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Financial Inclusion In India Challenges And Scope "Alert & Spark Model"

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***Abstract:** India-fastest growing economy of the world ranking 7 in world, 2nd rank in IT Industry Competitiveness Index with rich skilled human resource. But still a large section of population is financially excluded. Reasons are from A-accessibility to _Z-Zero literacy. The importance of an inclusive financial system is widely recognized in the policy circle and become a policy priority in many countries including India. An inclusive financial system can help reduce the role of informal sources of credit (such as money lenders) which are often found to be exploitative. This paper attempts to study the challenges and opportunities of financial inclusion in India in ALERT &SPARK model. Where challenges is depicted in acronym ALERT which in turns SPARK the opportunities.*

***Keywords:** Financial Inclusion, Business Correspondents, Financial Literacy, Financial exclusion*

I. INTRODUCTION

Financial inclusion in Indian context as defined in Rangarajan Committee (2008) is "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial Inclusion is perceived as a public good in most of the developing countries the fuller participation by all in the financial system makes monetary policy more effective and thus enhances the prospects of non-inflationary growth (Kelkar, 2010.Financial inclusion has become a policy imperative for many countries for inclusive growth.

II. OBJECTIVES

The main objectives of this study were:

- ✓ To have an overview on financial inclusion.
- ✓ To figure out the challenges involved in the adoption of financial inclusion.
- ✓ To identify opportunities ahead

III. METHODOLOGY

The entire discussion has been made on the basis of secondary sources. The different books, journals, newspapers and related websites have been consulted in this regard.

IV. FINANCIAL INCLUSION

Financial inclusion refers to the system that ensures easy access and utilization of the formal financial system in economy. It includes access to services like savings schemes, loans, insurance, payments and remittance facilities offered by the formal financial system. Financial inclusion facilitates effective allocation and efficient utilization of resources which eventually reduces the cost of capital. The importance of an inclusive financial system is identified by countries policy makers especially a developing country like India. An efficient inclusive financial system can help to reduce the role of informal credit sector such as money lenders chit funds, Nidhis who charges higher interest rate and which are exploitative in nature. Financially excluded people, depend on money lenders for borrowings and even for their daily expenditure. This will tend to accumulate over the period and

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finally get caught in a debt trap. Many people especially in rural part of India are not aware of various financial services offered by institutions or they are not utilizing it in a proper and financial system.

Financial exclusion means the inability to access necessary financial services in an appropriate form The financially excluded sections consist of farmers, landless laborers, urban slum dwellers, migrants, ethnic minorities and other socially excluded Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be.

"*Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians," he said. Further, "in order to draw in the poor, the products should address their needs — a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the money lender, easy to understand life and health insurance and an avenue to engage in savings for the old age*."[1]

A. FINANCIAL INCLUSION IN INDIA

The history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded; the number of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to close to 100000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population.

B. RECENT MEASURES AND PROPOSALS BY RBI FOR FINANCIAL INCLUSION

The RBI has, in the recent past, taken several steps to further inclusion. Very recently, it circulated for public comment two sets of draft guidelines for issuing licenses to payment banks and small banks. Niche banks with lower entry-level norms than for normal commercial banks are meant to further inclusion. These niche banks with lower entry-level norms than for normal commercial banks are meant to further inclusion. While it will take a while for these banks to come up, it is obvious that the RBI is betting on them to provide banking services to those who remain outside the purview of formal banking.

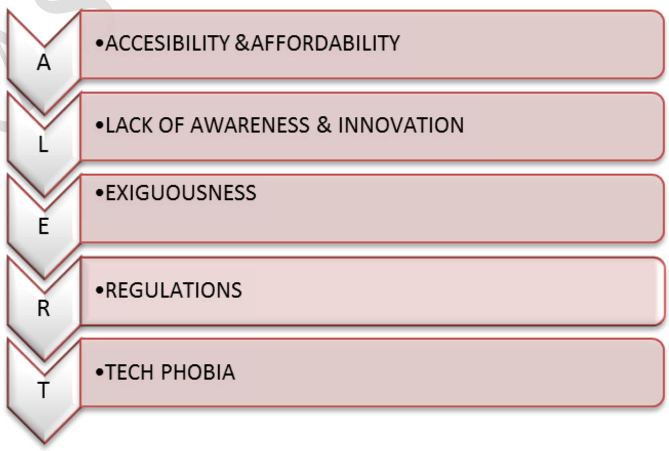
The government's latest plan of action, as pictured in the CFIP or Sampoorn Vittiya Samaveshan, hopes to extend coverage of basic financial services all excluded households. In the first phase, the CFIP will strive to provide universal access to all the beneficiaries through sub-service areas (SSAs). Each SSA will consist of 100-1,500 families in a cluster of villages and each SSA will be serviced by a BC agent (BCA) whose task it will be to facilitate account opening and smooth banking operation.

The latest inclusion plan will have as its focus households rather than geographical areas. After satisfactory conduct of accounts it is proposed to offer reasonable need-based credit facilities for which overdraft facilities will be sanctioned. A smart card (RuPay card) will be issued to enable customers to operate their accounts even without BCs. Simultaneously suitable awareness will be created among the financially excluded.

In the second phase, there is a proposal to make available a pension scheme for identified individuals in the unorganized sector and offer microfinance products through government-owned insurance.

C. CHALLENGES AND SCOPE FOR FINANCIAL INCLUSION ALERT& SPARK MODEL

a. CHALLENGES



Source: Author

Figure 1

- ✓ *Accessibility &affordability:* our banking sector still fail to reach rural India. Commercial banks operate only in profitable areas. People staying in remote areas find it difficult to commute and reach branches for regular banking activities. Due to this banking activity ends in opening an Savings Bank Account.
- ✓ *Lack of awareness & innovation:* lack of awareness of the schemes and facilities or financial illiteracy also contribute to financial exclusion to an extent. Institutions should also come up with innovative products.
- ✓ *Exiguousness:* Major unbanked population consists of people from poor background who struggle to meet both ends. They hardly will have any savings and will be reluctant to avail banking facilities.
- ✓ *Regulations:* Structural procedural formalities and norms makes the system complicated. It is very difficult for people to read terms and conditions and account-filling

forms due to lack of basic education. Even after opening the account most of the accounts are inactive. Irregularity in operation and feeble transactions is another constrain in the growth of bank.

- ✓ *Tech Phobia:* Many people willingly excluded themselves due to tech phobia. Its been noticed that due to this psychological barrier older people find it difficult to use ATMs which is the most convenient form of banking today.

b. SCOPE AHEAD FOR FINANCIAL INCLUSION

Source: Author

Figure 2

- ✓ *Segmentation Of Customers:* It is necessary to educate the people, especially the rural population the importance to save. Financial literacy camps must be organized from time to time in collaboration with state government and village panchayats in order to familiarize the various financial products and the pros of having an account with formal financial institutions. Banks and agencies can adopt a different approach in marketing. They can segment prospective customers in different groups and market according to their nature of group.
- ✓ *Public And Private Partnership:* banks can do promotional activities in partnership with public and private sector institution. Private companies and other institutions can do minor and major project in villages and in backward group
- ✓ *Agents At Door Steps* the business correspondent model should be extended to include entities such as kirana shops, corporates and others. They need to be properly remunerated and have the full support of banks. Banks have tied up with common service centers (cscs) as bcs.
- ✓ *Root Level Initiatives:* efforts for financial inclusion started only in past few years. Unless it is a requirement for professional purpose, job related or business related requirement an average person is not a part of financial system and the too at the age of 25. Habit of saving should be inculcated in the smaller age in school level. Financial literacy should be part of school curriculum where students are educated with importance of savings and benefits of investment.
- ✓ *Know Your Customer Better:* Banks should not limit their inclusion efforts in just opening account. They should be able to understand each and every customer, approachable and should serve them better.

V. CONCLUSION

Financial inclusion starts with offering affordable financial services to needy and priority sectors continue with regular transaction and ends with sustaining the relationship. Increasing commercialization and business activities are directed to higher savings and higher spending which will accelerate economic growth. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. The BC model can be supplemented with technology which helps to fill the gap between restrains from brick and motor banking system to customer friendly banking. Thus financial inclusion is

Offers a lower cost channel and local presence without the infrastructure costs of branches. However, it is limited by poor security, time-consuming manual processes and a lack of scale. Supplementing the BC model with technology can improve security, speed up enrolments and transactions, and extend the size of the physical territory that agents can cover. Even with enabling technology, the agent model in isolation, will always be limited to the size of the physical territory that can be covered. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

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