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MEANINGFUL FINANCIAL INCLUSION

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ABSTRACT

Presently, of the 246.7 million households in the country, only 144.8 million have access to banking. This means, 75 million households or 40 per cent still do not have access to basic banking services. The newly-launched Jan Dhan scheme seeks to plug the gap by providing two accounts each for these 75 million households by August 2018. This ambitious plan may achieve the targeted numbers but it needs to overcome a major problem that has been persistent with all financial inclusion initiatives till now, wherein a majority of the accounts opened has remained inactive with zero balance. Will the new Financial Inclusion scheme cover the distance that the other financial inclusion efforts have missed? Moreover, can a bank account help the poor beat the vicious cycle of poverty? What are the issues plaguing the Financial Inclusion efforts and how can these areas of concern be addressed? How do we make the transition from dormant Financial Inclusion to Meaningful Financial Inclusion? This paper attempts to answer these questions through a field survey in Wayanad district of Kerala.

Introduction

Financial inclusion is not new to India. The effort to bring people into mainstream banking began as early as in 1904 when the co-operative movement started. Nationalisation of 14 major commercial banks in 1969 provided a further impetus with significant expansion of bank network to unbanked areas and stepping up of lending to agriculture, small industry and business. Since then, there have been various schemes and incentives aimed at expanding the reach of banking among the poor.

However, the first 'real' step in financial inclusion was taken in 2005. The then Chairman and Managing Director of the Indian Bank, along with the then RBI Governor met the Puducherry chief minister and suggested the idea of providing a bank account for every household in Puducherry. The first circular on financial inclusion was drafted the very same evening and Mangalam in Puducherry became the first village to be introduced to Financial Inclusion on 30 December 2005.

In the first phase of this journey, banks planned to provide banking services in every village having a population of over 2,000 by March 2010 and covered over 75,000 unbanked villages. In the second phase, the target was villages with a population of less than 2000. About 4,90,000 unbanked villages with less than 2,000 population across the country were identified and allotted to various banks.

The focus was on establishing the basic right of every person to have access to affordable basic banking services. This phase, therefore, in a way stressed more on the numbers – achievement meant whether unbanked now had a bank account. The government intensified these efforts by linking the accounts to its direct benefits transfer programme. Self-help groups

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and NGOs too chipped in to help the efforts being led by the banks.

After nearly ten years of consistent efforts at bringing the poor to the banking mainstream, the government has now acknowledged there is still a long way to go.The latest initiative of the Government in this direction is the launching of the scheme Jan Dhan Yojana.

However, it is observed that in spite of the efforts of the government and the banking sector,a significant section of the population still continues to be outside the ambit of the formal financial system. In fact, one needs to examine why the earlier efforts were found wanting? And will the new scheme be able to succeed when the other initiatives do not seem to have measured up? Does just opening a bank account mean financial inclusion? Can a bank account help the poor beat the vicious cycle of poverty?

Review of Literature

Financial Inclusion is regarded as an instrument for poverty alleviation and a major step towards 'inclusive development'. Studies have tried to establish the positive link between financial inclusion and poverty alleviation. Binswanger and Khandker (1995) noted an increase in non-agricultural employment through rural credit expansion programme, which also lowered poverty.

Getting basic banking right is the first essential step towards financial inclusion and this involves a bank account for every adult.However, mere opening of accounts does not lead to successful financial inclusion. A no-frills account is not financial inclusion. It is when transactions take place in that no-frills account regularly that financial inclusion takes place. Both public and private sector banks play a huge role in achieving this. However, the expectations are more from public sector banks. S. Ananth and T Sabri Öncü (2013) emphasise the need for a greater role for public sector banks in expanding financial inclusion due to their larger branch presence in "unbanked" areas, especially if their regional rural bank branches are included and because they play a much larger role in government-sponsored schemes, especially those that are subsidy-linked.

KGK Subba Rao (2007) stressed on improving customer service to ensure people of low-incomes no longer feel unfairly treated and misunderstood. While these efforts have been started way back in 2007, the problems are still there and are getting addressed gradually.

The lower strata of the unorganised segments have to depend on non-institutional sources when the formal sources are not forthcoming. Banks' processes are cumbersome and time-consuming. And on top of that there is no guarantee if the loan would come. Here, cost and easy availability of credit are the two primary factors why people prefer informal sources.

The 'unviable poor' need to be the target of formal sources. While extending credit to the poor, one question often asked is if the poor are not viable, should they be given credit! It is here that the informal sources score. They reach out to this particular group effectively, where banks fail. The role of society at large to make the poor creditworthy and make credit available to them needs to be the guiding spirit. This is one of the most critical aspects of financial inclusion, where it gets linked with and goes hand in hand with financial literacy.

Collard et al (2003) noted that low income consumers, in fact, prefer to deal with locally based community organisations, partly because of ease of access but also because they mistrust banks and mainstream financial providers.

Bank Accounts are a key measure of financial inclusion because essentially all formal financial activity is tied to accounts. In developed economies, 89 per cent of adults report that they have an account at a formal financial institution, while the share is only 24 per cent in low-income economies. Globally, 50 per cent of the adult population, more than 2.5 billion people, do not have a formal account (World Bank's Global Financial Development Report 2014).

Research Methodology

With a view to exploring the issues relating to financial inclusion, a study was undertaken in Wayanad district of Kerala. A random survey of 150 households in the district was carried out in June 2014, which has achieved 100 per cent financial inclusion. All the households surveyed were involved in some form of financial inclusion.

All major public sector banks have branches in Wayanad and almost all the people, including members of the tribal communities, have access to banks and ATMs. In fact, Wayanad has bagged the national honour for becoming the best district in the country to link maximum bank accounts with Aadhaar numbers of the beneficiaries of the Central government's flagship Direct Cash Transfer programme.

Further, Wayanad has finished ahead of 20 districts from across the country where direct cash transfer of LPG subsidies was launched. Out of the total 1,44,341 LPG customers in the district, bank accounts of 1,14,384 or 79 per cent have been linked with the Aadhaar scheme.

Results

Of the 150 households surveyed, 29 per cent comprised farmers while daily wage earners were the highest with 47 per cent and the rest comprised drivers, SHG employees, carpenters, tappers, etc. The key findings of the survey are as follows:

- 95 per cent of the respondents had a bank account.
- All those who enrolled in Financial Inclusion did so mainly to seek loans and government assistance (83 per cent) while savings (16.7 per cent) came next on the list. However, the savings in these accounts was negligible.
- Those who availed of loans formed 64 per cent, while those who did not take any loan constituted 36 per cent.
- The loan amount mostly varied from ₹ 5,000 to ₹ 30,000.
- Loans were taken mostly in the name of agriculture purposes (76 per cent).
- As most were daily wage earners working in farm land or had agricultural land, their income was irregular. As a result, the accounts remained dormant.
- Those who invested in agriculture did not get the desired returns. Sometimes crops failed, sometimes quality of output was a problem and most of the times, the loan availed was used for other purposes rather than what it was taken for. These 'agri' loans were mostly diverted for 'house repairs' and other consumption needs.
- Only in a very few cases, where the respondent had regular income or had intelligently planned his spend, there was some saving.
- 31per cent of the respondents did not shy away from admitting that they did not use the loan for the purpose they stated.
- With little or no saving, the penalty percentage too was high - 54.62 per cent had to pay penalty.
- Getting a loan was easier from self-help groups (44 per cent). This was mainly due to the network of the SHGs and also due to the government's SHG-bank linkage programme.
- Those who took loan only from a bank formed 25.64 per cent and the remaining secured it from more than one source, for instance, SHG and bank, moneylender and bank and moneylender and SHG.
- Borrowing from more than one source included informal sources like money-lenders. This was because it was easier to get money from these informal sources to pay off the formal source of loans.

- Banks were not encouraging and required a lot of paper work to get a loan sanctioned.
- 79.56 per cent of the respondents found SHGs better and only a meagre 5.37 per cent found banks better.
- 50 per cent of the people who had a bank account did not even know how to use it.
- Over 33 per cent were indifferent as bank accounts made no difference to their lives.
- Loans taken for productive purposes constituted 52 per cent while those who took it for unproductive purposes comprised 43 per cent.
- It was also observed that wherever the loan was judiciously invested, it yielded results.
- But, wherever it was used for non-productive purposes, the respondents fell in a debt trap. With income being less, the loan went for day-to-day uses and as a result, there was hardly anything left to save or to repay the loan.
- Around 50 per cent were caught in a debt trap, mainly because the investment did not yield the desired returns.

Plugging the Gaps

Financial Inclusion has come to mean opening bank accounts. If a person has a bank account, s/he is counted to be financially included. Many a time, bank accounts are opened to meet targets of bankers or receive government benefits. From the survey, it was seen that 83 per cent opened an account for taking loans and only 16.7 per cent used the account for any kind of saving. However, the savings in these accounts was negligible and the account remained dormant. Merely opening no-frills accounts is not financial inclusion. Financial Inclusion needs to be a means to help the poor towards a better future. It cannot be about increasing the number of accounts or the number of dormant accounts. Opening bank accounts are certainly a very good first step, but in itself achieves nothing. Efforts need to be made to keep the poor connected to the banking system and banks need to come up with special products and schemes that meet the requirements of the poor people. Only consistent engagement over a considerable period of time can lead to meaningful financial inclusion. Banks need to become a partner in the progress of the poor. Financial Inclusion, in order to become meaningful, and help improve the life of the poor, needs to focus on the following aspects:

- ***Loans for the poor need handholding:*** It goes without saying that the poor need money to improve their lives. Therefore, most of them open an account to take a loan and make a sincere attempt. Firstly, the amount of loans granted to the poor is too meagre to really be able to make a difference to their lives. Moreover, they mostly invest in agriculture, where chances of good return are dependent on many factors beyond the control of the poor. There is a need to handhold the poor, at least initially to help her choose the right way ahead. Self-help groups and NGOs can play a role here and they could be provided incentives if they can handhold the poor out of poverty. Opening an account and granting a loan and then remembering the poor only when the instalment is due will not help.
- ***Banks need to become friendly:*** The poor find it easy to get loan from a self-help group or even a moneylender. In a district like Wayanad, where almost everybody has a bank account, just about 26 per cent people turned to only banks for loans. The respondents shared that banks were not encouraging and required a lot of paper work to get a loan sanctioned. The fact that 79.56 per cent of the respondents found SHGs better and only a meagre 5.37 per cent found banks better is a telling statistic. And 50 per cent of the people surveyed did not even know the use of a bank account. And considering that our financial inclusion

programme is primarily dependent on banks, urgent remedial action is required. There is a need to simplify the process of not just opening accounts but for availing of loans too. Further, loans cannot be given only when collaterals are submitted. In most cases, the poor reside on lands which have no legal title deeds and have no means to meet their needs for a decent livelihood. The reason given by the respondents for preferring SHG was SHGs were easily approachable, information was readily available and so was loan. With a bank one had to go through a lot of paperwork and sometimes even after that, the result was negative.

- ***Financial Inclusion has to be about beating poverty:*** Around 33 per cent people were indifferent to financial inclusion because it made no difference to their lives. Financial Inclusion needs to be a comprehensive programme, which not only provides the funds but also opens up new opportunities and guides the poor over a period of time to move ahead in their lives. Financial Inclusion has to have a social motive and has to keep the big picture in mind. Financial Inclusion cannot be about earning money from the poor, it has to be about enabling the poor to earn money. Loans are now given for productive purposes only. But as it can be seen from the survey, over 31 per cent of the people who took loans had no qualms in admitting that they used it for different purposes. If we have to achieve meaningful financial inclusion, we need to be innovative and handhold the poor to elevate them from poverty. This would mean that the social aspect too is brought in and is coupled with the financial aspect. Some portion of a loan can be permitted for meeting the daily needs and the remaining can be used for productive purposes. This would help poor to get on with their life legally and also improve it over a period of time.

- ***A long-term view will bring in profits and prosperity:*** Banks, like most formal for-profit institutions, are not willing to spend inordinate amounts of time and resources to create a market because of high establishment costs. Thus, the expansion of the banking system through Business Correspondents and utilisation of technologies like Mobile Banking deserves greater attention because the size of the market at the bottom of the pyramid is very large and uplifting them will certainly bring handsome profits in the long-term. Banks need to take a long-term view to focus on creating and developing this market.

- ***First mile challenges:*** Today we have over 220,000 business correspondents, ultra small branches and new technologies to aid financial inclusion. This has taken care of the last mile challenge. But first mile performance through developing new products for the poor and financially excluded has been a failure. Banks need to have products specifically designed for the poor, taking into account their specific needs.

Conclusion

The focus of financial inclusion has to be about understanding the needs of the poor, creating awareness among them and helping in their economic upliftment. Financial Inclusion should be about partnering the poor in their development and handholding them in their journey towards upliftment. The social objective needs to be ahead and focus should be on moving the marginalised to the mainstream.

Financial Inclusion needs to be developed as a helping hand for the poor. There needs to be consistent effort over a considerable period of time. A single intervention is unlikely to succeed. What we need is a shared vision, and a partnership with the poor. Only then will meaningful financial inclusion happen. Profit will have to wait.

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