

Financial Inclusion: Opportunities and Future Prospects

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Abstract—Financial Inclusion—a key driver of economic growth and poverty alleviation, as access to finance can boost job creation, reduce vulnerability to shocks and increase investment in human capital. Where still individuals are excluded from even basic financial services - with no bank account. Many countries have recently adopted explicit financial inclusion strategies with targets for financial inclusion. Barriers such as cost, travel distance, amount of paperwork plays an important role. Despite of policy making with high interest, there are still important gaps existing. While recent years have seen some increases in financial inclusion, there is still much scope to reduce barriers to access. However one of the challenges is that efforts to increase inclusion if not implemented correctly can have the opposite effect, making poor borrowers increasingly dependent on debt and contributing to financial instability. However, RBI easing licensing norms, coming up with more women bank branches and spreading financial education in the coming years and also SBFCs role in financial inclusion can play a vital role. In the coming years, making banking individually accessible, with safe and secure electronic bank accounts ensuring the ability of banking and payment services to the entire population without discrimination. Thereby fulfilling needs of all sections in economy to eliminate the existing gap with rural India. Easy entry to foreign banks into India can enhance efficiency and competition with improvements in technology and expertise to foster financial inclusion.

I. INTRODUCTION

Low and moderate income households are especially in need of effective financial products, services, and tools to manage and grow their money in a way that meets their daily needs and allows future investments. Yet, the financial services currently available to the poor are often costly, unsafe and inefficient. Having access to financial products and services is a part of the solution to maintain a healthy financial portfolio. Individuals must also know how to choose and use the right products and services to optimize sustenance and growth. The effectiveness of various innovative tools is required to help the poor make better decision. For example, in Kenya 75% of the unbanked population now has access to improved financial services through mobile money. The term 'Financial Inclusion' has gained importance since the early 2000s, and more recently the Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted on 24 April

2013 progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: "Financial Inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership." CRISIL Inclusix is a tool to measure the extent of inclusion in India, to each of 632 districts. The all India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress –this core has improved from 35.4 in 2009. The number of saving accounts is almost four times the number of loan accounts. 618 out of 632 districts reported an improvement in their scores during 2009-2011. The Top three states and Union territories are Punducherry, Chandigarh, and Kerela; the top three districts are Panthanamthitta (Kerela), Karaikal (Punducherry), Thiruvanthapuram (Kerela).

II. INNOVATIVE APPROACHES IN FINANCIAL INCLUSION

A. Innovation to provide appropriate, affordable financial services

Innovative Financial Inclusion refers to the delivery of financial services outside conventional branches of financial institutions by using information and communication technologies and non bank retain agents (including post offices) and other new institutional arrangements to reach those who are financially excluded. Delivering financial services through innovative delivery mechanisms can be radically cheaper than delivering such services conventionally. Example of countries which achieved rapid growth in financial access from innovative approaches includes Kenya and Brazil. In Kenya, the *M-Pesa* mobile money transfer service, operated by Safaricom, was launched in February 2007. Those in Kenya with access to banking services increased from 18.9 percent to 22.6 percent of adults between 2006 and 2009, largely attributable to *M-Pesa*. In developing regions such as Sub-Saharan Africa, South Asia and Middle East and North Africa, mobile phone subscription levels have virtually doubled every two years. Brazil adopted a 'correspondent' banking model, often referred to as 'agent' banking, which has driven its success in expanding outreach of financial services into un-served and remote areas. Even those living relatively close to a bank branch regularly use agents. It has helped manage Brazil's social safety net programs. Brazil's success with using agents in the country with significant geographical challenges

illustrates the potential of agents to expand access to financial services. It also demonstrates the use of innovative approaches delivery government to people transfers, can lower transactional costs for both government and clients and enhance the efficiency and reliability of the delivery. Innovation in payment systems to drive financial inclusion is expected to be made through prepaid instruments in the coming years. Market growth in prepaid instruments will also emanate from the proliferation of m-wallets, money transfer and other new applications of the product. Innovations in payment system will occur at the intersection of different industries like financial services, telecom and retail.

B. Financial literacy and financial capability : increasing access and appropriate use

Financial capability encompasses financial literacy, financial education, financial knowledge and skills, and household money management skills. Limited financial capability is a major barrier that prevents poor people from accessing financial services, and once they have access, converting this into effective and appropriate usage of financial services. In India, Banks including RRBs, have migrated to Core Banking System (CBS), have developed in building capability to provide remittances using electronic payment systems such as the Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), National Electronic Clearing Service (NECS), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AEPS) etc. Banks are increasingly using alternate channels of delivery. 718 FLCs have been set up at the end of March 2013. A total of 2.2 million people have been educated through indoor education to walk-in persons and through outdoor activities such as awareness camps/choupals, goshtis, seminars and lectures in a one year period from April 2012 to March 2013. The National Strategy for Financial Education has been prepared under the aegis of a Technical Group of the Financial Stability Development Council (FSDC). The NSFEE will be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and the grievance redressal mechanisms available in the country.

III. PRINCIPLES FOR INNOVATIVE FINANCIAL INCLUSION

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound spread of new approaches. The enabling environment will critically determine the speed at which the financial services access gap will close for those currently excluded. The G20 Principles for Innovative Financial Inclusion are the reflection of the conditions conducive to spurring innovation while protecting stability and consumers.

- **Leadership:** Cultivate a broad based government commitment to financial inclusion to help alleviate poverty.

- **Diversity:** Implement policy approaches that promote competition provide market based incentives for delivery of sustainable financial access and usage of broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers. Likely, Brazil's correspondent banking system enables clients to access a range of services from bank agents. India's Insurance Regulatory Authority has relaxed agents regulation, promoted linkages between regulated insurers and nongovernmental organizations.
- **Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, by addressing infrastructure weaknesses. The correspondent model in Brazil has flourished through the use of technological and institutional innovation under the supervision of Central Bank of Brazil.
- **Protection:** Encourage a comprehensive approach to consumer protection that recognizes the role of government, providers and consumers. The agency regulators in Colombia, Mexico and India for instance, hold financial institutions liable for their agents' acts within the scope of agency, compliance with bank secrecy and data privacy rules.
- **Empowerment:** Develop financial literacy and financial capability. Ghana's National Forum on Microfinance adopted the National Strategy for Financial Literacy and Consumer Protection, one of the first on financial literacy in Africa.
- **Cooperation:** Create an institutional environment with clear lines of accountability and coordination with government; and also encourage partnerships and direct consultation across government, business and other stakeholders. A formal arrangement for coordination such as those that Pakistan, Columbia and Brazil have set up, with a lead agency clearly identified and empowered to set up and manage coordination mechanisms, will improve accountability, the effectiveness of regulatory reforms, regulations in all spheres.
- **Knowledge:** Utilize improved data to make evidence based policy, measure progress, and consider an incremental 'test and learn' approach acceptable to both regulator and service provider.
- **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of gaps and barriers in existing regulation.
- **Framework:** Reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible risk based Anti-Money Laundering/Combating the Financing of Terrorism regime; conditions for the use of agents as a customer interface; a clear regulatory regime for

electronically stored value; and market based incentives to achieve the long term goal of broad interoperability and interconnection. The objectives of AML/CFT are better served by having clients inside the net of electronic transactions that can be traced and monitored rather than outside in the opaque and untraceable cash economy.

IV. STRENGTHENING FINANCIAL INCLUSION

There is a need to focus on policies, partnership, processes and products related to Self Help Groups, Micro Finance Institution, Business Correspondents, and Technology for meaningful financial inclusion. In order to sustain business credibility, MFI must revisit their business model, reengineer the customer responsive processes, revisit business strategy, and reinvent the sector as a community relevant to public and policy support.

CONCLUSION

To achieve sustainable financial inclusion it requires a systematic effort, which leverages technology, regulatory framework and appropriate business models cohesively. In developing countries like India, IT coupled with rapid increase in the telecommunication network and service quality has the potential of being the force multiplier for scaling up financial

inclusion. The success in expanding the reach of financial services is possible as how the rapid branchless banking scales up and pushes the frontier of financial access in a significant way by the development of profitable business models with sufficient incentives for all involved to serve low income people with financial services, understanding the incentives and other factors that affect customer adoption among the unbanked poor people, especially the financial capacity of customers and to know how complex political economy challenges play out in each market, including the role of powerful stakeholders in the government and private sector. With the arrival of banking technology and realization that poor are bankable with good business prospects, financial inclusion initiatives along with innovation will strengthen financial deepening further and provide resources to the banks to expand credit delivery. Thus, financial inclusion along with Governmental development in our country and in case for more developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

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