CHALLENGES OF FINANCIAL INCLUSION IN INDIA

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Abstract
Over a period of time several measures have been taken by the banks in India to improve access to affordable financial services through financial education, leveraging technology, launching of various schemes and generating awareness. Despite this, access to formal banking system by weaker section of society in India is affected by several barriers. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

Key Words: assests, awareness, barriers, financial, illiteracy, schemes, services, technology

Introduction
The lack of awareness, low income & assets, social exclusion, illiteracy is the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure & requirements of documents for opening bank accounts, unsuitable banking products or schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side. Hence, there is a need for financial inclusion to build uniform economic development, both spatially & temporally and ushering in greater economic & social equity.

Challenges of Financial Inclusion
i. High cost
Providing and utilising financial services is not available free of cost for both the service provider and service utiliser.

a. Cost for service provider: Setting up of branches in rural areas are generally not advantageous due to high cost and low business

b. Cost for service utiliser:
It has been observed that the poor living in rural area are reluctant to utilise these services due to high cost e.g., minimum balance requirements in saving account, fixed charges in credit cards and debit cards, loan processing charges, etc.

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ii. Non price barriers

Access to formal financial sources requires documents of proof regarding person's identity, postal address, income, staff attitude, unsuitable products, etc. Poor people generally do not have these documents and thus are excluded from financial services.

iii. Behavioural aspects

As per IDBI Gilts Report (2007) research in behavioral economics has shown that many people are not comfortable using formal financial services due to difficulty in understanding the language, reading the document and various hidden terms & conditions. Poor people also think that financial services and financial products are meant only for the upper strata of the society.

iv. Geographical barrier

It is concerned with geographical inaccessibility to services in general and banking outlets in particular. It includes remoteness of residence, insurgency in a location branch timing, restricted mobility either due to old age or disability or lack of access to private transport or public transport services.

v. Financial illiteracy

Limited financial literacy, i.e., basic mathematics, business financial skills as well as lack of understanding often acts as a constraint for accessing financial services. Literacy requirements inhibits access for those with lower literacy, lack of awareness and/or English language competency skills.

vi. Technological hindrances

Customers sometimes from fear or lack of familiarity hesitate to conduct them banking activities through technological advancements. Some of those groups affected by restricted mobility may also be vulnerable to technological exclusion.

vii. Environmental and market factors

Environmental & market factors includes the broader socio-economic and demographic trends such as changing market structure, political trends such as transfer of risk & responsibilities from state and employer to individuals.

viii. Social barrier

It comprises of two major factors i.e., gender and age.

a. Gender issues: Access to credit is often limited for women who either do not have or cannot hold title to assets such as land and property or must seek male guarantees to borrow.

b. Age factor: Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

Psychological and cultural barriers

The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low-income groups. However, cultural and religious barriers to banking have also been observed in some of the countries.

x. Lack of social security payments

The countries where the social security payment system is not linked to the banking system, banking exclusion has been higher.

Technology can be a game changer for driving financial inclusion in India. Here's how policymakers can make it meaningful and truly inclusive for the base of the pyramid.

Over the past few years, efforts to drive financial inclusion in India have delivered mixed results. Access to bank accounts has increased dramatically, driven by a strong policy and regulatory push. But the usage of these accounts and the uptake of formal financial services beyond savings accounts, has remained exceptionally difficult.

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Last Mile Challenges and their impact

- **Digital Exclusions:** A recently published KPMG report found that India's Internet usage is the lowest of the BRICS nations.
- Similarly, the **Digital Quality of Life (DQL) Index 2020** reflects the dismal performance of India in digital parameters.
- Moreover, digital illiteracy, innumeracy, and unfamiliarity with technology hinder the digital product's full uptake.
- **Unfamiliarity With DBT:** Beneficiaries of DBT do not know what to do when their payments get rejected, often due to technical reasons such as incorrect account numbers and incorrect Aadhaar mapping with bank accounts.
- More importantly, the workers/beneficiaries have rarely been consulted regarding their preferred mode of transacting.
- **Breeding of Corruption:** The digital exclusion and unfamiliarity of beneficiaries with DBT, has created new forms of corruption.
- This was evidenced in the massive scholarship scam in Jharkhand, where many poor students were deprived of their scholarships owing to a nexus of intermediaries, government officials, banking correspondents and others.
- **Inadequate Rural Banking:** There are just 14.6 bank branches per 1 lakh adults in India. It is sparser in rural India.
- Moreover, rural banks are short-staffed and tend to get overcrowded.
- Accessing banks in rural areas leads to loss of one wage day for the worker. Also, people have to spend money on transportation to access the bank to withdraw their payments/subsidies.

- **Unsuccessful Banking Correspondent Model:** More than a decade after the first regulations on the Business Correspondent (BC) Model were issued in 2006, banks and other financial service providers are struggling to establish a viable and sustainable business case for branchless banking.
- **Accountability Issue:** The lack of accountability and absence of grievance redressal continue to impact all DBT programmes.

Way Forward

- **Expanding Scope of Social Justice:** Understanding social justice should be broadened by including the right to access own money in a timely and transparent manner. Moreover, these rights should be protected through strengthening grievance redressal processes and setting accountability norms for all payment intermediaries.
- **Providing More Choices:** Universalization of Aadhar Enabled Payment System will enable Aadhar Enabled Bank Account holders to carry out seamless financial transactions.
- **Establishing a Code of Conduct for BC Model:** Banks should develop standard rules and formulate a code of conduct to develop effective monitoring and supervision of banking correspondents. Geotagging and GPS mapping of agent locations to search agent points will also enable better monitoring and supervision.
- **Uber Model:** There is a need to explore the possibility to adopt the "Uber" model to handle cash-in/cash-out (CICO), by enabling customers to act as CICO points. It will reduce dependence on agents and allow them to go beyond CICO.
- On the other hand, customers would be able to transact beyond a stationary and limited agent network.
- **Promoting Digital Literacy:** Digital literacy is the lynchpin of triggering a revolution in India's financial inclusion and doorstep delivery models.

- In this context, **Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA)** is a step in the right direction.

There is a clear need for a fresh perspective by re-imagining some key aspects of DBT initiative. It requires that all stakeholders, including the government, regulators, service providers, industry bodies, and others, need to catalyse radical changes in the way the 'last mile' functions at present.

Fintech for fin-clusion

While there are several demand and supply side factors explaining this, our extensive recent consultations with over 50 Indian fintech institutions suggest that some regulatory barriers still persist. Consider a firm that wants to launch a micro-insurance product, purchasable using mobile airtime. The firm will collaborate with telecom players for distribution, and with insurance providers for underwriting risk. However, the firm will require regulatory clarity, since its product will attract the purview of multiple regulators (the Insurance Regulatory and Development Authority, the Telecom Regulatory Authority of India, and possibly the Reserve Bank of India) but regulators are unable to accurately assess the risks associated with such a new product, and regulatory coordination is limited. As a result, the firm will have to abort the launch due to regulatory ambiguity.

An innovation that could help is that of a "regulatory sandbox"- an entity, hosted or endorsed by the regulators, that enables temporary, limited-scale testing of a new product, to assess the potential benefits and risks posed by such a move to consumers or the market.
In the micro-insurance case, the regulators could ask the firm to test their product in a sandbox setting for a limited period (say, three months) and on a restricted scale (say, 10,000 consumers), while laying out metrics for evaluation. This would generate the evidence required to help regulators decide on benefits vis-à-vis risks and how best to regulate it.

After consulting with fintech institutions and regulators in five different countries, many of whom have set up their own sandboxes, we believe that the Indian sandbox should have five key features.

- First, since consumers do not view financial products in regulatory silos, the sandbox should be designed as single and integrated, serving all four financial sector regulators.
- Second, it should strike the balance of being autonomous, yet be embedded in the regulators. This will help in hiring market professionals for technical roles and foster a culture of innovation, while remaining within the regulatory purview.
- Third, the role of the sandbox should only be to assist the regulator by providing evidence for decision making, not replace it. It should not have any direct powers to relax, amend or draft new regulations.
- Fourth, the sandbox should have robust systems to identify, quantify and monitor risks emerging from the new product during testing.
- Finally, the engagement process for industry should be business-friendly. For this, the sandbox should offer a single point of contact, have a charter promising time-bound action, and rely on objective metrics-driven assessment.

We believe a sandbox approach can be a powerful tool in the Indian regulator's arsenal. A regulatory sandbox, rooted in India's realities, and custom-made for India, can become the flag-bearer of the nation's next-generation financial inclusion imperatives.

Financial inclusion in India: Progress and prospects

While inclusive banking began, in spirit, with the nationalisation of banks in 1969 and 1980 in India, the real thrust on financial inclusion (FI) came in 2005 when the Reserve Bank of

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India (RBI) highlighted its significance in its annual policy statement of 2005-06. It urged banks to work towards reaching out to the masses, offering banking services down to the hinterland. The worrying fact was the mass exclusion of people from the formal banking system that hindered economic growth at the bottom of the pyramid. Then onwards RBI began to persuade banks to include FI as a business objective.

Globally, FI is considered as a critical indicator of development and well-being of a society. As a result of renewed thrust on FI, an inclusive financial system is widely recognised in policy circles as a proactive measure and has become a basic priority in many countries – including India. FI is considered as an effective means to sustainable economic growth, and is intended to ensure that each citizen of the country is able to use their earnings as a national financial resource for redeployment in productive sectors of the economy. Such pooled financial resources can be channelised to develop enterprises, fueling the nation's progress. This underlying theme has brought FI in the spotlight and it has come to occupy centre-stage in financial intermediation.

Need based financial inclusion/exclusion paradigm for the poor

Financial needs of the poor arise from irregular pattern of earnings where they have no or low income during lean periods. Emergencies in the form of disasters or hospitalization and death also warrant unexpected expenses requiring finance. Though it is unexpected, life cycle events like marriages also required customary expenses and hence often exceed the budgeted figures or even otherwise require the poor to borrow. Savings and insurance need are yet to pick up momentum; due to increasingly cash oriented function coupled with lack of earnings affected by seasonality, there arises need for smoothening income to facilitate consumption in lean periods in the absence of savings. The institutional finances being averse to the small marginal farmers, landless labourers are finally routed to the informal financiers. Also, the financial products and procedural hassles of formal institutional lenders do not match the requirement of the poor (Sangeetha K.Prathap, 2011).

All the existing reasons are causes for financial exclusion due to lack of a regular or substantial income. In the present, banks terms and conditions have made them more financial exclusion as the vulnerable group because in most of the cases people with low income do not qualify for a loan, because of immovable assets security and other local recommendations of the financial service. Most of the excluded consumers are not aware of the bank's products, the transportation cost and the loss of daily wages for a low-income individual which is beneficial for them. Getting money for their financial requirements from a local money lender is easier than getting a loan from the bank. Most of the banks need collateral security for their loans. It is very difficult for a low-income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So, they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit.

Conclusion

Let me conclude by repeating what I have endeavoured to convey about assessment of Financial Inclusion efforts in our country. I began with a brief introduction of the subject and provided two major definitions of Financial Inclusion. Thereafter, the important policy initiatives of RBI and progress achieved / identified trends in Financial Inclusion have been explained to assess where we stand at the present juncture. I tried to identify stakeholder-wise issues in Financial Inclusion, based on such an assessment as also on the basis of feedback received by us during our financial outreach programmes and the conferences of front line managers which we have been conducting for the past few years. It is one's earnest hope and desire that the issues raised herein would trigger an informed debate and discussion, which could provide an invaluable feedback in the run up to the Report of Nachiket Mor Committee, which at present is examining the entire gamut of issues surrounding Financial Inclusion. Further on, the research community may like to go into such aspects of Financial Inclusion, which would provide valuable leads to the regulators and all the stakeholders concerned in achieving meaningful and holistic Financial Inclusion at the earliest in our country.

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