Need Analysis Study on Achieving Financial Inclusion in India

Pavan Kapoor¹, Dr. Alka Singh²
¹Research Scholar, Shri Venkateshwara University, Merut, Uttar Pradesh, INDIA
²Research Supervisor, Shri Vinkateshwara University, Merut, Uttar Pradesh, INDIA

ABSTRACT
For developing nations the era is of inclusive growth and the key for inclusive growth is financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. A nation can grow economically and socially if it’s weaker section can turn out to be financial independent. The paper highlights the basic features of financial inclusion, and its need for social and economic development of the society. The study focuses on the role of financial inclusion, in strengthening the India’s position in relation to other countries economy. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on financial inclusion and other articles written by eminent authors. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Keywords---- Financial inclusion, Business correspondents, Financial stability, Need Analysis, Indicators, KCC

I. INTRODUCTION
The minimal banking services have the nature of quasi-public goods for which exclusion principle does not function efficiently. So, each citizen of a country should have access to the minimal banking services without discrimination. However, it did not occur in any country. There may be some people who voluntarily exclude themselves. But the disadvantaged section of the population in each country usually fails to have access to the services of formal financial institutions. It is recently termed as financial exclusion. RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one percent [RBI, Working Paper Series (DEPR): 8/2011]. The externality of asymmetric information between the financial institutions and the disadvantaged section of the population may be the main cause of this exclusion. Besides, the geographical distance from bank, diffident, financial illiteracy, gender-inequality, paucity of income and collateral assets, lack of proof of identity of the disadvantaged people are the plausible causes of financial exclusion [3.7]. On the other hand shortage of staff, high transaction cost, economic viability of the extension of branch etc. are the common problems of the financial institutions in extending financial services to the disadvantaged section. So, there is a vast scope of achieving total financial inclusion in a country if it adopts necessary steps to reduce the information gap. Against this backdrop, India has taken several steps towards financial inclusion. The prime objective of these steps is to provide banking services at an affordable cost to the weaker section of population. Since 2004 the Government and the financial regulators of India have been encouraging financial institutions to solve these problems. In this context the SHG-centric microfinance programme has also received a deep attention. Some exclusive steps like facility of ‘no frills’ account, Kisan Credit Card, have also been adopted to achieve total financial inclusion by 2015. In India financial inclusion has been started with opening ‘no frills’ account and issuing a few General Purpose Credit Cards for all. However, it is not the end of the story of financial inclusion. It emphasizes on the access to basic formal financial services at an affordable cost in a sustainable manner for the vulnerable people (NABARD, 2008) [9]. Therefore, Financial Inclusion refers to a situation where people, in general, have connection with the formal financial institutions through holding savings bank account, credit account, insurance policy etc. It may help the person to have affordable access to financial services like formal savings, credit, payments, insurance, remittance etc. It accelerates the circulation of currency and thereby increases the GDP. Therefore, financial inclusion is important for faster inclusive growth. This study has planned to rank the states in India in accordance with their performance regarding the financial inclusion. The subsequent section has reviewed the literature and stated the objectives. Section 3 specifies the methodology
and data source. The findings have been presented in section 4 and section 5 concludes this study [11, 12].

The moot point, however, is that access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology - allowing, for example, more accurate targeting of sections of the market - have led to restricted access to financial services for some groups.

There is a growing divide, with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed "financial exclusion". These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, low cost credit, remittances and payment services, financial advisory services, insurance facilities, etc.

In its landmark research work titled "Building Inclusive Financial Sectors for Development" (2006), more popularly known as the Blue Book, the United Nations (UN) had raised the basic question: "why are so many bankable people unbanked?" An inclusive financial sector, the Blue Book says, would provide access to credit for all "bankable" people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone.

"Financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the underdeveloped, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few."

II. OBJECTIVES OF THE STUDY

• To review the present status of the financial inclusion in India in particular and the world general.
• To highlight the measures taken by the Government of India and RBI for promoting financial Inclusion.
• To highlight how the micro finance models are useful to increase Financial Inclusion.

III. THE ESSENCE

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc.

The main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. Thus financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management and offering debt counselling etc. by banks. Every society should ensure easy access to public goods. Therefore, banking service being a public good should also be aimed at providing service to the entire population [3].

Broadly, we can say that financial inclusion is a process of providing banking services to the poor at affordable cost, which improves their life.

IV. NEED OF FINANCIAL INCLUSION

According to the United Nations the main goals of inclusive finance are as follows:
1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are “bankable,” including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required.
3. Financial and institutional sustainability as a means of providing access to financial services over time.
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers) [6, 10].

There has been a many objectives related to the need for financial inclusion such as

• Economic Objectives:
  For the equitable growth in all the sections of the society leading to a reduction of disparities in terms of income and savings the financial inclusion can serve as a boom for the underdeveloped and developing nations.

• Mobilisation of Savings
  If the weaker sections are provided with the facility of banking services the savings can be mobilized which is normally piled up at their households can be effectively utilised for the capital formation and growth of the economy.
• Larger Market for the financial system
To serve the requirements and need of the large section of society there is a surging need for the larger market for the financial system which opens up the avenue for the new players in the financial sector and can lead to growth of banking sector also.
• Social Objectives
Poverty Eradication is considered to be the main sole objective of the financial inclusion scheme since they bridge up the gap between the weaker section of society and the sources of livelihood and the means of income which can be generated for them if they get loans and advances.
• Sustainable Livelihood
Once the weaker section of society got some money in loan form they can start up their own business or they can support their education through which they can sustain their livelihood. Thus financial inclusion is turn out to be boom for the low income households.
• Political Objectives
There are certain other political objectives which can be achieved with the wider inclusion of lower strata in the society and an effective direction can be given to the government programmes.

V. METHODOLOGY AND DATA

Different studies have considered different sets of the indicators of financial inclusion in accordance with their objectives. Majority of the indicators are common in all sets. This study has tries to include most of the indicators found in literature for assessing the performance of the states in financial inclusion. The indicators considered in this study have been listed in table-1

<table>
<thead>
<tr>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of bank branches per lakh population aged 7+ year</td>
</tr>
<tr>
<td>Number of banks per thousand square kilometre</td>
</tr>
<tr>
<td>Number of Self-Help Groups per hundred poor population</td>
</tr>
<tr>
<td>Number of deposit accounts per hundred population aged 7+ year</td>
</tr>
<tr>
<td>Number of credit accounts per hundred population aged 7+ year</td>
</tr>
<tr>
<td>Percentage of savings to net state domestic product</td>
</tr>
<tr>
<td>Percentage of credit outstanding to net state domestic product</td>
</tr>
<tr>
<td>Per capita Domestic Savings (US $000)</td>
</tr>
<tr>
<td>Per capita Loan Outstanding (US $000)</td>
</tr>
<tr>
<td>Credit deposit ratio (percentage)</td>
</tr>
</tbody>
</table>

Source: Authors’ own consideration

In order to derive the relative importance of the indicators of financial inclusion and to construct the Financial Inclusion Index for each state in India this study has applied the technique of Principal Component Analysis (PCA) on the selected indicators of financial inclusion. Apart from deriving the relative weight of the indicators, this technique develops a small number of uncorrelated variables called Principal Components (PCs) from a set of large number of variables. Initially, Principal Components have been extracted by Kaiser Criteria which considers only the components having Eigen value greater than one.

However, in case of PCA without rotation, the eigenvectors may not align close to the data clusters and thus may not focus the actual states as well. The rotated PCA methods rotate the PCA eigenvectors so that they align closer to the cluster of data. This study has applied Varimax rotation strategy, which maximizes the variance of the rotated squared PCs [5]. PCA has been rotated specifying the fixed number of components. Respective rotated component scores have been obtained by regression method. Finally, the Composite Index of Financial Inclusion (CIFI) has been calculated taking the weighted sum of component scores. The weight of a particular PC is the percentage of variations in the data set explained by the respective PC after rotation. In order to examine the degree of association between financial inclusion and human development of the states this study has calculated the Pearson correlation coefficient of Human Development Index (HDI) and CIFI.
VI. MAJOR MILESTONES IN FINANCIAL INCLUSION IN INDIA

1969 Nationalization of Banks  
1971 Establishment of priority Sector Lending Banks  
1975 Establishment of Regional Rural Banks  
1982 Establishment of NABARD  
1992 Launching of the Self Help Groups bank Linkage Programme  
1998 NABARD sets a goal for linkage one million SHGs by 2008  
2000 Establishment of SIDBI foundation for Micro Credit  
2005 One million SHF linkage target achieved three years ahead of date 2006 Committee on Financial Inclusion  
2007 Proposed Bill on Micro Finance Regulation introduced in parliament  
2008 Committee submitted its final report on Financial Inclusion to Union Finance Minister in January

VII. COSTS AND CONSEQUENCES OF FINANCIAL EXCLUSION

Broadly, the issue of cost of financial exclusion may be conceived from two angles, which are intertwined. First, the exclusion may have cost for individuals entities in terms of loss of opportunities to grow in the absence of access to finance or credit. Second, from the societal or the national perspective, exclusion may lead to aggregate loss of output or welfare and the country may not realize its growth potential. The more tangible outcomes of financial exclusion include cost and security issues in managing cash flow and payments, compromised standard of living resulting from lack of access to short-term credit, higher costs associated with using informal credit, increased exposure to unethical, predatory and unregulated providers, vulnerability to uninsured risks, and long-term or extended dependence on welfare as opposed to savings (Chant Link and Associates, 2004).

Access to a bank account, credit and insurance are now widely regarded as essential supports for personal financial management and for undertaking transactions in modern societies (Speak and Graham, 1999). According to the Treasury Committee, UK (2006), financial exclusion can impose significant costs on individuals, families and society as a whole. These include (i) barriers to employment as employers may require wages to be paid into a bank account; (ii) opportunities to save and borrow can be difficult to access; (iii) owning or obtaining assets can be difficult; (iv) difficulty in smoothing income to cope with shocks; and (v) exclusion from mainstream society [4,9].

In terms of cost to the individuals, financial exclusion leads to higher charges for basic financial transactions like money transfer and expensive credit, besides all round impediments in basic/minimum transactions involved in earning livelihood. and day to day living. It could also lead to denial of access to better products or services that may require a bank account. It exposes the individual to the inherent risk in holding and storing money - operating solely on a cash basis increases vulnerability to loss or theft. Individuals/families could get sucked into a cycle of poverty and exclusion and turn to high cost credit from moneylenders, resulting in greater financial strain and unmanageable debt. At the wider level of the society and the nation, financial exclusion leads to social exclusion, poverty as well as all the other associated economic and social problems. Thus, financial exclusion is often a symptom as well as a cause of poverty.

Financial exclusion is not evenly distributed throughout society; it is concentrated among the most disadvantaged groups and communities and, as a result, contributes to a much wider problem of social exclusion. Another cost of financial exclusion is the loss of business opportunity for banks, particularly in the medium-term. Banks often avoid extending their services to lower income groups because of initial cost of expanding the coverage which may sometimes exceed the revenue generated from such operations. Two other factors have often been cited as the consequences of financial exclusion. First, it complicates day-to-day cash flow management being financially excluded means households, and micro and small enterprises deal entirely in cash and are susceptible to irregular cash flows. Second, lack of financial planning and security in the absence of access to bank accounts and other saving opportunities for people in the unorganized sector limits their options to make provisions for their old age.

VIII. INITIATIVES FOR FINANCIAL INCLUSION IN INDIA

India has a long history of banking development. After Independence, the major focus of the Government
and the Reserve Bank was to develop a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. Accordingly, the Government's desire to use the banking system as an important agent of change was at the core of most policies that were formulated after Independence. The planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial services needs of various segments of the society were met satisfactorily.

In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The organized financial system comprising commercial banks, regional rural banks (RRBs), urban co-operative banks (UCBs), primary agricultural credit societies (PACS) and post offices caters to the needs of financial services of the people. Besides, MFIs, self-help groups (SHGs) also meet the financial service requirements of the poorer segments. Furthermore, development of the institutional framework in recent years has focused on new models of expanding financial services involving credit dispensation using multiple channels such as civil society organizations (CSOs), nongovernment organizations (NGOs), post offices, farmers' clubs, and panchayats as business facilitators/ correspondents. Specific financial instruments/products were also developed in order to promote financial inclusion.

IX. CONCLUSION

Financial inclusion is not a one time effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders – the Government, financial institutions, the regulators, the private sector and the community at large. From the sporadic attempts of today dispersed across the nation, it should gather momentum and grow in geometric proportions and develop into a focused and effective movement. If this is to be achieved, it requires the passionate involvement, dedication and commitment of all stake holders. It requires a major mindset change in the minds of every individual involved – banker, bureaucrat, regulator et al, and, therefore, creating awareness at all levels. At the same time, the role of technology in the whole scenario cannot be undermined either. It has to be admitted that today, more than even before, technology plays a vital role in bringing about integration in society of all social and economic classes. Accessibility, affordability, appropriateness and benefits determine how deep financial inclusion penetrates the social fabric of the village. Financial inclusion can empower even the poorest person and bring about a dramatic change in his fate.

Access to financial services such as savings, insurance and remittances are extremely important for poverty alleviation and development. In order to achieve the goal of total financial inclusion, policymakers, banks, MFIs, NGOs and regulators have to work together. In addition to cooperating with other stakeholders, policymakers who believe that microfinance can help them to speed up financial education programs that allow their citizens to realize the economic potential of microfinance. Basic financial literacy programs can help achieve better results in poverty alleviation.

REFERENCES