ROLE OF REGULATORS IN INTENSIFYING FINANCIAL ACCESS TO THE UNTOUCHED SEGMENT OF SOCIETY IN DEVELOPING COUNTRY

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Abstract

India is a country with diversity noticeable in each division of life as well as financial services. The current study examines the initiatives taken by the Ministry of Finance and Reserve Bank of India (RBI) to intensify the accessibility to investment opportunities in financial instruments for the poor or deprived section of society, the initiatives taken in past, present scenario and to recommend the initiatives for the longer term. Households living in rural areas or having low income usually lack access to banking services or financial services. It is tough for these families to save and to arrange financial resources for the longer term. The ease of access and usage of the financial services and products influences the economic health of the individuals as well as of the state. It has been analyzed that the most important barrier towards accessibility of financial service is the psychological and the profitability of banks. There is a requirement for a robust, dynamic research-based business model with regard to an innovative, digitalized and sound economic system.

Keywords: Government, Regulators, Financial Market, Inclusion, Financial Product, Accessibility

Authors' individual contribution: The author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

1. INTRODUCTION

Accessibility to financial services acts an important part in determining whether a poor household is capable to grab an opportunity to move out of poverty. Financial inclusion is a concept that needs to considered and looked into deeply taking into consideration the economic health of a country (Demirgüç-Kunt & Levine, 2009). Financial service accessibility is viewed widely as essential for the sustainable development of poor families in developing countries. Financial services like savings, payment, and credit smoothen out consumption level of households, while financial services like insurance help against risk (Honohan & King, 2012). While rural communities need financial services the most, they remain the segment, which can be tapped for using financial services, as the majority are yet to be served. Steps taken for the spread of financial inclusiveness could help to resolve considerably the economic backwardness of hilly areas, rural areas and benefit the rural poor by increasing family income and decent work. Spreading financial literacy by different programs is one of the challenging tasks in the present scenario (The World Bank, 2014).

Financial institutions play a pivotal role with respect to ease of access to financial instruments, digitalization, and financial inclusion. Despite various actions taken towards financial inclusion, the majority of Indians is not aware of financial products available and do not have access to formal banking instruments. Several elements deliver an impact on inclusive growth are discussed as follows:

- The factors like lower income, lack of asset holding, lack of financial literacy, lack of awareness and limited accessibility have an impact on financial inclusion.
- The most important factors that have a bearing on this program are transaction costs. The data available from the financial institutions reflects

that a large number of bank accounts are underutilized which makes creating and maintaining accounts costly for banks. The small ticket size of transactions in this type of account further adds to the trouble.

- Reaching out to the illiterate people in their regional language is too difficult without developing a desirable style of communication.

Access to the financial instruments and services for sustainable or inclusive growth of each segment of society necessitates a greater role for the financial market in India. There could be price or non-price barriers for the spread of financial inclusion. Globally, nations have made progress in this prospect. South Africa with success opened over half-dozen million basic bank accounts during a time period of 4 years until 2010 with reference to its Mzansi bank account and therefore, significantly increasing the share of adults with a bank account. Worldwide, a few hundred millions have now access to e-payments through services using mobile platforms. The following are the various initiatives taken by the Government of India and RBI in the direction of providing financial assistance and access by providing the various services to them:

1) Pradhan Mantri Suraksha Bima Yojana in which 146,000,000 citizens of our country are covered.
2) Pradhan Mantri Jan Dhan Yojana.
3) Pradhan Mantri Fasal Bima Yojana.
4) Pradhan Mantri Jeevan Jyoti Bima Yojana.
5) Atal Pension Yojana.
6) 124,266 Gram Panchayats connected by optical fiber.
7) The Government of India launched the Direct Benefit transfer scheme, which will help rural workers to get the wages and other incentives directly in their bank accounts making them socially secure and independent.
8) Pradhan Mantri launched a loan under Mudra Yojana in which a person gets a loan without providing any collateral.

This will generate employment and create more jobs and will make the citizens self-dependent.

The above are some of the initiatives taken by The Government of India in rendering the services of a basic need to the citizens of our country especially the weaker sections.

The paper attempts to examine the role of the regulator and the steps taken in intensifying the financial accessibility for the inclusive growth of untouched people of the society in the past, the present initiatives and to suggest the necessary course of action for future policymaking.

2. LITERATURE REVIEW

2.1. Intensifying accessibility to financial instruments and services

Paramasivan and Ganeshkumar (2013) analyzed that the penetration of banking facilities in an area increases the prospect of financial inclusion program or initiatives in India. Financial literacy program by itself cannot ensure inclusive growth of people in a state. It further depends upon investment awareness in different financial instruments available in the financial market.

Campero and Kaiser (2013) analyzed that under financial inclusion only considers supply-side factors than demand-side factors. This also requires detailed individual-level data for a detailed analysis. In the present scenario, efforts are taken by different institutions and organizations to make individual-level data available.

2.2. The inclusivity of access to financial services

Many interventions were proposed to make noticeable dents in poverty levels like regular wages, education for girls, insurance, pension schemes each holding a place in the Government policies. However, in recent years, many initiatives have been taken to increase financial accessibility.

Banks had difficulty in providing access to financial services profitably. The causes behind low accessibility could be the size of the transaction and the lack of collateral (Johnston & Morduch, 2008). No doubt, a revolution by microfinance institutions is also contended with this problem along with other factors correlated with poverty, which undermines the effectiveness of financial access in raising incomes, cost and risks taken by the policymakers to facilitate the ease of access to the poor. Access to financial products and services helps to make transactions quicker, cheaper, and safer. Easy access to financial products and services enables poor people to save, plan and invest in different investment options and utilize their funds (Claessens, Honohan, & Rojas-Suarez, 2009).

Fischer (2011) linked access to finance as crucial for risk management. Availability of credit or funds helps the organizations and farmers to reduce the loss of productive assets and to make necessary reserves to reduce the obstacles caused due to natural disasters like floods or drought. Household needs to make use of investment opportunity available and to earn capital appreciation and return.

Dupas, Karlan, Robinson, and Ubfal (2016) examined the experimental variation in access to banking services in Uganda, Malawi, and Chile. They suggested that there is an astonishingly low level of acceptability of banking products and services in selected areas under study and it is quite a challenge task to expand the reach to the untouched people of society.

2.3. Financial inclusion and financial literacy

Huston (2010) analyzed that dissemination of information regarding financial instruments and services is an important objective regarding public policy. In the U.S., increased steps have been towards financial literacy.

Cohen and Nelson (2011) analyzed the emerging essentials of financial literacy and traced out five factors responsible for effective financial literacy training. They examined that financial education could be more effective is the young generation is targeted from the primary education level where they can be taught about efficiently utilizing the money for different investment options.

Lusardi and Mitchell (2011) analyzed financial literacy across eight countries and reach to a conclusion that despite the growth and development of the financial market the level of financial literacy is very low around the world. The study further revealed that women and relatively older population were having less knowledge about financial products and services.

Taft, Hosein, Mehrizi, and Roshan (2013) concluded that age and literacy are positively correlated with financial literacy and a good investment decision. They analyzed that financial literacy leads to financial development and the progress of the family.

Vijaykumar (2013) was disappointment over the low financial literacy in the state of Gujarat, India. She analyzed that financial literacy relates to understanding the basic concept of finance, its principles, which include awareness regarding financial products for making financial investment decisions.

Gupta and Singh (2013) through a research work concluded that a low literacy rate is not the only reason behind low financial inclusion. For financial inclusion or sustainable development, the government should focus on behavioral factors.

Bhushan (2014) has analyzed that people living in India with low financial literacy mostly invest their money in traditional financial instruments instead of modern and innovative financial products with the possibility of higher returns.

2.4. Financial inclusion and economic growth

According to a study conducted in South Africa increased due to the financial inclusion program there was a positive impact on borrower family income, food consumption, making use of investment opportunities and standard of living. There was a significant improvement in the growth of the economy (Karlan & Zinman, 2010).

According to a study, financial growth and its development facilitate the essential parameters for growth of the economy as a whole through both a supply (financial development fuels growth) and demand (growth increases the demand for financial instruments) channel (Dabla-Norris, Ji, Townsend, & Unsal, 2015). In an organized and well-developed financial system, there is an easy access to financial instruments and services and do not have to knock at the door of informal sources such as moneylenders at a high cost. Traditional economic theory distinguishes between the objectives and needs of individual households and firms. Individuals are selling their labor power in the market and strive to smooth life-cycle consumption. When people are young, they need to invest; at the prime of their earnings power, they save; and in old age, they dissave. Taken together, the household-sector saves, firms, on the other hand, compete for investable funds to finance their operations and growth. Taken together, firms are net users of savings. Financial markets are supposed to make the match between savers and users and to allocate capital toward the highest productive usage (Mankiw & Ball, 2011).

Empirically, financial diaries literature has illustrated this point by showing how poor families in the informal economies of developing countries actively manage their financial lives to achieve these multiple objectives (Collins, Murdoch, Rutherford, & Ruthven 2009). They save and borrow constantly in informal ways. Financial inclusion seems to reduce inequality by disproportionally relaxing the credit constraints on poor people, who lack collateral, credit history, and connections. Research by the World Bank (2013) also suggests that broader financial inclusion can coincide with greater financial stability; though sorting out the lines of causation between those two sets of variables remains a challenge. It seems plausible, however, that greater access to bank deposits can make the funding base of banks more resilient in times of financial stress. The well-established literature (Levine, 2005; Pasali, 2013) suggests that under normal circumstances, the degree of financial intermediation is not only positively correlated with growth and employment, but it is generally believed in causally influence growth. Ardic, Imboden, and Latortue (2013) in their financial access 2012 report, which was based on eight years of data (2004-2011) showed the global strands taken on financial inclusion. High-income countries had 10 times the deposit penetration as low-income countries, and lower-middle-income countries having three times the deposit penetration of low-income countries there was a steady growth on the number of commercial bank branches and ATMs. Low-income countries had 3.2 ATMs and 3.8 branches per 100,000 adults in 2011, while high-income countries had 123 ATMs and 34 branches per 100,000 adults. The number of insurance policies more than doubled since 2004; life insurance being the dominant service provided.

Chithra and Selvam (2013) in their attempt to identify and analyze the determinants of financial inclusion carried out an empirical analysis that revealed that socio-economic factors like income, literacy, and population were found to have a significant association with the level of financial inclusion. Further, physical infrastructure for connectivity and information were also significantly associated with financial inclusion. Among the banking variables, deposit and credit penetration were found significantly associated with financial inclusion. Finally, the credit-deposit ratio and investment ratio were not significantly associated with financial inclusion.

Research from the McKinsey Global Institute (2016) confirms that financial inclusion can support overall economic growth and the achievement of broader development goals. It reports that digital finance alone could benefit billions of people by spurring inclusive growth that adds $3.7 trillion to the GDP of emerging economies within a decade, which translates to a 6% point increase against a business-as-usual scenario.

2.5. Financial inclusion and FinTech

Sassi and Goaied (2013) reveal that the interaction term between financial development and ICT penetration is significantly positive, which proves that economies in the Mena region can benefit from financial development only once a threshold of ICT development is reached.

Joseph and Varghese (2014) analyzed the status of financial inclusion on the development of the Indian economy by analyzing five associate banks of State Bank of India and five private sector banks. The study concluded that the usage and penetration of debit cards have increased tremendously throughout the study period. The banks concentrated more on semi-urban areas and rural areas.

Joshi (2014) analyzed the awareness and penetration of different financial instruments offered by banks. It was examined that penetration of some of the financial instruments like current account, saving account, housing loan, debit card, credit card, internet banking, and mobile banking is low. Lack of cooperation, improper guidance, and lack of transparency were traced to be the major reasons for the low level of awareness.

Shah and Dubhashi (2015) analyzed that the technological innovations related to banking sectors like usage of e-payments, mobile phones, email, ATMs, and usage of plastic mode of payments should be penetrated not only in towns and in cities as traced in study but should also cover the untouched rural and hilly areas.

Onaolapo (2015) analyzed that innovation in financial inclusion requires a major transformation in financial services offered by financial institutions and they should work beyond the traditional mindset. The services should be provided by increased usage of ICT and working should match the services as provided by the Post Office. The delivery mechanism under this system needs to depend on mobile banking services and other ICT based services like point-of-sale device networks to communicate between the retail agent, financial service provider and the customer in a branchless banking system.

Ranade (2017) examined the relationship between financial literacy and financial technology. He analyzed that Jan Dhan-Aadhaar-Mobile phones (JAM) infrastructure could bring a revolutionary impact and major drive to financial inclusion initiatives. He further suggested taking precautionary steps regarding data privacy and regulatory issues regarding cyber frauds.

According to a study by IFMR (2017), there was a need to develop a strategy in the country to increase usage and penetration of digital finance. Further, it was analyzed that data on the usage of digital finance gathered from low-income consumers could be utilized by service providers to design and target financial products as per the requirement of specific segments of society. This market has a lot of scope and the steps need to be scaled up beyond urban financially aware individuals.

3. RESEARCH METHODOLOGY

The research study is an original work based on the secondary source of information and the review of literature available regarding the regulatory body i.e. RBI initiatives taken in the past, present and future scope of policies. The secondary information was mainly collected from Reports of RBI, the Ministry of Finance, the Government of India, reports on trend and progress of banking in India, SLBC, newspapers, research articles, research journals, e-journals, books and magazines, various websites of RBI, the Ministry of Finance, MFIs and the Government of India. After reviewing secondary data and the information was segregated into different reviews on financial inclusion and its impact or relationship with financial literacy, economic growth, and different factors were analyzed. Different studies have considered different sets of indicators of financial inclusion following their objectives.

4. RESULT AND DISCUSSION

4.1. Role of regulatory in Indian scenario

Financial inclusion is a flagship program of Reserve Bank of India to bring untouched segments of society under the scope of formal financial institutions. To push towards universal financial inclusion, Reserve Bank has led various initiatives. These include advising banks on devising their Financial Inclusion Plan and constituting a Financial Inclusion Advisory Committee (FIAC). The Committee, under the Chairmanship of Dr. K. C. Chakrabarty, was formed for helping banks to develop a viable and sustainable model of banking services. The bank should focus on accessible and affordable financial services. Reserve Bank of India sets up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the Commission were incorporated into the mid-term review of the policy (2005-2006). Financial services access for the poor can have significant effects on their welfare and can contribute to poverty reduction. These include access to liquidity, a safe place to store money, transferring money to and from family members and creditors, and finding ways to diminish risk. It allows the unbanked poor to move toward an inter-sequence of resources encouraging savings and removing the limitations of self-finance. In India at present over 75 million households, which is near, 60% of the Indian population does not have access to formal banking services (Nachiket Mor Committee, 2014) and hence are unbanked and most of them are poor even after nearly 45 years of bank nationalization.

The term ‘financial inclusion’ was introduced in RBI’s Annual Policy Statement for 2005-2006 and a policy namely, “Financial Inclusion Policy”, was drawn up. 100 percent financial inclusion drive launched. Restrictions on ATMs deployment removed.

In an attempt to address access to financial services started with building infrastructure including an apex institution and dedicated regulator, over 50000 rural bank branches including RRBs, over 150000 post offices with basic banking services and cooperatives (Srinivasan & Sriram, 2003) we set about the microfinance movement in 1992 and met success in our way (National Bank for Agriculture and Rural Development, 2004) but the cumulative disbursement was about one-tenth of our demand (Mahajan & Nagasri, 2004) compared to successful nations like Brazil and South Africa who also started at the same time, and who focused more on unleashing the systemic forces. Whereas our government in eagerness nationalized banks, gave huge subsidies, treated self-help groups as a panacea and pushed banks and departments to form these groups with aggressive targets without a better policy and infrastructure.

4.2. Present scenario

Reserve Bank of India (RBI) in September 2013 appointed a Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households. The panel submitted its report in July 2014, which analyzed that 90% of small commercial enterprises have no links with formal financial institutions; and about 60% of the rural and urban population does not even have an operational bank account. This report stressed on the importance of escalating steps towards access to financial services.

In order to reach this objective RBI comes out with draft regulations for payment banks, and seeking industry views on its new policy on creating small banks. Further, the Committee recommended RBI to give license for a different region with lower entry barrier to focused banks such as payments banks to ensure rapid outreach of payments and deposit services, wholesale consumer banks, and wholesale investment banks with focus on deepening the penetration of credit services without any retail deposit activity. RBI has since given license to a microfinance institutions in April 2014 to start banking (Bandhan Bank) which is already having over 2100 branches spread over 22 states and the majority of the branches are in the north-eastern states. It has also started with a women's only bank (Bharatiya Mahila Bank) in November 2013 to expand access to the women who have nearly 50% less formal accounts compared to men. Similarly, microfinance institutions were brought under the ambit of RBI with the Micro Financial Sector Development and Regulation Bill, 2011.

In keeping with this vision, RBI and the Government have since taken a few more innovative steps. One of them is the use of Indian Post Office with massive information technology modernization, based on success stories such as the Brazil's Correios-Bradesco strategic partnerships, or Morocco's Poste Maroc model of collaborating with multiple financial institutions, which show that the postal network can be an effective tool to leverage increased access to financial services to the poor. Already over 64 lakh, accounts had been migrated to CBS. Over 26,840 post offices will adopt the CBS by 2016 in the initial stage. All account holders will be provided with an ATM card in partnership with RuPay, and about 2800 such ATMs would be installed by the end of 2015. Later on, these ATMs will be merged with banks for universal use. RuPay is an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI). It was created to fulfill Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India for better penetration.

Another innovative step to penetrate the unbanked area has been the introduction of white label ATMs in India. RBI has issued authorization to four entities. The objective of permitting non-banks to operate white label ATMs was to enhance the spread of ATMs in semi-urban and rural areas, where bank-owned ATM penetration has not been growing. Money transfer using mobile is another innovative service that enables instant money transfer from one place to another place using mobile, through Indian post offices, through mobile service providers, or mobile wallet service providers like MobiKwik. This service is a boon for those who regularly remit money to faraway places, but do not have access to a formal bank account except access to a mobile phone, personal or with an agent. It has also encouraged banks and mobile phone companies to form alliances.

Another innovative method to expand access to financial services has been the introduction of banking correspondent. The role of a correspondent bank is to act as an interface between the bank and its customers in places where traditional banking is not feasible. Deposit and withdrawal of money are handled by the correspondent banks. Similarly, banks have engaged business facilitators (BF) to educate the poor in unbanked areas of financial services. On 15th August 2014, Prime Minister, Narendra Modi, unveiled the Pradhan Mantri Jan Dhan Yojana scheme of the Government on expanding access to financial services which will give access to bank accounts to the poor with each account holder getting a RuPay debit card and a Rs. 1 lakh insurance cover. The Government's mission would have two phases. Most activities will be done in the first phase (until the end of October 2014, over 75 million bank accounts have been opened), and insurance and pension would be covered in the second phase by 2018. All these new accounts will be basic banking accounts without any minimum balance. As the banks will not earn any revenue from these accounts, the Government will channelize all direct benefit transfers to these accounts and pay the banks a 2% commission or fee to sustain the cost of maintaining the account. The different districts would be allocated to different banks and access to formal banking services will be provided with the help of business correspondents and agents.

5. CONCLUSION

Reserve Bank of India and regulators of other developing countries have created an environment that facilitates competition and innovation. Banks acknowledge the fact that the rural poor or people having low income are bankable and serious initiatives should be taken for creating financial inclusion amongst the excluded sections of society. Still, banks are comfortable in the retail business. They are not interested in the opening bank branches as it is not profitable for them. RBI has taken various steps to reduce these barriers, but removing barriers in the mindset of the people working in financial institutions remains a challenge. Inclusive finance is considered crucial for strategic growth and development of the financial market by the government and the regulators. RBI has given license to a number of a small bank and has released draft guidelines for vertical differentiated banks, which could be considered as an important step towards financial inclusion. India is currently going through a massive transformation especially when it comes to financial services reach. The regulators and the central bank, RBI, in consultation with the Ministry of Finance, the Government of India is coming up with various measures which will benefit a large section of our country which is untouched by the formal financial structure are getting the various financial services at their doorstep. This will bring employment, uplift the standards of poor, timeconsuming and most importantly it eradicates corruption and will be a step forward in making the weaker sections of our society self-dependent and independent of the society and the one which has not reached to the formal or organized financial market.

The Government of India also started the skill India mission, which is giving training to youths in different areas of employment. The Government of India is running multiple programs in the field of self-employment that in turn will bring money in the hands of workers and in turn, they will deposit this money in different financial institutions like banks, insurance companies, post offices and convert ideal savings into a result-oriented investment, which will bring empowerment in rural India. The decision to roll out our own payment system in terms of launching of the RuPay card is a big boost in digitalization of banking services, opening of bank accounts, zero balance accounts, request online FDs, balance inquiry, online money transfer, mobile transfer, ATMs withdrawal are some of the examples which is a big game-changer for accessing the Indian financial services as they are making the transactions cheap, accessing services outside the formal bank branch setup, and promote everywhere and every time banking to name a few.

The paper is a conceptual paper based on the secondary source of information. It could have been more impactful if it was backed up by primary data and how the regulators are taking different steps to enhance penetration of banking services and what are the issues they are facing in implementing those steps.

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