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ANALYSIS OF FINANCIAL INCLUSION IN INDIA

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Abstract

Despite the various efforts being made by the government and the banking industry to improve the financial viability and competitiveness of the Indian economy, the services of the banking sector still remain unreached by a large section of the society. The main factors that prevent people from being financially active in India are the lack of financial literacy, high transactional cost, and the vast population. This paper aims to analyze the various strengths and weaknesses of financial inclusion in the country. The biggest advantage of financial inclusion in India is the presence of a large middle income group, which is very important to the country's economy. The main factors that prevent the financial inclusion of the majority of the society are the lack of financial literacy, unattractive salaries, and the lack of technology. There are also various opportunities that can be provided to the banking sector by the educated unemployed individuals. These include the availability of large amounts of remittances, the establishment of financial institutions through the informal sector, and the availability of effective financial products and services in remote areas. The study is conducted on a secondary data basis. Some of the threats that the banking sector faces include the existence of the informal sector, the lack of a dedicated service center for serving devices, and the lack of Jan Dhan accounts. The study concluded that the various stakeholder groups in India have to work together to accelerate the financial inclusion mission in the country.

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

Introduction

A sound financial system can help bring the poor into the mainstream of the economy. According to Franklin Roosevelt, the test of progress is not whether we can add more to the abundance of people who have much, but whether we can provide enough for the less fortunate. The 12th Five Year Plan of the US is focused on increasing the participation of all the people in the economic growth. Financial inclusion is a key component of this strategy. The concept of financial inclusion refers to the process of bringing the vulnerable and marginalized sections of society into the mainstream of the financial system. It aims to provide them with adequate and timely credit and other financial services. Providing financial inclusion to the poor is a great benefit. It allows them to build savings, make investments, and access credit. It can also help them manage unexpected expenses such as illness or the loss of employment. The paper aims to analyze the various factors that affect the financial inclusion process and provide suggestions to improve its implementation. Through its SWOT analysis, the paper also identifies the potential threats and weaknesses that can prevent the country from achieving its financial inclusion goals.

Objective of the Study

The study aims to identify the key external and internal factors that are important to India's financial inclusiveness. Through a comprehensive SWOT analysis, it will be able to identify opportunities and threats that can affect the country's financial growth.

Research Methodology

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

Literature Review

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.

Dr. K.C. Chakarvarthy, Deputy Governer 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.

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 12th Five Year Plan of India is being implemented, financial inclusion is one of the most important factors that can be considered when it comes to achieving inclusive growth. Despite the country's robust financial system, it has been observed that the rural population has not been able to fully realize the benefits of financial literacy. The increasing financial inclusion in India is a matter of concern. This study aims to analyze the various strengths and weaknesses of the country's financial inclusion framework. It also aims to identify the threats and opportunities that can affect its growth.

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. Inspite 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 domant. 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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