Chapter 18
Challenges Faced by Banks for Financial Inclusion:
Growth and Viability in the Indian Context

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ABSTRACT

The banking system in India significantly differs from that of other Asian nations due to unique geographic, social, and economic spread. In India, financially excluded sections largely comprise of marginal farmers, slum dwellers, migrants, women, self-employed, and senior citizens. There have been many formidable challenges in financial inclusion for bridging the gap between the demand and supply side. The chapter deliberates the challenges faced by banks for financial inclusion in context of infrastructure and institutional credit, risk perception, illiteracy, compliances, financial awareness, products, and services. Barriers to financial services expansion and product and service delivery in rural markets will be reviewed, and the primary focus will be on challenges with respect to marketing and delivery of financial services in rural areas. Reaching out to the excluded sections through financial literacy campaigns, and in the process marketing, the banks and their schemes would be an important step towards financial inclusion.

INTRODUCTION

Banking sector in India had been instrumental in bringing about growth and prosperity of the economy since 1969; tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services however there exists a large segment outside the formal banking sector. The banking industry worldwide has been showing steady progress since 2002, the growth in the worldwide banking industry is attributed to the surge in the retail-banking sector in the Asia Pacific region.

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The changing paradigm of financial service industry in a global scenario has converged banking, insurance and capital market products with new business strategies interventions for delivering value to the customer and creation of revenue margins to the banks Retail banking has paved ways for customer centricity encompassing multiple product offerings, enormous geographical coverage, acquisition of large customer base, cross selling of financial products and stringent risk management practices. Cost effective alternate channels of service delivery with technological interventions has redefined the conventional banking business model with enhanced product portfolio to increase the customers' wallet. All these advancements have increased complexity of business and new threats to the financial sector nonetheless financial exclusion still remains a debatable topic amongst policy holders and financial institutions.

Despite of growth in the financial sector a sizeable section of the population, particularly the vulnerable groups, categorized as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. A recurring phenomenon in financial exclusion is lack of institutional finance leading to income disparity but also resulting in slower economic growth. The absence of formalized institutional finance increases the dependency on the informal financial sector by the secluded groups restraining the financial decision making capability of the poor from making rationale choice of their savings and investments. This situation also leads to these excluded sections approaching money lenders for their financing needs and getting exploited in various forms.

Exposure to financial services empowers the poor in investing their savings into productive assets whereby generating returns helping in reducing vulnerability of income and facilitating them to be in the mainstream of the economy and economic development process thus rural outreach of financial services thus becomes imperative in a growing economy like India. Report of committee for medium term path on financial inclusion (2015) indicates that an eco-system comprising multiple models should be encouraged fostering partnerships amongst national full-service banks, regional banks of various types, NBFCs, semi-formal financial institutions, as well as the newly-licensed payments banks and small finance banks for promoting financial inclusion.

RATIONALE OF THE STUDY

Evidences demonstrate that financial access varies extensively across the nations though expanding access to financial services still remains an important challenge thus it is apparent that there is much role for polices to do around the world for financial inclusion. Study by Handoo (2010) enumerates that RBI has been proactive in ushering enabling environment for expediting financial inclusion across India through various bank led models nonetheless reaching out to a 400 million plus households who are financially excluded at pace with profitability for banks it becomes the single most challenge faced by the stakeholders particularly banks and delivery channels

Financial development go together with economic development which ultimately can be accomplished through broader partaking of the all the sections of the population into the mainstream of the financial sector. Wider access to financial services results into steering of savings into fruitful investment instruments whereby distributing economic opportunity uniformly across all the households. Financial inclusion thus broadens the resource base of the financial system and encourages expansion of markets and competition of the firm.

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