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CONTENTS

FINANCIAL INCLUSION: EFFECTS, OPPORTUNITIES AND CHALLENGES

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Abstract

In November 2014, Kerala became one of the first states in India where every household had access to at least one bank account. The Ministry of Finance applauded this result, declaring it a "100 percent saturated state". However, a recent estimate found that a large number of accounts are dormant or inoperative and, further, that many individuals hold multiple bank accounts, which presents over indebtedness concerns. Yet, even without full saturation, Kerala remains a leader in financial inclusion in India and, thus, the industry can learn from its accomplishments. Along with its exemplary financial services access statistics, there is no doubt that Kerala is a model state for financial inclusion partly due to its history, being home to one of the five financial institutions in India during the 1800s. It developed its banking infrastructure relatively early and, due to extensive population segmentation, created a large network of branches that still caters to different communities and customer bases.

Keywords: financial inclusion, RBI, financial services.

I. INTRODUCTION

As the Global index 2014 observed, only 52.8% of the adult population in India has access to bank accounts. Additionally, only 43% of adults with a bank account made deposits in the previous year. Unsurprisingly, the level of financial Inclusion (FI) within India varies from state to state, with southern states being more financially inclusive than many of the central, eastern and north-eastern states. As per CRISIL Inclusix 20141, an index which measures the level of financial inclusion, 45 of the 50 most inclusive districts were from the southern states of Kerala and Tamil Nadu, whereas the majority of the 50 least inclusive districts were from the north-eastern and central states.

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created a large network of branches that still caters to different communities and customer bases.

MIX has mapped over 280,000 access points at the district level in India and made them available through interactive dashboards and data visualizations on its Inclusion Lab platform. The platform includes the geospatial components of both supply and demand for financial services, and in doing so it provides a nuanced picture of how market dynamics may influence the types or availability of financial services in a given area. The goal is to help financial service providers (FSPs), policy makers, and other industry stakeholders to more accurately assess demand, identify regions lagging behind the national average, and develop solutions to increase financial inclusion.

We recently launched the Kerala Workbook, and accompanying report, to offer insight into drivers of financial inclusion at the district, talk, and village levels in the state. For example, public sector banks account for 48 percent of all financial access points in Kerala, signifying the strategic importance of these banks in the drive to financial inclusion. However, by drilling down to the district level, it becomes clear that these are concentrated heavily in two districts, one of which is the state's administrative headquarters and the other being the commercial capital. So, although public sector banks account for a large portion of all access points in Kerala, they are not effectively reaching certain segments of the population.

On the other hand, India Post accounts for only 22 percent of the total access points in the state, yet its presence is more evenly distributed. Further, if we look at only branches, India Post has a 42 percent share compared to the public sector banks' share of 30 percent. Branches often provide more product and service options to clients when compared to other access point types, indicating added value for those outside the reach of public sector banks.

The interactive dashboards highlight potential opportunities for FSP expansion. When comparing the number of access points to the district population, Malappuram stands out as an outlier against other districts in Kerala. Given its high population but low number of access points, FSPs could build strategies to target this district for expansion and reach underserved clients.

Although there are many unique characteristics to Kerala's financial services landscape, industry stakeholders can use the Kerala Workbook to examine granular data and compare various indicators, view information differently through interactive visualizations, and uncover actionable insights that can be applied to other regions in the country and, indeed, around the world. Head to the inclusion Lab platform to explore how to leverage financial inclusion data from Kerala and elsewhere

Challenges

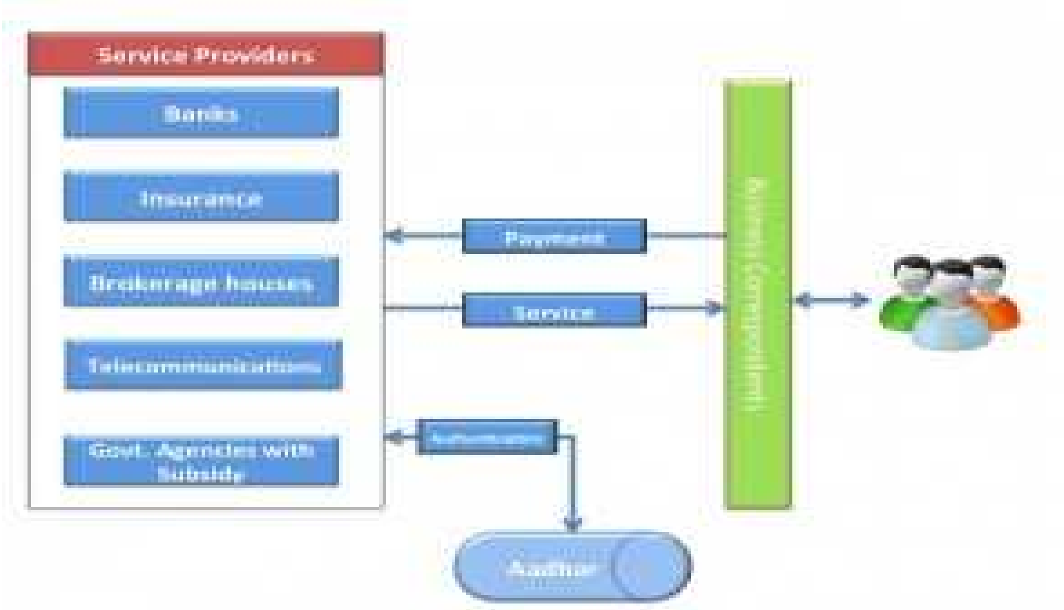
Some of the policy changes to improve financial inclusion were hurriedly executed without setting up appropriate regulatory oversight or consumer education. Aggressive micro credit policies that were introduced to enhance financial inclusion resulted in consumers becoming quickly over-indebted to the point of committing suicide. There were large scale suicide cases reported. We also witnessed repayment rates for Micro-lending organizations collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian micro credit industry. Industry is still trying to recover from that setback.

It was also felt after a decade of efforts in this space that financial inclusion isn't possible without financial education. We have seen even in mature & literate economies like the US, there are several social issues that arise from easy availability of credit. At the hind side this should have been anticipated but wasn't. RBI launched National Strategy for Financial Education on July 16, 2012 with a vision to build "A financially aware and empowered India" with the following goals:

- Create awareness and educate consumers on access to financial services, availability of various types of products and their features.
- Change attitudes to translate knowledge into behaviour.
- Make consumers understand their rights and responsibilities as clients of financial services.

Opportunities

Given the focus government has on improving financial inclusion, this sector offers massive potential to entrepreneurs. Let's briefly look at the kind of opportunities that exist.



If you look at the graphics above opportunities primarily lie around interaction between various service providers and BCs. Few opportunities that are hot today include:

- Developing Next generation payment systems – Financial inclusivity deals with high volume but small ticket transactions. Existing payment gateways are too expensive and not built grounds-up to deal with the complexity & nature of this business. Therefore there is an acute need for a new payment gateway that is low cost and based on either Aadhaar or biometrics.
- Mobile technology could be leveraged in various ways as there are over 700 Million people in India who have mobile phones. Today mobiles can do almost everything, from biometrics to even IRIS & document scanning. There are limitless applications one can think of.
- Financial Applications – Various financial applications be it in insurance, in capital markets or banking could be developed to be able to reach out to the rural masses. All these applications must be able to support Aadhaar, Biometrics & be able to work thru Business Correspondents.

- Services – Setting up efficient BCs & training them to be able to conduct multiple businesses in another massive area of opportunity. Very interesting times like these call for innovation & out of the box thinking. Wear your thinking hats, there is never going to be a better time.

II. OBJECTIVES

To know the strategies adopted by RBI for strengthening financial inclusion.

1. The main objective of this project is to understand the concept of financial inclusion and Role of banks for financial inclusion in kerala.
2. To find out level of financial inclusion in kerala.

Where are we today?

It is estimated, that about 2.5 billion people or about half of the global population do not have access to any kind of formal banking services. In India, only 55% of the population have deposit accounts. Less than 20% of Indian population has life insurance coverage and only 10% have an access to any other kind of insurance coverage. The number of credit cards has hovered around 20-25 Million mark for last 4 years.

Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels. Some of the steps taken by RBI to fuel inclusive growth are:

- Setup of business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.
- Adoption of Electronic Benefit Transfer (EBT): Banks have been advised to implement EBT by leveraging Aadhaar & BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits directly without a middle-man, thus reducing dependence on cash and lowering transaction costs.
- Relaxation on known-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts.
- Simplified branch authorization: RBI permitted domestic commercial banks to freely open branches in smaller towns & cities with a population of less than 50,000 with general permission
- Opening of branches in rural areas: To further step up the opening of branches in rural areas banks have been mandated in the recent monetary policy to allocate at least 25% of the total number of branches to be opened during a year in rural areas.

It is worthy to note that Mangalam, a small town in Coimbatore district in Tamil Nadu, with a population of under 10,000 in 2001 became the first village in India where all households were provided banking facilities by the end of 2005.

III. CONCLUSION

The issue of financial inclusion has received large importance during the recent years. A considerable amount of resources has been invested in expanding banking network with the objective of reaching to the people. During the last 40 years huge infrastructure has been created in the banking sector. However, this large infrastructure that has penetrated even remote rural areas has been able to serve only a small part of the potential customers. We also know that one of most important driving forces of growth is institutional finance. Therefore, it is now realized that unless all the people of the society are brought under the ambit of institutional finance, the benefit of high growth will not percolate down and by that process majority of the population will be deprived of the benefits of high growth. Thus financial inclusion is not only socio-political imperative but also an economic one. It is observed from the study that the achievement of financial inclusion in Rourkela is not significant. Although some improvement in respect of some parameters might have been taken place, this is not sufficient to conclude that financial inclusion has taken place in the State.

In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be noteworthy. However, only supply side factor is not responsible for the financial exclusion. Demand side factors are also equally responsible. Thus there is a need to solve both these problems with the help of appropriate policies. Banks should look at financial inclusion both as a business opportunity and as a social responsibility. Apart from formal banking institutions the role of the self-help group movement and micro-finance institutions (MFIs) is important to improve financial inclusion. However, some regulatory procedures for MFIs may have to be evolved in consultations with MFIs, consumers and the government. Political interference in the financial system should be avoided in order to maintain the viability of the formal financial institutions. The risk elements of small and marginal farmers and other vulnerable groups have to be taken into account in framing policies for financial inclusion. Banking correspondent (BC) model has to be made more effective, by involving more local people. Proper BC model can take care of Problems of supply and demand factors to a greater extent. In fact, providing the banking service is not sufficient. Many rural people still are not aware of banking products and they are reluctant to take the advantage of banking facilities. Therefore, financial literacy among the rural people is important. This apart, because of various formalities involved in availing loans etc. they are scared of going to bank and hence fall back upon the moneylenders. But since BC is recruited from the local people they can solve these problems. On the one hand, they can do the formalities on behalf of the illiterate Or semi-literate people and on the other, they would educate them how to benefit from the banking service in an effective manner. Above all, a whole-hearted effort is called for from all the corners of the society, viz., banks, beneficiaries and regulators in order to make financial inclusion more meaningful and effective. The problem of financial exclusion needs to be tackled with urgency if we want Rourkela to grow in an equitable and sustainable manner. Traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion in India. Banks, therefore, need to innovate and think ‘out-of-the-box’ for solutions to overcome the problem of financial exclusion in India. They need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner. This way banks would be doing a great service to the cause of financial inclusion and make their name in history. Financial inclusion may be a social responsibility for the banks in the short run but will turn out to be a business opportunity in the long-term. Financial Inclusion is no longer an option, but it is a compulsion. The entire world is looking at this experiment in India and it is important that banks rise up to this challenge and meet it successfully. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. Pursuit of financial inclusion by adoption of innovative products and processes does, however, pose challenge of managing trade-offs between the objective of financial inclusion and financial stability. In the Indian context, the Reserve Bank has always sought to balance the risk of partnerships and product innovations with the ability to achieve greater penetration in a safe, secured and prudentially sound manner.

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