Financial Inclusion and Barriers

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Abstract

There is a need for financial inclusion to build uniform economic development, both spatially and temporally and ushering in greater economic and social equity. Various barriers acting like speed breakers should be overcome.

Key words: Financial inclusion, barriers, economic development, society, RBI.

Introduction

Economic development of a nation means development of every group and section of the society. No economy can grow without upliftment of poor people and the financial inclusion is a tool to achieve this goal. The term `financial inclusion’ has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals1 of financial inclusion as follows:

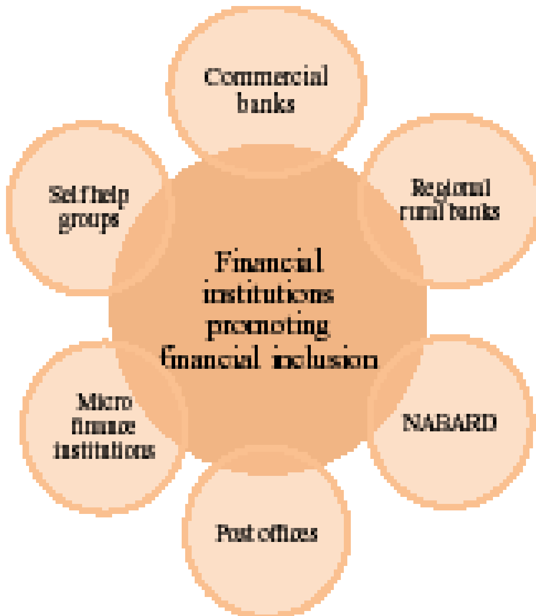
- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and
- Competition to ensure choice and affordability for clients.

In 2005, RBI promulgated a drive for financial inclusion whereby formal financial system promotes the participation of every household at the district level via saving accounts for the `unbanked'. Under the chairmanship of Rangarajan, `Committee on Financial Inclusion' was formulated by the Government of India. It defines financial inclusion as `the mechanism of ensuring access to financial services and timely and adequate credit whenever needed by the vulnerable groups such as the weaker sections and low income groups at an affordable cost'.

Recently, to give leverage to financial inclusion drive `Pradhan Matri Jan Dhan Yojana' has been introduced. The RBI has initiated multiple steps over the years to increase credit access to the poor sections of the society.

Role of Financial Institutions in Promoting Financial Inclusion

A number of financial institutions exist in financial ecosystem, which promotes financial inclusion (Fig. 1). Prominent among them are as under:



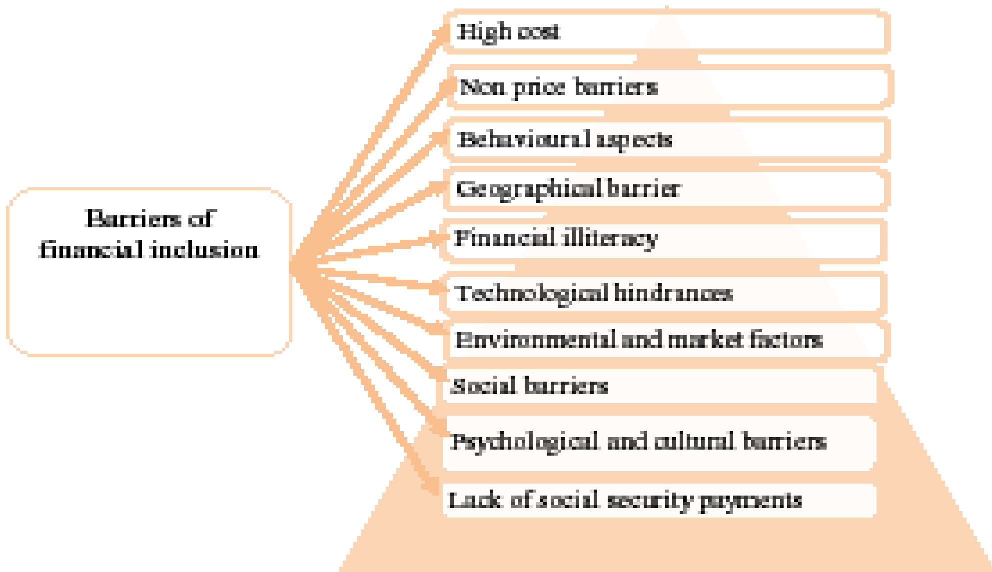
Source: www.nabard.org. Accessed on 16-11-2017.

Fig. 1: Financial Institutions promoting Financial Inclusion

Barriers in Financial Inclusion

Over a period of time several measures have been taken by the banks in India to improve access to affordable financial services through financial education, leveraging technology, launching of various schemes and generating awareness.

Despite this, several barriers affect access to formal banking system by weaker section of society in India. The lack of awareness, low income and assets, social exclusion, illiteracy is the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure and requirements of documents for opening bank accounts, unsuitable banking products or schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side.



Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86734.pdf. Accessed on 16-11-2017.

Fig. 2: Barriers of Financial Inclusion

Hence, there is a need for financial inclusion to build uniform economic development, both spatially and temporally and ushering in greater economic and social equity. Various barriers are shown is Fig. 2 and a brief description of them is as under:

(i) High Cost: Providing and utilising financial services is not available free of cost for both the service provider and service utiliser.

- *Cost For Service Provider*: Setting up of branches in rural areas are generally not advantageous due to high cost and low business.
- *Cost for Service Utiliser*: It has been observed that the poor living in rural area are reluctant to utilise these services due to high cost e.g., minimum balance requirements in saving account, fixed charges in credit cards and debit cards, loan processing charges, etc.

(ii) Non-Price Barriers: Access to formal financial sources requires documents of proof regarding person's identity, postal address, income, staff attitude, unsuitable products, etc. Poor people generally do not have these documents and thus are excluded from financial services.

(iii) Behavioural Aspects: As per IDBI Gilts Report (2007) research in behavioral economics has shown that many people are not comfortable using formal financial services due to difficulty in understanding the language, reading the document and various hidden terms and conditions. Poor people also think that financial services and financial products are meant only for the upper strata of the society.

(iv) Geographical Barrier: It is concerned with geographical inaccessibility to services in general and banking outlets in particular. It includes remoteness of residence, insurgency in location branch timings, restricted mobility either due to old age or disability or lack of access to private transport or public transport services.

(v) Financial Illiteracy: Limited financial literacy, i.e., basic mathematics, business financial skills as well as lack of understanding often acts as a constraint for accessing financial services. Literacy requirements inhibit access for those with lower literacy, lack of awareness and/or English language competency skills.

(vi) Technological Hindrances: Customers sometimes from fear or lack of familiarity hesitates to conduct their banking activities through technological advancements. Some of those groups affected by restricted mobility may also be vulnerable to technological exclusion.

(vii) Environmental and Market Factors: Environmental and market factors includes the broader socio-economic and demographic trends such as changing market structure, political trends such as transfer of risk and responsibilities from state and employer to individuals.

(viii) Social Barrier: It comprises of two major factors i.e., gender and age.

- *Gender Issues*: Access to credit is often limited for women who either do not have or cannot hold title to assets such as land and property or must seek male guarantees to borrow.
- *Age Factor*: Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

(ix) Psychological and Cultural Barriers: The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low income groups. However, cultural and religious barriers to banking have also been observed in some of the countries.

(x) Lack of Social Security Payments: If the social security payment system is not linked to the banking system, banking exclusion has been higher.

Conclusion

It is necessary to overcome these barriers in the way of financial inclusion. These are acting as speed breakers and solution of these will really boost the financial inclusion process in India.

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