply factors.

Conclusion

The RBI and Government have taken several initiative to encourage financial inclusion in the country. While progress has been made but that is not sufficient. To bring the country's unbanked regions and population into the fold of formal financial system, convert all threats into opportunities by improving financial literacy level, availability of the technology and network and motivating business correspondents. As financial inclusion is a win-win opportunity for the poor, for the banks and for the nation. So there is need to join all the stake holders like RBI, Commercial Banks,

RRBs other financial institutions, governments, NGOs, civil societies, Indian Post Offices etc. for their active involvement in achieving the aim of fully financial inclusiveness in the country.

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