23

Financial Inclusion in Global Perspective

Dr. Shailja Singh*

Introduction

Over the years scheduled commercial banks in India have played a key role in development. But simultaneously they have also thrown up some challenges. The eleventh plan year of government has focused on the growth of more and more branches of Schedule Commercial Branches in rural area so the process of inclusive growth by inculcating poor people in frugal financial process. Specifically, the tailored approach has to be followed to target the low income group, the central banks should devise such strategies to the total priority sector targets should include the micro targets for low income household , concepts like micro finance and self help group should be mandatory in achieving targets.

Objectives

- To study the concept of financial inclusion
- To know the international initiatives on financial inclusion
- To know the present financial inclusion architecture in India
- To compare the position of India with other countries
- To enumerate effective methods for financial inclusion

Financial Inclusion

Financial inclusion can be defined as the frugal financial services affordable to all demographic group of the country. It includes access to banking services, credit, insurance, savings and assets, money advice and financial literacy and capability. The barriers to financial inclusion are mostly geographic and demographic and systematic

* Academician, 2 JA 15 Kamla Nehru Nagar, Ajmer Road, Jaipur, Rajasthan, India.

~ *The chapter is based on the paper presented in "**National Conference on Emerging Trends and Scope in Digital Banking, Cashless Economy & Innovations in Commerce and Modern Management & International Seminar on Global Economy: Opportunities and Challenges**" Organized by **Inspira Research Association (IRA),** Jaipur **& Shri Bhawani Niketan Girls P.G. College,** Jaipur, Rajasthan, India. **29-30 September, 2018.***

and unsystematic market condition. Inclusion in financial system can bring people out of the unorganized lending ,these lenders charges a huge rate of interest which is always a perpetual outstanding in books of these people, having a bank account with no frills attached to it can provide a passport like access to cheap credit and other financial services. To avail social benefits of the government without income leakage a bank account in the most efficient way to reach the beneficiary.

Importance of Financial Inclusion

Financial inclusion contributes towards growth in income thus decreasing the vulnerability of the poor. This facilitates poverty reduction and growth with equity. Financial inclusion links more economic resources to the formal economic system thus leading to overall economic growth and development, especially in the developing nations.

- Today development in most developing countries is a result of the contribution of the economically top few percent of the population. While in many countries a lot of public resources are spent on the provision of basic services to the economically deprived. Financial inclusion can transform the social fabric. In India a large number of people are unbanked which does not seems to a profitable venture for any organization, if applied properly with appropriate means for capital formation, this is a huge business opportunity. Financially excluded people can be a viable market segment that is yet to be exploited.
- Financial inclusion is an effective tool for poverty reduction if applied strategically (further explained in the last section). With reduction in poverty, at least a part of the huge amount of public resources spent on provision of basic needs for the poor can be used for other purposes.
- Further financial inclusions can the check pilferage of funds. This can bring into the mainstream economy major funds which are otherwise lost to the unaccounted black economy.
- Finally, financial inclusion opens up access to a large market. This will attract global market players and foreign investment, increasing employment and business opportunities in developing countries.

Financial inclusion has been a part of Indian credit policy since long, but resource constraint has not allowed it to reach the length and breadth of the country. The success of financial inclusion is measured by number of beneficiary having bank account with respect to unbanked people and can avail basis transaction of deposit, withdrawal savings and remittances within the country. Thus, a bank account can open whole gamut of financial services to unbanked people with in turn creates a ripple effect in society, which in turns propels the growth engine of economy. International experience in this respect in very commendable to implement financial inclusion without and hiccups.

Review of Literature

Sadhan Kumar Chattopadhyay in a working paper for RBI on Financial Inclusion in India: A case-study of West Bengal (2011), has examined the extent of financial inclusion in West Bengal. According to the study there has been an improvement in outreach activity in the banking sector, but the achievement is not significant. An index of financial inclusion (IFI) has been developed in the study using data on three dimensions of financial inclusion viz- banking penetration (BP), availability of the banking services (BS) and usage of the banking system (BU). The paper provides a comparable picture between different states on the basis of IFI rankings. Finance can also play a positive role in poverty reduction. A well developed financial system accessible to all reduces information and transaction costs, influence saving rates, investment decisions, technological innovation, and long-run growth rates (Beck et al. 2009).

Microfinance offers significant potential for achieving financial inclusion. The experience of the bank in this segment has been quite encouraging. In the words of Prof. C.K. Prahlad “If we stop thinking of the poor as victims or as a burden and start recognizing them as a resilient and creative entrepreneurs and value conscious consumers, a whole world of opportunity will open up.”(K.C. Chakrabarty, 2008). Indian banking sector is grappling with the issue of financial inclusion. But, it is not altogether a new exercise. Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature(Rao,2007).

Access to financial services allows lower income groups to save money outside the house safely, prevents concentration of economic power with a few individuals and mitigates the risk that poor people face as a result of economic shocks (Beck, Demirguc-Kunt and Peria 2006). The breadth of financial inclusion in a region of a country is usually measured by the percentage of the people in the region who have access the bank accounts (Beck & De La Torre, 2006). This is primarily because a bank account enables poor households to perform important financial functioning such as saving money safely outside the house, accessing credit, making loan or premium payment and transferring money within the country. Thus, although a bank account cover only one aspect of financial inclusion, it may determine access for many other financial services (Littlefield et al, 2006).

Financial Inclusion - Global Perspective

- **Bangladesh:** Grameen Bank has connected a whole set of financial products to cater the poorest of poor and connected them to banking services , Prof Abdul Yameen has been awarded Nobel Prize for his brainchild of Micro Finance. If a underworld country can implement and provide basis banking to its people why not developing nations ,

- **USA:** In USA, varying from state to state 10 to 20 per cent of US households lack a bank account. Among the low income families, 22 per cent do not have either a current or saving account. The Government has taken various measures to deal with the problem of financial exclusion.
- **India:** In India a relaxed KYC account has been provide to all those who do not have any recognized identity proof. a limit on quantum and number of transaction is placed to prevent unauthorized usage. People find it too risky and not profitable enough (Gloukoviezoff, 2010). This is possibly due to certain unfavorable conditions attached to the financial services and also due to an absence of a good banking relationship. Often customers do not possess a clear understanding of banking system, deterring the use of various banking services and the repayment of credit. In an environment of strong competitive pressure, banks seek to limit their risks and costs and to that extent they may charge as much fees from the client to make a profit. They fear that their banker will try to exploit their situation of financial need to his own benefit (Gloukoviezoff2004).
- **Sri Lanka:** Sri Lanka's performance with respect to financial inclusion has been remarkable. According to a 2009 GTZ study on financial inclusion in Sri Lanka about 82.5% of households have access to financial institutions for their savings and credit needs. Further, there may be a strong savings culture in Sri Lanka with as nearly 75% of households have saved in a financial institution (although many accounts are believed to be fairly inactive). The National Development Trust Fund established in January 1991 to identify, develop, catalyze and promote sustainable income generating opportunities and a higher quality of life for the poor, is the biggest wholesale lender for microfinance institutions in Sri Lanka. The Samurdhi Development Credit Scheme (SDCS), was intended to serve the rural community through village-level task forces called Samurdhi Task Forces, which operated as social intermediaries. It is the largest microfinance program in terms of numbers. Further, in Brazil Brosa Famila a condition cash transfer program launched to combat poverty has been much success since the indented amount of cash subsidy reached the beneficiary. Sri Lanka has created a strong microfinance industry through financial literacy programmes and access to other services such as skills development.
- **Indonesia:** The case of financial inclusion in Indonesia showcases the potential impact of a national bank. After a poorly performing subsidized credit program called BIMAS in 1880s, Indonesia's government rural bank, Bank Rakyat Indonesia (BRI), implemented a new model called the BRI Unit Desa System. This involved simple branches offering savings and microenterprise

credit to the self employed across the country. Audit capacities and financial procedures and sound financial risk management is the factor contributing to the success of the BRI. There are some other factors which are behind the success of BRI like Personnel management-clear incentives to staff and clients, well trained and dedicated staff operates a simple and transparent system.

- **Phillipines:** Philippines, an island nation has 71 dialects, 80 provinces, 17 regions, 41,960 Barangays and 6 religions. The Philippines has followed a diverse approach with respect to financial inclusion (ADBI 2009). It has encouraged many institutions like small local banks, NGOs, and specialized microfinance banks. Mobile banking services banks are able to reduce operational and transactional costs and reach out to more clients. There are two mobile money platforms - GCASH and SMART Money. Accredited banks have registered over 70,000 clients and plans are to reach out to more than 500,000 clients and customers over the next three years. Also interestingly Philippines doesn't have 'one' national policy on financial inclusion. While key aspects are given in the National Strategy on Microfinance, various government schemes in the area of financial inclusion undertake initiatives related to their respective jurisdiction and legal mandate (AFI, 2010).
- **Bangladesh:** An innovative institution The Grameen Bank has been able to effectively target the poor. It has its own products and services, targeting criteria, system of credit delivery and recovery. Its underlying philosophy is that credit is a fundamental right. Grameen Bank is a trust based bank, which offers loans without any collateral. It has very cliently friendly and flexible credit delivery and recovery mechanism. It promotes social capital. The bank has a special scheme called the struggling members program, designed with special features for beggars only. All loans are interest–free for them. Beggar members are covered under life and loan insurance programs without paying any cost. They are not required to give up begging, but are encouraged to take up additional income-generating activities. The bank has a decentralized system and it follows a participatory approach.

The Financial Inclusion Architecture in India

Than Indian Baking system is the forerunner of all the financial program through them allocation of resources to different sectors of the economy for asset creation capital formation, income, and purchasing power distribution goes on They are intended to provide a safety net for parking the hard-earned savings of the people. The central bank of India assigned various priority sector targets with regulated interest rates for marginalized section of economy products like kcc and Gcc loan for farmers and small entrepreneurs. The formal lending has now having an edge over informal lending since the realization is now possible the for banks and people it is a win -win situation. NABARD has played a key role in formulation and implementation of rural banking program, it has spearheaded every program and meticulously monitored every aspect of credit delivery to intended beneficiary.

The pure objective of nationalization of Indian banks was delivery of financial products to last man standing. The network of rural branches for a fixed number of urban branches makes it mandatory for server the rural and agrarian, since it helps in banks to fulfill its priority sector targets in easy manner. Notwithstanding concerted and multi-pronged efforts to extend institutional credit to all sections of society, the dependence on informal sources of credit has not decreased in rural areas and has, in fact, increased in several regions. The banking outreach continues to be unevenly spread with poorer regions at a particularly disadvantaged position. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population have access to basic financial services like savings accounts, credit facilities, and credit and debit cards. Here, it can see the India's performance in the area of financial inclusion as compared with other developing as well as developed countries.

According to World Bank financial inclusion survey says that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. However, the goal of bringing banking services to identified 74,414 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, the Reserve Bank advised commercial banks while preparing their Annual Branch Expansion Plan (ABEP). All the commercial banks have to allocate at least 25 per cent of the total number of branches proposed to be opened during the year in unbanked rural centers. In order improve the implementation of financial inclusion strategies Business correspondent and Business Facilitator model is widely accepted in unbanked areas since it has low cost to retail branches.

Under the implementation plan banks have been advised that they may set up intermediate brick and mortar structures (in rural centers) between the present base branch and BC locations, so as to provide support to a cluster of BCs (about 8-10 BCs) units at a reasonable distance of about 3-4 kilometers. So all the branches should have minimum infrastructure, such as a Core Banking Solution (CBS) terminal linked to a pass book printer and a safe for cash retention for operating large customer transactions and would have to be managed full time by bank's own officers/ employees. The government of India expected that such an arrangement would lead to efficiency in cash management, documentation, Redressal of customer grievances and close supervision of BC operations

Research Methodology

The research methodology used in this study is based on secondary data. Secondary data were obtained from-Annual Reports of RBI, Reports of concerned banks, Reports of various committees Journals, Books, Magazines, Newspapers, Articles and Reports prepared by research a scholar; Internet has been the pool of information during whole period. Following are the findings on the basis of the study

- From the empirical study, it is found that no one policy is applicable on the nation as a whole due to some unique features
  - India has the world's 2.4% geographical area and its 16% population. It has a vast extent in terms of area. It has wide variation in terms of topography and density of population.
  - Within the vast Indian population there are many types of people. They speak number of languages, come from varied cultures and have diverse mind sets.
  - There are many social distinctions between people on the basis of minority groups, caste and religion. Tribal people have an entirely distinct way of life and method of thinking.
  - There are many parts of India, (like Jammu & Kashmir, North Eastern States, and Naxalite regions) that are politically unstable.
  - Due to lower literacy level awareness about banking products and services is very low people have lot of inhibition in reaching banking outlets , since basic knowledge of banks is still missing.
- Lack of coordination between banks and the implementing agencies also widens the gap of financial inclusions.
- The financial inclusion campaign remains incomplete.
- Reserve Bank has been asking commercial banks to increase its base in rural area as it as lot of avenues like low cost deposit, retail penetration is easily possible.

Conclusion and Suggestions

Efforts are being taken by the government of India and RBI to make financial system more comprehensive. Pursuit of financial inclusion by adoption of innovative products and processes does, however, pose challenge for managing trade,-offs between the objective of financial inclusion and financial stability. In the Indian context, 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. These various approaches can be brought under a regulatory framework and be given standard goals to ensure efficiency. Programs can be "poverty alleviation microfinance programs" instead of being just financial inclusion projects. Impetus to financial literacy is a must along with financial inclusion. The objective of poverty reduction should be made crystal clear.

- Special strategies must be made to effectively target the poorest.
- Women in India need to be empowered through various means like Self Help Group, education, affirmative action etc. women often play a crucial role in the household spending and therefore financial awareness must be specially incorporated for.
- Post offices can also be used for the purpose of financial inclusion.
- Self Help Groups (SHG) and other forms of income generation methods should be promoted on a large scale with a special focus on the marketing of the goods produced in order to ensure sustainability. Entrepreneurship awareness must be increased.

References

- Devendra Prasad Pandey,Amit Kumar Katiyar “Financial Inclusion in Indian Scenario” international journal of management research and development
- Francis (2010) Expanding Mobile Phone Banking In The Philippines For Greater Financial Inclusion available at http://www.netsquared.org/projects/expanding-mobilephone- banking-philippines greater-financial-inclusion
- Gloukoviezoff G. (2010) Do French financial cooperatives still have a role regarding financial inclusion? ICA Research Conference, Les contributions des coopératives à une économie plurielle 2-Septembre 2010 – Lyon – France
- IFC (2011) Deposit Assesment in Sri Lanka, May 2011, International Finance Coorperation http://www.ifc.org/ifcext/globalfm.nsf/AttachmentsByTitle/Desposit+Assessment SriLanka/$FILE/Desposit+Assessment-SriLanka.pdf
- Jayamaya (2008) Access to Finance and Financial Inclusion for Women, Dr Ranee Jayamaya, Deputy Governor, Central Bank of Sri Lanka , 04 April 2008
- Prof. Dr. Firdos temurasp shroff, prof. Dr. Mandalemula prasadarao (mp.rao) “Taking Banking Services to the Common Man ’Aam Admi’ – Inclusive Growth For Tribal Development” Pacific Business Review International Volume 5 Issue 1 (July 2012)
- Radhika dixit & munmun ghosh “financial inclusion for inclusive growth of india - a study Of indian states” International Journal of Business Management & Research (IJBMR) ISSN: 2249-6920 Vol. 3, Issue 1, Mar 2013, 147-156
- S. Porkodi; dr. D. Aravazhi “role of micro finance and self help groups In financial inclusion” International Journal of Marketing, Financial Services & Management Research ISSN 2277- 3622 Vol.2, No. 3, March (2013)
- Shivani(July 2013) “ financial inclusion in India” IJRFM volume 3 july 2013, ISSN 2231-5985
- www.abhinav journal.com
- www.google.com