FINANCIAL INCLUSION ON BANKING SECTOR SERVICES.

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Abstract

The benefits of economic growth have not equitably reached different parts of our society. The rural and agricultural sector, in particular, has not gained the desired momentum of growth and development.

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. The various financial services include credit, saving, insurance payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must to be lifting the poor from one level to another so that they come out of poverty.

As the economy began to grow at higher rates, the regional and societal disparities called for new strategies to ensure that the banking system met the requirements of inclusive growth. Such strategies needed to be fashioned in a manner that they did not undermine the stability and efficiency of the financial system. Specific focus on financial inclusion commenced in November 2005, when Reserve bank advised banks to make available a basic banking ‘no-frills’ account with low or nil balance as well as charges, with a view to expanding the outreach of such

accounts. In such accounts, banks are required to make available all printed material used by retail customers in the regional language concerned.

Financial inclusion rest on three pillars viz., access to financial services, affordability of such services and actual utilization of such services. Financial inclusion can be achieved only if all the three pillars show affirmative results.

Key Words: Financial Services, Inclusive Growth, Financial Inclusion, Organized Financial System.

Statement of the problem

Financial Inclusion means extending the banking habit and ensuring access to financial services and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. But the path of financial inclusion is daunting. The benefits of economic growth have not equitably reached different parts of our society. The rural and agriculture sector, in particular, has not gained the desired momentum of growth and development.

The Recent developments in banking technology have transformed banking from the traditional brick – and – mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit /debit cards, internet banking, online money transfers, etc. 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 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, credit, remittances and payment services financial advisory services, insurance facilities, etc.

Deliberations on the subject of Financial Inclusion contributed to a consensus that merely having a bank account may not be a good indicator of financial inclusion. Further, indebtedness as quantified in the NSSO 59th round (2003) may not also be a reflective indicator. The ideal definition should look at people who want to access financial services but are denied the same. If genuine claimants for credit and financial services are denied the same, then that is case of exclusion. As this aspect would raise the issue of credit worthiness or bank ability, it is also necessary to dwell upon what could be done to make the claimants of institutional credit bankable or creditworthy. This would require re-engineering of existing financial products or delivery systems and making them more in tune with the expectations and absorptive capacity of the intended clientele.

Reviews

Financial Inclusion

Financial inclusion is defined as "a process that ensure the case of access, availability and usage of the formal financial system for all members of an economy" (Sarma, 2008, p.3). Ease of access is measured by proxies such as number of banks branches or number of ATMs per 1000 population. Availability and usage are measured by the extent of utilization as well as the size of bank credit and bank deposits, relative to the GDP of country. An inclusive financial system should have as many users as possible as this gives an indication of how much the financial system has penetrated among users (Sarma, 2007). The various dimensions of inclusion that are encompassed in this definition, together build an inclusive financial system. As banks are the gateways to the most basic forms of financial services, banking inclusion/exclusion is often used as analogous to financial inclusion/exclusion. It has been observed that even "well developed" financial services have not succeeded to be "all inclusive" and certain segment of the population remain outside the formal financial system (Sarma, 2008).

Unbanked and Under Banked Markets

(Worthington, 2008, p.101) defines the unbanked as "those individuals without a traditional saving or checking account". They are distinct from the under banked who have some limited relationship with a financial institution. (Sarma, 2008 p.8) defines the under banked as people with bank account, but who make very little use of the services an offer. Surma purports that merely having an bank account is not enough for an inclusive financial system: It is also imperative that the banking services are adequately utilized.

The under banked tend to rely on alternative financial institutions even through they have bank accounts because they are not fully integrated into the banking services. As a result, these individuals may pay more for basic financial services

Objectivity

The objective of the research described in this study was to investigate the financial services and strategies that are being employed by Indian retail banking to optimize financial inclusion.

Need For Inclusion

The essence of financial inclusion is trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. A part from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a saving product suited to the pattern of cash flows of a poor house hold, money transfer facilities, small loans and over drafts for productive personnel and other purposes etc.

How ever, inclusive finance does not require that everyone who is eligible uses each of these services, but they should be able to choose to use them, if they so desired. To this end, strategies for building inclusive financial sectors have to be creative flexible, appropriate to the national situation and if necessary, nationally owned. For promoting financial inclusion we have to address the issue of exclusion of people who desire the use of financial services, but are denied access to the same. In countries with a large ruler population like India, financial exclusion has a geographic dimension as well. In accessibility distances and lack of proper infrastructure hinder financial inclusion. Vast majorities of population living in rural areas of the country have serious issues in accessing formal financial services. Another facet of exclusion which needs to be address is "social exclusion" – which is an extreme consequence of what happens when people do not get a fair deal through their lives, often because of disadvantages they face at birth, and this can be transmitted from one generation the next. Social exclusion is about more than income poverty. It is a very short hand term for what can happen when people or areas have a combination of problem such as unemployment discrimination, poor skills, low incomes, poor housing and also perceived difficulties in doing business. These difficulties are linked and mutually reinforcing.

ABC of Financial Inclusion

Financial inclusion rests on three pillars viz, access to financial services, affordability of such services and actual utilization of such services. Financial inclusion cab be archived only if all the three pillars show alternative results. Thus the ABC of financial inclusion is advice, Banking and credit. It must also be noted that while for developing countries like India, generally the process of financial inclusion starts with opening of savings bank accounts. The process, at a later stage, must also incorporate credit facilities and other financial services such as insurance. Thus, promotion of financial inclusion would require holistic and coherent approach on the part of the banking industry as also the regulator (RBI) and the Government.

Financial inclusion –Crucial Role of Micro finance

Report of the committee of financial inclusion, 2008 is quoted that "Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. The various financial services include credit, saving, insurance payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty (Report of the committee on financial inclusion, 2008)" - The committee further opined that to achieve inclusion.

- Existing micro finance innovations should be put to use extensively and further strengthened.
- SHG federations may take up quite a lead in this regard.
- Joint liability groups can be promoted to upscale the lending and meet the specific requirement of a particular section of vulnerable populations.
- Extend the outreach by leveraging technology to open up lacerating technology to open up channels beyond branch network.
- The business facilitator/ Business correspondent (BF/BC) models riding on appropriate technology can deliver this outreach and should from the core of the strategy.

Strategies for serving the Bottom of the pyramid

As the economy began to grow at higher rates, the regional an societal disparities called for new strategies to ensure that the banking system met the requirements of inclusive growth. Such strategies needed to be fashioned in a manner that they did not undetermined the stability and efficiency of the financial system. Specific focus on financial inclusion commenced in November 2005, when reserve bank advised banks to make available a basic banking 'no-frills' account with low or 'nil' minimum balances as well as charges, with a view to expanding the outreach of such accounts. In such accounts, banks are required to make available all printed material used by retail customers in the regional language concerned.

In order to ensure that persons belonging to low income groups both in the urban and rural areas do not encounter difficulties in opening bank accounts, the know your customer(KYC) procedure for opening accounts has been simplified. Besides the Kisan Credit Cards (KCC), banks have been asked to consider introduction of a general purpose credit card (GCC) facility up to Rs 25000 at their rural and semi urban branches.

This facility is in the nature of revolving credit, which entitles the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. Fifty percent of GCC loans can treat as priority sector. Financial inclusion is intended to connect people to banks with consequential benefits. A decentralized strategy has been adopted for ensuring financial inclusion.

No Frills Accounts and General Purpose Credit Cards

In November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population.

Banks are required to make available all printed material used by retail customers in the concerned regional language.

In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening banks accounts, the know your customer(KYC) procedure for opening accounts has been simplified for those accounts with balances not exceeding Rs. 50,000 and credits thereto not exceeding Rs 1,00,000 in a year. The simplified procedure allows introduction by a customer on whom full KYC drill has been fallowed.

Measures by RBI and GOI towards Financial Inclusion

Historically, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase banking penetration in the country in November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum stipulated balances as well as charges to expend the outreach of such accounts to vast sections of the population. In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts owing to procedural hassles, the know your customer (KYC) procedures for opening accounts has been simplified. The reserve bank has directed banks to make available all printed material used by retail customers in English, Hindi and the concerned regional language.

More recently in January 2006, banks were permitted to utilize the services of non-governmental organizations (NGOs/SGH), micro finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. To extend hassle-free credit to bank customers in rural areas, the guidelines on General Credit card (GCC) schemes were simplified to enable customers' access credit on simplified terms and conditions, without insistence on security, purpose or end- use of credit. With a view of providing hassle free credit to customers, banks were allowed to issue general credit cards akin to Kisan Credit Cards (KYC).

The reserve bank has also been periodically issuing guidelines on public grievance redressal mechanism in banks, including constitution of customer service centers for ensuring improvements in quality of service rendered. In the reserve bank the customer service department has recently been constituted to inter alia, serve as the interface between customers and banks. Moreover, the Government of India has also expressed its explicit concern on the issue of overall inclusion in the development process through its various initiatives such as the rural employment guarantee scheme, the Bharat Nirman Programme, the Sarva Shiksha Abhiyan, and the like. A committee on the financial inclusion, with Dr. C. Rangarajan as chairman, has also been constituted by the government of India in June 2006, to recommend a strategy to archive higher financial inclusion in the country.

Suggestions

- A financially sound cooperative structure can do wonders for financial inclusion given its extensive outreach.
- Making banking more inclusive through expending the coverage of banking services by reaching the vast un-banked and under-banked population of the country.
- Banks also need to have flexibility in terms of working hours, documentations, mode of interactions and transactions and need to explore ways to generate and utilize local knowledge for effective loan monitoring and risk mitigation.
- Product and services needs to be developed that are adapted to the needs of the majority at affordable price time to time.
- A monitoring mechanism to access the quality and quantum of financial inclusion including indicators for assessing regular progress.

Conclusion

To conclude, I wish to stress that with increasing liberalization and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the following credit demand, the banks need to mobilize resource from a winder deposits base and extend credit to activities hitherto not financed by banks. The trend of increasing commercialization of agriculture and rural activities should generate greener pastures, and banks should examine the benefits of increasing penetration therein. Financial inclusion will strengthen financial depending and provide resources to the banks to expand credit delivery. Thus, financial inclusion will lead to financial development in our country which will help to accelerate economic growth.

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