MIJBR / Vol. 8 / Issue 1 / January-June 2021-------------- e-ISSN: 2394-4161
p-ISSN: 2349-1701

# FINANCIAL INCLUION: ISSUES AND CHALLENGES

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**Abstract:** Although many concerted measures are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact of these did not yield satisfactory results as the majority of the rural population is still not included in the inclusive growth and Financial inclusion becomes a challenge for the Indian economy. The paper aims to study the initiatives taken by Government and Reserve Bank of India for strengthening financial inclusion in the country and to review various papers on the how financial inclusion serves as a means of inclusive growth and the study is based on secondary data collection.

**Keywords: Banking, Insurance, Banc assurance, IRDA, WHO.**

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## 1. INTRODUCTION

In simple words, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

For the development of a Nation and its economy it's needed to focus to include maximum number of participants from all the sections of the society in to financial services. So, the government should encourage the banks to adopt financial inclusion by means of financial literacy, financial assistance, awareness program, advertisement, etc. to achieve Inclusive Growth. For the growth of the economy, it is extremely important the quality financial services should available in rural areas and this will enable the large number of rural households to fund the growth of their livelihoods. In our most of the population is in rural areas. So, the growth of the economy is dependent on the growth of the rural market in the country.

Traditionally, institutions like the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have taken initiatives to promote financial inclusion. These include the opening of bank branches in remote areas, issuing Kisan Credit Cards (KCC) using information technology to spread awareness and literacy, linkage of self-help groups (SHGs) with banks, increasing the number of automated teller machines (ATMs) and business correspondents, increasing credit facilities and insurance covers for the marginalized people, among others.

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives

Small Finance Banks (SFBs) have played a key role in expanding the reach of the formal credit system. RBI's issuance of differentiated banking license to SFBs and payment banks in 2015 has also strengthened the supply of credit to small businesses and unorganized sector entities.

## OBJECTIVE OF THE STUDIES:

1. To know the extent of financial exclusion in India
2. To review the existing policies of financial inclusion in India

## FINANCIAL EXCLUSION IN INDIA:

Financial inclusion plays a major role in inclusive growth of the country. It is estimated that globally over 2.5 billion people are excluded from access to financial services of which one third is in India. The origins of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking /payment services to all 'bankable' households and enterprises at a reasonable cost. In India, financial inclusion first featured in 2005, when it was introduced by Dr. K.C. Chakrabarty, the Chairman of Indian Bank. Mangalam Village becomes the first village in India where all households were provided banking facilities.

Financial inclusion and financial literacy have been important policy goals for quite some time. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country. In the context of the various shortcomings in delivering subsidies, direct transfers using technology have been thought of. The beneficiary needs to have at least one bank account. Since in a logistics point of view it is impossible to open that many physical branches — the brick and mortar type — the accent will be on opening electronic accounts. Technology adaptation

would be a key feature in this scheme for financial inclusion.

An inclusive financial system supports stability, integrity and equitable growth. Therefore, financial exclusion because of several barriers like physical, socio-cultural and psychological, warrants attention from the policy makers. Some of the key reasons resulting in involuntary exclusion are:

- Lack of trust in the system
- Lack of surplus income
- High transaction costs
- Not suitable to customer's requirements
- Remoteness of service provider
- Lack of requisite documents
- Lack of awareness about the product
- Poor quality of services rendered

**EXISTING POLICIES IN INDIA**:

The Reserve Bank of India (RBI) released the National Strategy for Financial Inclusion 2019-2024 on January 10, 2020. The Reserve Bank's mission is to improve the availability of formal financial services in unbanked areas with the goal of ensuring access to financial services

for all. Agriculture and micro, small and medium enterprises (MSMEs) are key sectors for which the flow of institutional credit remains a top priority. Efforts towards achieving this objective are guided by the recommendations of the Expert Committee on MSMEs and an Internal Working Group (IWG) to review agricultural credit.

A National Strategy for Financial Inclusion (NSFI) document for the period 2019-24 has

been prepared under the aegis of Financial Inclusion Advisory Committee (FIAC). This document was approved by the Financial Stability Development Council (FSDC) and it was released in January 2020

In pursuance of the NSFI strategy, several initiatives were undertaken by the Reserve Bank during the year. First, Pilot Centres for Financial Literacy (CFLs) are being run by banks in collaboration with non-Government organisations (NGOs) to strengthen financial literacy in a structured and coordinated manner. Second, a two-tier Train the Trainers programme "Skill Upgradation for Performance of Resources-BCs" (SUPER-B) was rolled out to build the capacity and skills of Business Correspondents (BCs), for effectively delivering financial services at the grass-root level. Third, the Reserve Bank advised all State/Union Territory Level Bankers' Committees (SLBCs/UTLBCs) in October 2019 to identify one district in their jurisdictions and allot it to a member bank with a significant footprint, with a view to expanding and deepening of the digital payment ecosystem in the country. The endeavor is to make the district 100 per cent digitally enabled within one year.

**ISSUES & CHALLENGES**

Some of the challenges faced in achieving financial inclusion have been detailed below -

Absence of proper legal documents- Inability to provide a legal identity such as voter id, residence proof, birth certificates, etc. often exclude women and migrants from accessing financial services

One of the main hindrances to financial inclusion in India is distance from the bank. This is a critical aspect that shows the inadequacy of the finance infrastructure in the country. Very often, even if a person is bankable, the distances are too long for services & supporting the accounts at reasonable costs.

Another important problem is the low level of financial literacy and low confidence about banking services and low awareness among the villagers on the banking services. It has been witnessed that due to lack of awareness, low financial knowledge, procedural hassles and inadequacy of the banking infrastructure, many people living in the rural and semi-urban areas fail to make informed decisions about savings, borrowings, investments and expenditure. However, to address this issue, RBI has been providing financial literacy to customers through Financial Literacy and Credit Counseling Centers (FLCC).

Attempts to achieve financial inclusion by merely appointing business correspondent and opening accounts have not shown the expected results. Financial literacy and credit counseling which are important aspects of financial inclusion have largely been ignored by banks.

While non-banking finance institutions and microfinance institutions have contributed significantly to providing access to small loans to low-income borrowers engaged in the informal sector, these institutions have not been able to mobilize savings. As a result, low-income segments relied on informal channels such as chit funds, and at times ended up experiencing unaffordable losses due to fraud. Moreover, the excluded section finds informal sector such as the money lenders more user-friendly and accessible and as such, they develop an affinity which always drives them to approach this sector for their credit needs

Presence of limited number of financial services players has also impeded the progress of financial inclusion in the past. However, with the expected launch of payment banks and small finance banks in the next year or so, this issue may get addressed.

There is no doubt that India has significantly improved the financial inclusion of the marginalised sections, and Digital India has turned out to be an important intervention. However, the digital divide is too wide and there exist many bottlenecks and challenges which need immediate attention.

To begin with, High Level Principles for Digital Financial Inclusion, published by the G20 under the rubric of Global Partnership for Financial Inclusion in 2016, provides useful insights to address the issues impeding financial inclusion, and how digital technologies can help in the process (World Bank 2017b). These include the promotion of financial services as a national plan, the need to balance innovation and risk, providing legal and regulatory frameworks, and expanding the

digital financial ecosystems, among others. Similarly, it suggests the need to ramp up investments for digital tools that can help integrate systems and databases making it easier for auditors and regulators to process information. It also highlights that the advent of digital systems would mean huge data volumes and without the presence of adequate data mining and data analytics, countries would have to handle too much data with limited outcomes.

The most common barriers to the digital financial inclusion include the non-availability of suitable financial products, lack of skills among the stakeholders to use digital services, infrastructural issues, teething problems between various systems, and low-income consumers who are not able to afford the technology required to access digital services (Niranjan 2017).

Another challenge to digital financial inclusion arises from the attitude of the stakeholders. For instance, take the case of Jan Dhan bank accounts. When the scheme was launched in 2015, banks were given ambitious targets to open accounts for the marginalised. This has resulted in the opening of many dormant accounts which never saw actual banking transactions. All such activities incur costs on the institutions, and thus, huge operative costs only proved to be detrimental to the actual objective. To avoid these counterproductive outcomes, it is important that all stakeholders participate in such programmes with proper intent and not just for the sake of it.

**RESEARCH METHOD**

Secondary data has been used for the present study. The data is collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD etc

**RESULTS AND DISCUSSION:**

Financial inclusion is the only hope for financial development, which will lead to growth of economy. In different viewpoints the studies on financial inclusion have been tackled, with the exception of conceptual studies, the focus is seemingly on finding out the relationship between financial inclusion with digital technology, awareness and constraints to access. Moreover, at the present global scenario, technology is found to be a determining factor in the ultimate performance of financial inclusion policy, regardless of the context or the participants of the study with relevant to this topic. An apparent increase in addressing the population of financial exclusion requires a holistic approach for the banks to put forth the level of awareness on financial system, appropriate financial advice and affordable system of credit to kindle the whole importance of formal financial system management for which banks needs to enact strategies for reach in a cost-effective manner and it should also be less time consuming process. It is possible through bridging relationship with NGOs, microfinance institutions and eligible individual and agents. The promotion of financial system should reach the person which is possible through technology, a viable tool that provides financial access in quick and cost effective way.

**CONCLUSION:**

On the part of the banks it is required to make awareness about the financial services, financial literacy, saving and affordable credit, debt counseling etc among the people. The banks would take specific steps to expand the outreach of their services in order to promote financial inclusion. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English.

Table 1 Households availing Banking Facilities

| As per Census 2001 | | | | As per Census 2011 | | | |
|---|---|---|---|---|---|---|---|
| Households | Total No. of Households | No. of Households availing banking services | Percent | Households | Total No. of Households | No. of Households availing banking services | Percent |
| Rural | 12,676,218 | 3,850,064 | 30.37 | Rural | 14,246,309 | 7,183,503 | 50.42 |
| Urban | 4,173,639 | 1,379,563 | 33.05 | Urban | 6,778,225 | 3,979,780 | 58.71 |
| Total | 16,849,857 | 5,229,627 | 31.04 | Total | 21,024,534 | 11,163,283 | 53.09 |

Source: Census 2001

From the above table 1 shows that the census of 2001, while 30.37% of rural people's households and 33.05% urban people's households are contributing in financial inclusion in as per census 2001 and 50.420% households of rural and 58.09% households are contributing census 2011 respectively

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