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5. Barriers to Financial Inclusion

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Abstract:

Economic growth is predicated on financial inclusion. The developing world hasn't done much research in this area, though. Nevertheless, there are a number of obstacles to obtaining and managing financial resources, including the inability to use basic banking services, a lack of capital, and savings associated with a lack of formal credit. This research is therefore driven to investigate the incentives and obstacles related to financial inclusion. By looking at the problems experienced by Indian rural households that rely on several channels for their transactions and interactions with official institutions, this study evaluates the obstacles that the poor encounter when attempting to be financially inclusive. The research used a mixed-methods approach, integrating quantitative and qualitative techniques, to investigate the obstacles impeding financial inclusion for the impoverished residing in rural India. The analysis shows that the main obstacles to enhancing financial inclusion for the impoverished in rural India are access to savings, capital, and basic banking services. Financial inclusion refers to offering the weaker segments of society access to fundamental banking sector services at reasonable costs. The goal of financial inclusion is to bring the underserved segments of society into the formal financial services system. Researchers from all across the world have studied the obstacles that stand in the way of financial inclusion. With the assistance of other academics, the current study identified the obstacles to financial inclusion. The secondary data used in this study was gathered from journals, magazines, articles, blogs, and other sources. We will talk about in this essay. Financial Inclusion Obstacles.

Keywords:

Barriers, Financial Inclusion, Economic Growth, Banking Services, Capital, Savings, Reserve Bank of India, Households, Supply, Demand, Financial Literacy, Financial Decisions, Aadhaar, Government, Public Sector Banks

5.1 Introduction:

There was relatively little development in rural areas in the early years following India's independence. Financial inclusion requires work on behalf of developing rural residents. One of the government of India's main programs is financial inclusion.

Its goal is to encourage those who are excluded to use formal financial services. The Reserve Bank of India has launched a number of programs to promote financial inclusion. 73% of farmer households in India do not have access to formal sources of credit, and 51.4% of farmer households were financially excluded from both formal and informal sources despite the ongoing efforts of the Government of India and the Reserve Bank of India. In emerging nations like India, the lack of access to formal financial services for small and marginal farmers was seen as a major danger to economic growth. [1]

It is imperative that efforts be made to involve as many members of society as possible in the advancement of the Indian economy, particularly when the goal is sustainable development. However, because the bulk of the population lacks access to formal credit, the lack of awareness and financial literacy among the nation's rural population is impeding the expansion of the economy.

This poses a significant threat to the nation's economic development. Automated teller machines (ATMs), credit and debit cards, internet banking, and other technology advancements were introduced by the banking industry to get over these obstacles. Even if the emergence of these banking technologies changed urban culture, most people living in rural areas are still ignorant of these developments and are not allowed to use formal banking services.

In India's rural areas, financial services are still hardly existent. Both supply and demand side elements can be used to analyze the conditions causing this state, with a shortage of supply likely being the main cause of the low penetration of financial services. Low income levels, a lack of financial awareness, several bank accounts in the family, etc. could all be contributing factors to the low demand for financial services. The supply side factors, on the other hand, include the absence of a bank branch in the area, the scarcity of affordable products, difficult processes, and linguistic difficulties. [2]

The endeavor to establish and operate a financial system that is accessible to all societal levels is known as financial inclusion. It will result in both a positive economic development and the resolution of the poverty issue. In an attempt to close the wealth and welfare gap between the rich and the poor, financial inclusion is the idea of integrating budgeting and financial matters with the underprivileged in a particular community.

Strong progress in promoting financial inclusion will boost the expansion of banking and non-banking businesses in the relevant sectors. The fundamental concept of financial inclusion is the ease with which all parties involved in the economy can access formal financial services or the system. According to the Indian government, financial inclusion is the process of enabling underprivileged groups in society, such as those with low incomes, to obtain credit availability and financial services at the appropriate time. [3]

5.2 Barriers to Financial Inclusion:

The first of several obstacles to financial inclusion is severe poverty. Individuals who are low-income have minimal to no need for financial services.

People who are poor or have low incomes frequently face major obstacles in their attempts to obtain basic financial services, on top of the pervasive extreme poverty that persists in many parts of the world.

Many people are still unable to access financial services due to major obstacles, even in spite of global efforts to promote financial inclusion. These obstacles are frequently intricate and multifaceted, ranging from cultural norms that prohibit financial involvement to a lack of infrastructure. These obstacles must be located and removed in order to attain financial inclusion.

The less favorable business climate, lack of infrastructure, lack of growth, limited physical aspect, limited psychological aspect (fear of financial institution personnel, structures, or products), lack of information, lack of financial discipline, and lack of professional business practices are the main obstacles to financial inclusion. The following factors contribute to financial exclusion (mainstream): 1) tiny population and restricted location; 2) restricted access to social and economic chances for low-income individuals or members of minority groups; and 3) restricted opportunities for new businesses due to inability to obtain services.

That being said, it is crucial to remember that the Beck et al. survey was carried out between 2004 and 2005. The idea of "no-frills accounts" was introduced to India by the RBI in November 2005.

As a result, it is reasonable to assume that fewer documents were needed in India after the study. In 18 countries, the minimum savings account balance was zero, while in Nepal, it reached 74 percent of the country's per capita GDP. It was five percent of GDP per capita in India.

After the study, this is also anticipated to have decreased significantly due to the launch of no-frills accounts. Access barrier indicators are negatively correlated with the actual usage of financial services, indicating that they have the potential to prevent people from utilizing bank services (Beck et al., 2007a). A summary of the obstacles to financial inclusion can be seen in Figure 5.1. [4]

Both supply and demand provide views of the barriers. Psychological, cultural, and financial literacy aspects are among the demands; physical restrictions, a dearth of appropriate products, and documentation hurdles are among the supply.

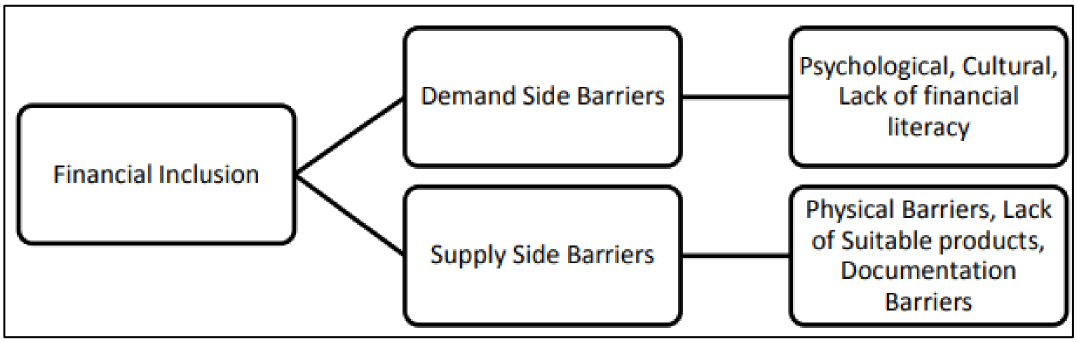

Figure 5.1: Barriers to Financial Inclusion (Source: Beck et al., 2007a) [5]

1. Lack of Financial Infrastructure:

The absence of financial infrastructure in many areas is one of the biggest obstacles to financial inclusion. This covers both digital and physical infrastructure, such as mobile banking apps and bank branches and ATMs. For instance, it could be miles between banks and ATMs in many rural locations, making it challenging for people to get financial services.

2. Low Financial Literacy:

Low financial knowledge is a major impediment to financial inclusion. Gaining access to financial services and products can be challenging for many people because they lack the information and abilities needed to manage their finances well. This is especially true for underrepresented groups, such women and low-income households.

Governments and financial institutions need to fund financial education initiatives to get beyond this obstacle. Topics like investing, saving, and budgeting should be included in these seminars, which should be customized to meet the unique needs of each towns.

In order to facilitate people's ability to make educated decisions, financial institutions should also offer clear and transparent information about the goods and services they offer. [6]

3. High Costs:

A further important obstacle to financial inclusion is high expenses. Loans and insurance are two examples of the many financial goods and services that are sometimes too costly for low-income households and marginalized communities. These people find it challenging to get the financial resources they require to better their lives as a result.

4. Limited Access to Identification:

Another major obstacle to financial inclusion is restricted access to identity. A lot of people don't have official identification documents like birth certificates or national IDs, especially in underdeveloped nations. Because many institutions demand identification in order to create accounts or apply for loans, this makes it difficult for them to receive financial services.

5. Cultural Norms:

And last, cultural norms may pose a serious obstacle to financial inclusion. Certain communities may have cultural norms that hinder financial involvement, especially for women and underrepresented groups. For instance, financial independence could be seen by some as a challenge to gender norms in some cultures. [7]

5.3 Barriers to Financial Empowerment of Women:

Both structurally and functionally, the SHGs and empowerment face a number of obstacles. Women's economic, social, and political identities and weights are the three main aspects that define how empowered they are in the social order. These elements are intricately interwoven and entwined. Therefore, for women to be empowered holistically, social, economic, and political factors that affect their lives must effectively intersect. Ignorance coupled with illiteracy stands in the way of inclusive growth. In order to enhance account ownership among women, it is necessary to provide straightforward, low-cost accounts with minimal frills in order to lower entrance barriers and address gender-related obstacles to financial services. Women who possess financial literacy are able to make wise decisions by knowing the fundamentals of banking, budgeting, and asset allocation. It gives women the power to exercise their rights and assists them in choosing what is best for their needs.

For a very long time, women have been physically, socially, psychologically, and economically oppressed and exploited. In developing nations in particular, women are viewed as inferior to men in a patriarchal system. Even if there is a segment of society that supports women's empowerment, many obstacles still stand in the way of their advancement. [8]

The RBI is aware of the role that technology can play in resolving the problems associated with lending in rural areas. It instructed banks to make effective use of information and communications technology (ICT) in order to provide doorstep banking services. These services allow even illiterate customers to operate their accounts through the use of biometrics, ensuring transaction security and boosting customer confidence in the banking system.

Additionally, it makes it easier to open a basic account with no fees and a low minimum balance requirement, making banking services available to a wider range of people. General purpose credit card facilities were established to give impoverished and underprivileged rural and semi-urban customers hassle-free credit. Change will come from all of these initiatives once women are informed about the specific laws that are in place to protect and uphold their rights. They need to assess themselves, gather resources, and keep an eye on the necessary changes. They need to dismantle obstacles to inclusive growth in the workplace and at home with their strong voices and decisions.

We have included a discussion on a number of barriers that we have found to be interconnected and frequently cyclical in nature through our set of recognized studies. The breadth of our additional discussion of the obstacles to FI for women is illustrated in Figure 2. [9]

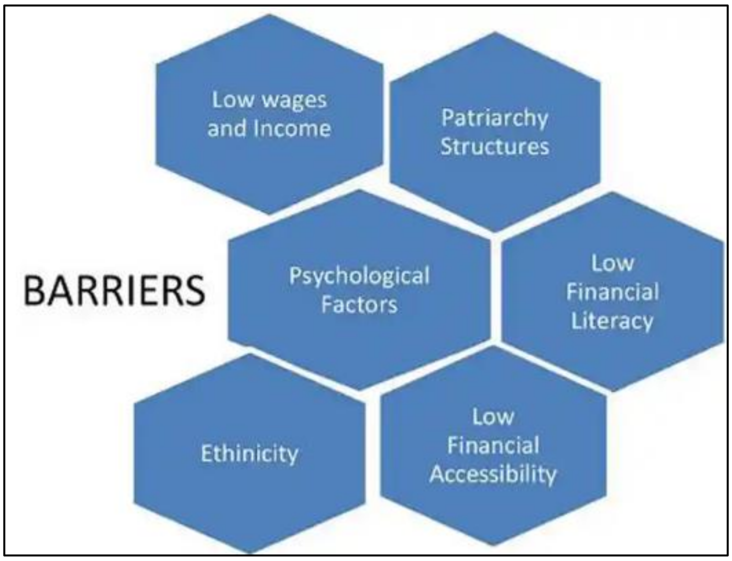

Figure 5.2: Important barriers to FI of women (Source: www.nature.com)

Youth financial inclusion is hindered, and this study aims to identify and analyze these limitations. Therefore, Figure 2 presents our theoretical idea.

Our research is based on financial inclusion hurdles identified for the Global Findex Database, as was previously discussed. Thus, we concentrated on the following obstacles in our study:

Suspicion of established banking institutions and services. Client and financial institution confidence is vital, particularly in developing nations where bank mishaps have damaged public confidence. Establishing a financial relationship can be extremely challenging if clients believe there is a significant disconnect between them and financial institutions.

Religious, social, and cultural aspects. Certain individuals encounter obstacles when attempting to get and utilize financial services due to their age, gender, race, or other socio-demographic characteristics. (e.g., national identification, the minimum age to create a bank account, etc.).

Insufficient details about service providers and their offerings. Certain prospective customers lack access to information regarding terms, conditions, and financial products and services. This is particularly applicable to novice clients who may not recognize the various providers available in the market and who do not recognize the advantages of formal financial services.

inadequately developed routes of distribution. Going to the closest access point is more expensive and challenging due to mobility restrictions and inadequate infrastructure. Therefore, in remote and difficult-to-reach areas, financial institutions are required to offer their affiliations or ATMs.

low financial capacity and little capital. This relates particularly to vulnerable populations, such as young people or women living in rural areas without an income or other source of wealth to use as collateral.

Difficult process of opening an account. Sometimes creating an account with a bank requires a lot of paperwork, or the process takes a long time. (For instance, minors who require their parents' signature to open an account and lack an identity card).

Financial knowledge. To make wise financial decisions, it is essential to comprehend fundamental economic principles like compound interest, saves, etc. [10]

5.4 Barriers to Financial Inclusion:

According to the 2011 census estimate, 41.3% of Indians living in both urban and rural areas lack access to financial services. The primary obstacles impeding India's financial inclusion movement are listed below. They are as follows:

Distance from financial institutions: In order to cover their operating expenses, banks typically locate their branches in high-density areas. In India's rural areas, people are sadly dispersed. There are extremely few people living in rural areas.

Financial Illiteracy: Due to a lack of financial literacy, the majority of people experience financial stress. The risk associated with investments and loans from unofficial financial institutions is something that financial literacy educates.

Low and irregular income: One of the main barriers preventing the impoverished from using bank services is income level.

High Cost: Nowadays banks are operating for revenue under the competitive environment. They charge for a variety of transactions, such as processing fees, minimum balance requirements, and fees for using ATM services.

Lack of appropriate Documentation: In accordance with the bank's regulations, legal documentation must be submitted when establishing an account.

5.5 Efforts to Remove Obstacles to Financial Inclusion:

Aadhaar, or the Unique Identification Authority of India (UIDAI):

In 2009, the Indian government resolved to provide each and every person living in the country with a unique personal identification number. Every Indian citizen now has an Aadhaar number thanks to the establishment of the Unique Identification Authority of India (UIDAI) by the Government of India. As of March 2017, 1.14 billion people in India had registered for Aadhaar. It makes up 85% of the population of India. As of April 2017, there were about 400 million bank accounts connected to Aadhaar and 6 million bank accounts created with e-KYC.

Direct Benefit Transfer:

The Indian government has initiated numerous social welfare initiatives for its citizens. Numerous social protection programs, including the Public Distribution System's (PDS) food subsidy, the Mahatma Gandhi National Rural Employment Scheme's (MGNRES) employment guarantee, the Cooking Fuel Subsidy, and pensions, have been managed by both state and federal administrations.

Financial Literacy Programs:

To offer financial literacy programs through Financial Literacy Centers (FLCs), the Reserve Bank of India has chosen five target groups: farmers, small business owners, Self Help Groups (SHGs), schoolchildren, and older citizens. There were 1384 FLCs in operation as of March 2016. ATM network expansion: Public Sector Banks (PSBs) collaborated closely with the Department of Financial Services to develop an area-based ATM/cash dispenser deployment model. By leveraging the power of aggregation, all PSBs and RRBs pooled their requirements, and one PSB issued a single request for proposals (RFP) on behalf of all these banks for a specific geographic cluster. Currently, PSBs have put up about 60,000 ATMs. [11]

5.6 Financial Inclusion Progress Report:

Particulars	Year Ended March 2010	Year Ended March 2016	Year ended March 2017
Banking Outlets in Rural locations – Branches	33,378	51,830	50,860
Banking Outlets in Villages>2000-BCs	8,390	98,958	105,402
Banking Outlets in Villages<2000- BCs	25,784	432,271	438,070
Total Banking Outlets in Villages – BCs	34,174	531,229	543,472
Banking Outlets in Villages- Other Modes	142	3,248	3,761
Banking Outlets in Villages –Total	**67,694**	**586,307**	**598,093**
Urban Locations covered through BCs	447	102,552	102,865
BSBDA-Through branches (No. in millions)	60	238	254
BSBDA-Through branches(Amt. in billions)	44	474	691
BSBDA-Through BCs (No. in millions)	13	231	280
BSBDA-Through BCs (Amt. in billions)	11	164	285
BSBDA-Total (No. in millions)	73	469	533
BSBDA Total (Amt. in billions)	55	638	977
OD facility availed in BSBDAs (No. in millions)	0.2	9	9
OD facility availed in BSBDAs (Amt. in billions)	0.1	29	17
KCCs -Total (No. in millions)	24	47	46
KCCs -Total (Amt. in billion)	1,240	5,131	5,805
GCC-Total (No. in millions)	1	11	13
GCC-Total (Amt. in billions)	35	1,493	2,117
ICT A/Cs-BC-Total Transactions (No. in millions)	27	827	1,159
ICT A/Cs-BC-Total Transactions (Amt. in billions)	7	1,687	2,652

Source: RBI Report on Financial inclusion 2017

Bank branch openings: As part of the second phase of the financial inclusion initiative, public, private, and regional rural banks were assigned to 4,90,298 unbanked communities with fewer than 2000 residents. According to SLBC reports as of June 30, 2016, 4,52,151 villages had received banking services; 14,976 of those through branches, 4,16,636 through BCs, and 20,539 through other means, such as ATMs and mobile vans, had reached 92.2% of the target (RBI, 2016).11. The table above demonstrates that There were 5, 98,093 banking locations in villages as of March 2017, compared to 5, 86,307 in 2016 and 67,694 in 2010. [12]

Basic Savings Bank Deposit Account (BSBDA) or no-frills account In 2010, there were 73 million BSBDA accounts in India, according to the 2017 report on financial inclusion. There were 469 million BSBDA accounts in 2016, a massive 500% increase. BSBDA accounts rose to 533 million in 2017, a 15% increase from the previous year.

Model of business correspondent Since 2006, the Reserve Bank of India (RBI) has allowed intermediaries, such Business Facilitators (BFs) and Business Correspondents (BCs), to offer financial services to locations where banks are unable to do so directly. As of 2010, there were 34,174 banking locations in villages via BCs and 447 in cities.

There were 102,552 banking outlets in cities and 531,229 in rural areas in 2016. In 2017, there were 543, 472 banking outlets through BCs in villages, and 102,865 in metropolitan areas (RBI, 2017).

Kisan Credit Card (KCC) and General Credit Card (GCC) In order to provide simple access to credit for the underprivileged, banks have implemented general-purpose credit card facilities in their branches located in rural and semi-urban areas. The scheme's goal is to give banks' clients hassle-free loans based on an evaluation of cash flow without requiring security or final credit usage. [13]

5.7 Conclusion:

Financial inclusion encounters a number of challenges. Poverty-wise, formal financial institutions are inaccessible to them. The incentives for access are insufficient, and the cost of providing banking services is too high. One crucial aspect of financial inclusion is social inclusion. The advantages of financial services must be promoted, and those from lower socioeconomic backgrounds must have access to them. Individuals with low literacy levels are unable to save money due to their inability to read and write correctly. Neither their inability to read nor their lack of knowledge about how to use a banking machine prevents them from using one. Ensuring vulnerable groups, such as lower-income and marginalized populations, have affordable access to financial services in a fair and transparent manner is known as financial inclusion. The Government of India and policy makers should take action to remove the aforementioned hurdles to financial inclusion in order to fulfill the nation's goal of financial inclusion.

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