Role of Financial Market in Financial Inclusion

Manish Prasad Pathak
Dept. of Economics, Mohan Lal Sukhadia University, Udaipur, Rajasthan, India

Abstract
Inclusive growth is often used interchangeably with a suite of other terms, including 'broad-based growth, shared growth and pro-poor growth. Inclusive growth implies a direct link between the macro and micro determinants of growth. Financial inclusion plays a critical role in achieving inclusive growth of a country. It is the access of financial services to the masses at an affordable cost. Its purpose is to include everyone in the financial spectrum, particularly the vulnerable sections and to empower them economically and socially, thus ensuring inclusive growth and sustainable development.Financial inclusion is a buzzword not just in India, but globally as well however, financial Inclusion through financial sector alone will not be able to achieve this unless an entire support system partners with them in this mission. The message is to step into a bank step out of poverty. Government has been initiating productive measure rather than on direct income redistribution, as a means of increasing incomes for excluded groups. We have achieved satisfactory growth over the last one decade. However one challenge is growth needs to be inclusive that is equally distributed among all sections of the society.

The study is therefore attempted to assess the contribution inclusive growth by using financial market. This paper sets out to try exploring the opportunities with banking or financial services as a way to overcome barriers to financial access & achieve Inclusive growth in long run.

Keywords
Inclusive Finance, Inclusive Growth, Vulnerable Sections

I. Introduction

India is contribute 21 % of world's unbank adult and two third of south asia. World Bank report show that 7% of Indians reported taking a loan from financial institution in past year and 11% reported saving at a formal institution.

Financial inclusion for inclusive growth must flow from the top of the society to the root of the society. If the root of the society is integrated to the financial institutions then the growth of the country will be unstoppable. The integrating agencies are certainly rural and urban area's banks, co-operative societies, NGOs, Civic bodies, Panchayat, insurance companies and Government agencies. The root of the society is the majority of the society. They need everything at an affordable cost. M-banking in India, as assessed by the govt. can work as a potent tool for financial inclusion, is yet to clear many hurdles before it can fulfill its objective of reaching the unbanked population. If this service is adopted in a positive manner it can drastically change the scenario of Financial Inclusion.

II. Hypothesis

The Financial Market has not created a situation in Financial Inclusion and Inclusive Growth in India.

III. Methodology

The Data source of this paper is Secondary, collected from various journals, research papers, reports, books, E-Journals, RBI Report, World Bank etc. Then, a broad framework is made on the role of financial market in Financial Inclusion over inclusive growth pattern in India. The study covers entire India.

IV. Initial Measures For Financial Inclusion

A large section of the population in these countries has remained outside the formal banking channel. As a result, these people have neither been able to participate nor enjoy the fruits of economic growth. This has been realized by all the stakeholders. Financial Institutions, Telecom companies, Information Technology Service Providers and many other ancillary organizations are playing a proactive role for Financial Inclusion.
In India, Reserve Bank of India decided to adopt the Business Correspondent (BC) Model which made the basic banking services, with liberalized norms, more accessible to the financially excluded segment. Various other models like kiosk banking, mobile banking, small format branches, etc. have also been adopted by the banks to deliver banking services to the excluded people in rural as well as urban areas. Banking services that are provided through these channels are Savings Account, Fixed Deposit, Recurring Deposit, Micro-insurance, Remittance and various types of loans.
Financial Inclusion is about ensuring 5A Adequacy, Availability, Accessibility, Awareness and Affordability. One of the measures of the level of financial inclusion is financial inclusion index developed by Crisil

The Financial Stability and Development Council (FSDC) headed by the Financial Ministries is mandated to focus on financial inclusion and financial stability. RBI & GOI have rolled out many initiatives for in Financial Inclusion Program. The initiatives are:-

- All banks to open no frills accounts -Basic saving bank account - bank led model for financial inclusions. Bank have relaxed and simplified KYC norms. Aadhar has able to resolve the three basic problem in financial inclusion i.e. KYC, High cost and limited accessibility to some extent
- Banks should have compulsory requirement of opening branches in unbanked villages. Branch could be open in a low cost simple brick and mortar structure. The Urban co-operative bank, RRB, Local Area Banks (LAB), SCCB, DCCB, PAC (Primary Agriculture Credit Societies)would be conceptually construed as semi-banks undertaking predominantly credit/ investment entity and are advised for opening up of financial literacy centre.
- Granting of credit through the issuance of Kisan Credit Card. Flow of credit to Agri sector through KCC/GCC. Provide interest subvention scheme. Government of India had implemented the Agricultural debt waives and debt relief scheme 2009
- Taping technology platform such as Smart Card. Micro ATM's, Mobile Technology, Aadhar Enabled Payment System (AEPS) etc. seek financial services irrespective of their

geographic location. Ensure smooth roll out of Government Direct Benefit Transfer (DBT) initiating. Program for Urban financial inclusion initiatedICT enabled banking services have CBS connectivity to promote simple banking. Expansion of ATM (office) network.SHB Banks linkage program me.

- Growth of MFI's.Bank credit to MSME Sector& Increasing insurance penetrating in the country. Financial inclusion initiative by private corporate.
- Interest rates on advances totally deregulated. Efforts have been made to include financial education curriculum in school education..
- Financial Inclusion require collaborative Efforts and active involvement of all stake holders. The technology partner such as mobile companies have been allowed to partner with banks in offering services collaboratively. Financial Literacy Outreach to the rural masses on the benefit of having bank accounts is to ensure through village level awareness camps, road shows, quiz programmes, which culminated in enrolment of the village folk with the formal financial system. District Level Central Co-Operative Bank (DCCB) in supporting for setting up of FLC in different block in the state. RRB are supported for setting up of FLC.
- The National Mission on skill development has set a target of preparing 500 million skill people by 2022.In India may 10% of work force recurring skill training.

Financial inclusion and financial literacy are twin pillars. Financial literacy stimulates the demand side and making people aware of what they can demand. Financial inclusion acts from supply side providing the financial market/services what people demand.

V. Challenges in Financial Inclusion

Some of Challenges in Financial Inclusion are cost, travel distance and amount of paper work play a key part and most of this barrier can be reduced by better service and active of dormant account. Banks can have customized cap based on risk perception in mobile banking transaction. The ground level hindanrances are due to non functional hand held machines, Smart Cards, Network Connectivity and non availability of power. Limited number of technology service provider to cover the unbanked village of all banks. Limited service centre for serving devices which resulted in banking operation coming to a halt in many villages.

- Frauds related to security feature in losing technology.
- Banks require partnership and collaborative with other stake holders.
- Low R&D efforts and monitoring and evaluation system.

Banks need to review HR policies with respect to recruitment of staff in view of financial inclusion requirements and act differently and make themselves more flexible so as to meet even the smallest requirement of rural populations. The credit should be judiously given for productive purpose otherwise more delinquencies will be observed in later stage.

Few challengences observed in business correspondence / facilator are that there is no transparency in respect of commission / remuneration to be paid to BC.

- It is not remunerative enough. No ownership at branch lives for selection of BC. At rural location, the infrastructure is not geared to cater the sudden increase in business; there is delay in account opening, processing of application through BC/BF. Dormant account opening though BC is 80%, the transaction after accounts opening have been minimal. Low skill set in BC/BF which needs to increase. The agent model in rural come out to be Less transaction - non operational account, low volume small value transaction - high cost viability issues. High level of attrition in BC/BF and local branch are facing difficulty in replacing BC. The rural people are not willing to deposit huge amount of cash with the BC. There are several challenges in multiple technology integration with CBS, support issues and people at the operating level (BF & BC) may not fully apprehend all the product and technology. Delay in issue of smart card needs to be avoided grievance redressal mechanism for customer operating at BC outlets may be put in place. There is retail agent risk involved and platform selected risk in agent model.
- A rating agency for BC's may be set up for benefit of banks; it will help the banks to verify the standing of a BC before engaging him. Some BC one appointing sub-agent which is fraught with risk. Banks have been finding some conflicts of interest in case of corporate BC arrangements.
- In Rural & Semi urban centre there is lack of power supply for charging POS etc. equipment for transactions

Infrastructure Issue - Digital & Physical Connectivity: Digital financial inclusion can be a game changer for un-served and underserved low income household as well as micro and small enterprise. The challenges in technology related issues are non availability of handheld devices, cards, technology partner, operation gulches and turnaround time

The GOI has incorporated CERSAI for registration of mortgage creation .This will scale up the level of credit, decreasing the cost of credit by improvising the digitalization of collateral security creation and Credit information sharing through CIC(Credit Information companies).

Scaling Financial Inclusion through Post Office,SHG,MFI and other channels - Appropriate business model yet to evolve need to move from cost centric model to a revenue generation model by offering a bouquet of deposit, credit and other services.

Post office branches are not active in spreading in financial inclusion:- The India Post network with over 155,000 branches is twice as large as the outreach of all commercial banks in India put together.

- In India, the post office is having a relating larger network than traditional financial institution – there is urgent need to computerize and connect all its savings bank accounts so as to widen and deepen the level of financial transactions and offer banking services to the rural population. India Post does not yet deliver credit. The post office can boost account ownership by acting as cash merchants for transactional financial services penetration
- The primary building blocks of financial inclusion are storage of cash, payments and credit

The FIP through Self House Groups (SHG) is SHG bank linkage program - saving first credit later model are implemented but they are finding Inadequate outreach in many regions, delay in opening of SHG account and disbursement of loans, impounding

 ISSN : 2230-9519 (Online) | ISSN : 2231-2463 (Print)

of saving by banks as collateral.

- The major issues confronting the SHG include inadequate number of quality agencies requires for capacity building and hand holding, governance and leadership challenges, lack of management information system inconsistent reporting supervision and management capacities, excessive dependence on promoter agencies for essential services.
- Skewed distribution of SHG increasing instances of NPA etc.

There is need to scale up Aadhar enabled payment system AEPS across the country which is designed by unique identification Authority of India (UIDAI) in collaboration with the NPCL. The interbank - mobile payment services an 24 X 7 fund transfer system has been developed by NPCL, the volumes are very low. Majority all telecom companies prefer negotiating with individual funds on the issues rather than with NPCI. All stake holder need toward to scale up the vol. of transaction.

The Other Financial Inclusion challenges are:

MFI need to rework their business model and framed such model to support the income earning ability of borrower and themselves remain economic viable.

- Shortage of coin and lower denomination notes are prevalent in some places which need to be addressed. A hybrid of cash credit (CC) and term loan (TL) limit may be sanctioned to be SHG by banks instead of TL or CC alone. Banks are charging domestic money transfer through NEFT very high rates to walk in customer. No transparency in charges. Sometimes inspection charges are debtor from the account. Instruction on in operation No frills account may be revisited. Compensation is not adequate for CSP agent and it is not paid timely. Hence attrition rate of CSP is very high. Non-matching of thumb impression of rural people with smudged fingers leads to failures if transaction in some cases. This needs to improve
- Financial inclusion is considered as a target, not a business opportunity. All energy is directed towards achievement of the target. There is need for stimulating the demand side through appropriate financial literacy initiatives. Flexi timing may be introduced for the rural branches staff constraints in rural branches may be addressed as this adversely affect customer services.
- Security is insisted upon while sanctioning loan to SHG.
- Many rural people get remittance from gulf committed by way of through foreign draft. Such drafts are not entertained by rural branches for collection.
- The land titling system and digitization of land records needs to scale up for accessing credit. In India the problem with state directed efforts is that lending becomes highly politicized. As a result, while such a model can help in mobilizing saving, if adversely affect asset quality of state owned banks imposing a threat to the stability of financial system.
- On Rupay platform “Rupay Kisan Cards” by NPCI are not issuing as per expected very little terminals are enabled for Rupay. Mobile linked Kisan Credit Cards (M-KCC) - Anecdotal evidence indicates that banks are yet to launch this project in big way. Rationalization of Merchant Discount Rate for debit cards, debits cards holders are not using at merchant establishments
- Limited Financial Literacy & Limited institution capacity among MFI microfinance.

The Indian Government launched **Pradhan Mantri Jan Dhan Yojana** Scheme for comprehensive financial inclusion with the goal of opening a bank account for every household. The scheme offered attractive feature such as zero balances, overdraft facilities and free life insurance. By the end January, 2015 it had led to the opening of 125 million new bank account, as per **the Global Findex database 2014** had found that few than 400 million people in the country led an account. The scheme has attracted criticism for expanding the PSU role in banking. More than 97% of new accounts are at public banks.72% of account shows zero balance. Bank have opened 14.50 crore account in PMJDY, how every banker talk about how to handle this Rs. 5000/- over draft issue without having credit history of borrower.

Challenges Financial Inclusion of Firm: The MSME sector contribute about 45% of the total industrial output 40% of the export and the sector employs largest amount of work force after agriculture.

SME often does not have adequate records and account to document firm performance to apply successfully for a loan. The problem is compounded by the fact that some SME operate informally. Commercial banks often do not lend to micro finance because operational cost of lending to these firm are high relative to the revenue generated by the small loan amounts.

The statistics compiled in the Fourth Census of MSME sector September 2009 revealed that only 5.18% of the units (both registered and unregistered) had availed of finance through institutional sources, 2.05% had finance from non-institutional sources the majority of units i.e. 92.77% had no finance or depended on self finance.

Measure taken by Government: STAY FORWARD *Refer Chart 01: Stay forward Financial Inclusion Program in India*

The government latest plan is to provide universal access to all beneficiaries through sub-service areas (SSA). Each SSA will consist of 100-1500 families in a cluster of villages and each SSA will be service by BC agent. The latest inclusion plan will be focus households rather than of geographical area.

Aadhaar: A biometric-linked developmental initiative that is providing proof of identity to 1.2 billion residents of India. By establishing a robust identity management system, the project aims to ensure more inclusive growth and efficiently target welfare programs.

Banks benefit by stable deposit base contributed by retail customer facilities transfer of government benefits without leakages. Our honorable Prime Minister has called for making financial inclusion a “habit”. he has also launched the Social security scheme from Jandhan to Jan Suraksha PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) - Life Insurance worth Rs. 2 Lacs at just Rs. 330 per annum for age between 18-50 years. PMSBY (Suraksha Bima Yojana) accident insurance worth Rs. 2 Lacs at just Rs. 12/- per annum for age 18-70 years and Atal Pension Yojana. Banks have opened approx 10.58 Crore account of Jan Suraksha comprising of 36% of female accounts.

The Bank Mitra is provided with device capable of on line interoperable transaction using Rupay Card and Aadhar enable payment system. Rupay Cards at other access point will help in reduction in cash transaction and making them digital which will move the economy towards a less cash society.

In past KYC process was very cumbersome now e-kyc facility has been introduced in banks. The State level and district level committee to monitor the progress under the plan.

Bank to explore the possibilities of installing ATM in rural areas under the RBI subsidy scheme. Bank would take micro ATM which is Aadhar enabled & Solar POS.All pass book based KCC to be enabled on Rupay Card, Mobile Wallet cash point also to be used.

Digitization: Digilocker provide storage space in the Cloud to Indian Citizen, it makes it easier to validate authenticity of document as they are issued directly by the registered issues.

Differencitiated banking license (Small deposit & credit Bank and Payment Banks) RBI has released differentiated Banking license to design the challenges. The small finance banks and payment bank will act in differentiated marked and consumer groups. The payment bank can undertake payment and deposit service only. They can perform banking correspondent function to other banks.

Our PM has launched MUDRA scheme with corpus of Rs 20,000 Crore micro units development and refinance agency / bank on 8th April, 2015. MUDRA scheme will a credit guarantee scheme for providing guarantees to loans portfolio. The establishment of MUDRA would not only help in increasing access to finance to the unbanked but also bring down the cost of finance from the last mile financier to the informal micro/small enterprises sector.

Government of India has in March 2016 launched a new crop insurance scheme "Pradhan Mantri Fasal Bima Yojana (PMFBY), which will replace the existing crop insurance schemes viz. National Agriculture Insurance Scheme (NAIS) and Modified National Agriculture Insurance Scheme (MNAIS). The Weather Based Crop Insurance Scheme (WBCIS) also stands modified. Government of India in March 2016 launched the Unified Package Insurance Scheme (UPIS) to reduce distress in the Farm Sector. UPIS aims at providing financial protection to citizens associated in agriculture sector and are proposed to be implemented from Kharif 2016. PMFBY, a crop insurance scheme launched by GOI under the umbrella of UPIS is an arrangement aimed at mitigating financial losses suffered by farmers due to damage and destruction of crops on account of natural calamities / some other production risks. PMFBY will replace all other existing crop insurance schemes viz. NAIS/MNAIS. It consists of the following 7 sections: Section 1: Crop Insurance (PMFBY / WBCIS) ; Section 2: Personal Accident Insurance (Pradhan Mantri Suraksha Bima Yojana (PMSBY)) ; Section 3: Life Insurance (Pradhan Mantri Jeevan Jyoti Bima Yojna (PMJJBY) ;Section 4: Building and Contents Insurance; Section 5: Agriculture Pumpset Insurance (Upto 10 HP) ;Section 6: Student Safety Insurance; Section 7: Agricultural Tractor Insurance and Out of the 7 sections given above, Crop Insurance (PMFBY/WBCIS) is mandatory and applicable to the entire country.

GOI needs to develop SME facilities in capital market so that funds can be mobilized from market. Development of agriculture insurance and enhancing credit information services placing starting CERSAI registry mandatory for all credit purposes.RBI has also initiated Retail Sector in Bharat Bill payment system.

VI. Conclusion

Financial inclusion prima facie needs to be viewed as money at the bottom of the pyramid and business models should be so designed. The mantra will be SABKA SAATH SABKA VIKAS. Financial inclusion cannot be achieved without the active involvement of all stakeholders like RBI, other financial regulators, banks, governments, NGOs, civil societies, etc.. All the stakeholders need to join hands and make it possible. Strategy for FI will be Product strategy, processes partnership, protection, profitability, productivity and people. Technology, with its capacity to reduce transaction costs, is key to enabling the large volume low ticket transaction that is at the center of financial inclusion. The successful ICT industry partner with the finance industry can revolutionize financial inclusion in this country.

Strengthening the pace of financial inclusion and financial literacy, more efficient and better-directed public spending, particularly on the social sector (education and health) and skill-development would be equally significant steps towards this goal.The economic growth follows financial inclusion. Boosting business opportunities will definitely increase the gross domestic product, which will be reflected in our national income growth.Thus Financial Market has created a situation in Financial Inclusion and Inclusive Growth in India.

To sum up, financial inclusion is the road that India needs to travel toward becoming a global player. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

VII. Acknowledgement

Supported by Prof. A. P. Choudhary, Head Dept of Economics, MLSU University.
Supported by IDBI Bank Ltd

References

[1] Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India, "Financial Inclusion | A road India needs to travel", Address at the launch of Federal Ashwas Trust on November 30, 2009 in Kochi, Kerala.
[2] Shri S. S. Mundra, Deputy Governor, Reserve Bank of India,"Defeating Poverty: Issues and Challenges, Address at the 39th Skoch Summit in New Delhi on March 20, 2015
[3] Harun R Khan,Deputy Governor,Reserve Bank of India,"Issues & Challenges in Financial Inclusion: Policies, Partnerships, Processes & Products symposium on Financial Inclusion in Indian Economy", Organized by Indian Institute of Public Administration, Bhubaneswar,June 30, 2012
[4] RBI BULLETIN, 2014, Vol. LXVIII, No. 7, July 2014
[5] Dr. Raghuram G Rajan, Governor, Reserve Bank of India, Address on RBI 80th Anniversary at the Financial Inclusion Conference, April 2, 2015
[6] K.C (2011),"Financial Inclusion and Banks: Issues and Perspectives", RBI Bulletin, November, 2011.
[7] Chakrabarty K.C (2011), "Financial Inclusion: A Road India Needs to Travel", RBI Bulletin, November, 2011.
[8] Chakrabarty K.C (2012),"Empowering MSMEs for Financial Inclusion and Growth – Role of Banks and Industry

Associations", address at SME Banking Conclave 2012.

[9] Chakrabarty K.C (2013),"Financial Inclusion in India: Journey So Far And the Way Forward", Key note address at Finance Inclusion Conclave Organised by CNBC TV 18 at New Delhi.

[10] Chakrabarty K.C (2013), "Revving up the Growth Engine through Financial Inclusion", address at the 32th SKOCH Summit held at Mumbai

[11] R. Gandhi, Deputy Governor RBI," Disruptive Innovation and Inclusive Growth Some Random Thoughts", address at FIBAC 2015, Mumbai on August 25, 2015

[12] R. Gandhi, Deputy Governor," Differentiated Banks: Design Challenges", address at Sastra University, Campus Kumbakonam on April 18, 2015

[13] Dr. Raghuram Rajan, Governor, RBI," Democracy, Inclusion, and Prosperity", address at D.D. Kosambi Ideas Festival held on February 20, 2015 in Goa

[14] Harun R Khan, Deputy Governor, Reserve Bank of India," Rural Finance: Issues & Challenges", address at NABARD on July 24, 2014 at New Delhi

[15] Dr. K.C. Chakrabarty, Deputy Governor, RBI," Inclusion, Growth and Governance- Issues and Way Forward", address at the 35th SKOCH Summit in New Delhi on March 21, 2014

[16] RBI Bulletin, Deepali Pant Joshi, Strategy adopted for Financial Inclusion ON Feb, 11, 2014

[17] The World Bank Group (a). The Global Financial Development Report 2014. Web. 28 April 2014. http://www.worldbank.org/financialdevelopment

[18] World Bank Report (2015). What is IG, World Development Report 2015. Washington DC

[19] [Online Available: http://www.planningcommission.nic.in

[20] Online Available: http://www.rbi.org.in

[21] Online Available: http://www.finmin.nic.in

[22] Online Available: http://https://www.crisil.com/about-crisil/crisil-inclusix.html .

[23] Online Available: http://https://data.gov.in/catalog/households-availing-banking-services-and-number-households-having-each-specified-assets.

[24] Online Available: http://www.worldbank.org/en/programs/globalfindex

Manish Prasad Pathak received his BSC in Maths from Jai Naranyan Vyas University, Jodhpur, Rajasthan, India in 1996, the M BA degree in Finance from Indian Institute of Rural Management, Jaipur Rajasthan, India in 1998, and the MA Economics degree with specialization in (Econometrics) from Jai Naranyan Vyas University, Jodhpur, Rajasthan, India in 2001 & pursuing Phd from Mohan lal Sukadia University Udaipur in Financial Inclusion sector. He has been in Banking and Financial Services field in last 18 years. He has severed in SHCIL and currently in IDBI Bank ltd, in Regional Office as Assistant General Manager in Regional Office, Udaipur. He has wide experience in Branch banking & experience of heading branch for 8 year of Bikaner , Jodhpur & Udaipur branches of IDBI Bank ltd & SHCIL