ROLE OF BANKS IN THE PROMOTION OF FINANCIAL INCLUSION THROUGH FINANCIAL LITERACY

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Abstract

Financial Inclusion is the weapon which is used to uplift the unbanked people and financially excluded group. It is tool to combat the poverty and bring people above the marginalization. Around the globe, the importance of improved financial inclusion, consumer protection and financial education for financial stability and inclusive development is recognized. The three sets of High-level principles on innovative financial inclusion, financial consumer protection and national strategies for financial education which have been endorsed by G20 leaders since 2010 also recognize that the integration of these three elements is essential to reinforce the financial system and enhance the financial well-being of individuals.
Many banks as well as financial institution now offer their financial products and services to financially excluded group out of interest. But these banks and financial institution faces various challenges while adopting financial inclusion due to no proper system of repayment and time consuming and high cost etc. Apart from these reasons, one of the most important reasons is financial illiteracy in the society. The objective of this paper is to highlight the importance of financial literacy for financial inclusion and to explore the role of banks in financial inclusion through spreading financial literacy.
Key Words: Financial Inclusion, Financial Literacy, Banks.

1. Prologue

It is argued by many authors that the poverty is a result of many factors such as insufficient income, absence of accessibility of financial services, but most important factor which plays substantial reason for the same is lack of financial literacy. Today, the population of developing country is to be considered as "bottom of the pyramid". And to get this bottom among the top, they should be considered in financial inclusion group instead of being financially excluded.

1.1 Meaning of Financial Inclusion

In simplest terms, accessibility of basic financial services at affordable prices to all is the meaning of financial inclusion. The term includes the accessibility of banking services, credit, insurance, savings and assets, money advice and financial liter acy and capability. Various authors have defined the term 'Financial Inclusion'. The Rangarajan Committee defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit to be given to vulnerable groups such as weaker sections and low income groups at an affordable cost." (2008).

It can also be defined as a " State in which all people of working age have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients" (Accion International 2009).

1.2 Concept of Financial Literacy

Financial literacy has become very substantial for policymakers around the world. It was seen that due to the 2008 financial crisis, there has been clarity that low financial literacy was the reason of low economic growth at the national and global level.

Indian financial market is having a capacity to save but they lack awareness regarding financial concepts. This is the reason why India is trapped in debt and gets the low return on investment.

India's urgent need is inclusive growth, which can eradicate the poverty from the country. And for fulfilling this purpose, financial education in the society is very essential. It was also clear from the statement "Financial literacy and education play a crucial role in financial inclusion, inclusive growth, and sustainable prosperity," which was delivered by the Hon'ble Union Finance Minister, Shri Pranab Mukherjee during the RBI- OECD Workshop on 'Delivering Financial Literacy' in March 2010.

OECD defines financial literacy as 'the process by which financial consumers/investors improve their understanding of financial products, concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being'.

2. Review of literature

Many authors have studied on this topic and recommended new approaches for financial inclusion by their findings. Raihanath MP and Pavithran K.B. (2014) have studied the role of commercial banks in promoting the financial inclusion in the country. It was found by their study that many efforts by banks have been taken in this regard yet there is scope to take initiatives. Initiatives taken by the commercial banks include educating customers about financial concepts, counsel them about the credit and debit, aware them about the KYC norms, KCC/GCC, no-frill accounts and mobile banking.

Rao, N,N,D,S,V(2010) have suggested a suitable structure for the implementation of financial inclusion in the research article "Financial inclusion- Banker's perspective". Rao has advocated the different approaches for widespread financial inclusion such as RBI should conduct the awareness camps about financial inclusion to the bank staff. Dr. Swamy, V and Dr. Vijayalakshmi(2010), identified twenty one steps for twenty first century financial Inclusion in their article "Role of financial inclusion for inclusive growth in India- issues and challenges". Author claimed the importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. Author has also suggested the coordination is required between government and banks for increasing financial inclusion in the country.

Pai D.T (2012, November) said that financial literacy refers to knowledge required for managing personal finance. It is an integral part of the financial inclusion. It is not just about imparting the financial knowledge and information. It is also about changing the behavior in the financial pattern and activities of individuals. The ultimate goal of the financial literacy is the empowerment of people to take action for their self-interest. When the people know about the financial products available and when they are able to evaluate the merits and demerits of each product for their specific needs, they are in a better position to decide what they want and feel empowered.

Chakroborty K.C (2013, February) indicated that "a number of measures have and being taken across the country, given the enormity of the task, a lot of ground still need to be covered.

Apart from the government regulatory bodies, there is a need for involving the civil society and all other stakeholders need to spread financial literacy."

Mishi S et.al (2012) concluded from the paper that level of literacy is significantly positively related to access to bank by individuals. It was also recommended that banks should penetrate to the rural areas and simultaneously the financial literacy training programmes should be implemented which helps to boost the confidence and help them to make better usage of their services.

3. Objective of the Study

- To highlight the importance of financial literacy for financial inclusion.
- To explore the role of banks in financial inclusion.

4. Research Methodology

The research methodology that has been adopted to serve the purpose of the study is purely secondary research. Internet journals, database available in library, newspaper are key source for the collection of the secondary data.

5. Findings

5.1 Role of Financial Literacy in the Promotion of Financial Inclusion

Financial Literacy is been considered as a very important tool for the promotion of the financial inclusion and financial stability of the economy. It is essential for the growth of country that it should go hand in hand so that the common man can take the advantage of available accessibility of financial services. There are some benefits of financial literacy to the unbanked:

a. Awareness of financial concepts makes them able to take informed decision and increases their percentage of household savings in the country.
b. Financial literacy helps the individual about the financial products available and provides them ability to evaluate the merits and demerits of each product and the suitability of the product for the specific needs.
c. Financial literate person can acquire financial products and services as the lower cost. Financial education program helps the unbanked to acquire the financial skills as well as it helps by imparting knowledge about the financial topics. (Improving Financial Literacy Analysis of Issues and Policies, OECD, 2005).

5.2 Initiatives of Financial Literacy Programs Directed for Financial Inclusion

Many institutions and banks have initiated financial literacy programs so as tap all unbanked population of the society.

a. Saksham

Saksham is the initiative of the Ratnakar Bank limited of Ahmedabad which is specially committed to 'Financial Inclusion'. Bank has initiated a Swadhaar FinAccess, to implement Financial Literacy program which will deliver the classroom based financial literacy course for women from low income communities.

b. India Infoline

India Infoline has taken efforts for financial inclusion by closely interlinking the efforts of financial literacy with the financial inclusion strategy.

c. Geosansar

The aim of the Geosansar is to provide a widespread financial inclusion, literacy and education for facilitating financial inclusion covering financially excluded people of semi urban areas and people who belong to the bottom of pyramid.

5.3 Role of Banks in the Financial Inclusion Programme

It is not easy to widespread the efforts for financial Inclusion programme around the world. This mean this program requires extensive support of banks, financial institutions and government. There are many challenges and barriers which are intervening in the success of this program such as information gaps, concentrations of poor people, and lack of coordination.

Government of India has given the top most priority to financial inclusion program; even RBI has taken proactive role in creating the environment for financial inclusion.

Following are the role of banks which are performed under financial inclusion programme

a) Financial literacy

Imparting financial education is a very important task of banking now days as lack of financial literacy is one of the main reasons of financial exclusion of the financial syste m. As financial literate person is having the ability to take sound financial decisions for their future.

b) Credit Counseling

Credit counseling can be defined as 'counseling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management (RBI speech, 2008)

Credit counselling has served following three purposes-

1. It helps in examining the ways to solve current financial problems.
2. It educates about the costs of misusing a credit, it improves financial management.
3. It encourages the distressed people to access the formal financial system.

There are two types of credit counseling:
i. Preventive counseling
ii. Curative credit counseling

Preventive credit counseling includes bringing awareness regarding cost of credit, availability of backward and forward linkages, etc., need to avail of credit on the basis of customer's repaying capacity.

Whereas in curative counseling, the credit counseling centre will work out individual debt management plans for resolving the unmanageable debt portfolio of the clients by working out effective debt restructuring plan in consultation with branch of the bank, taking into account income level and size of the loans. (RBI speech, 2008)

c) FLCCs

This is also the initiative of RBI for providing the financial literacy to the rural poor people. The broad objective of the FLCCs will be to provide free financial literacy/education and credit counseling. The specific objectives of the FLCCs would be :
(i) Education to the people in rural and urban areas regarding various financial products and services
(ii) Awareness among the people about the advantages of being connected with the formal financial sector
(iii) Face-to-face financial counseling services, including education on responsible, borrowing and offering debt counseling to individuals who are indebted to formal and/or informal financial sectors
(iv) Formulation of debt restructuring plans for borrowers in distress and recommend the same to formal financial institutions, including cooperatives, for consideration; FLCC's coverage is in both rural and urban areas, it may be observed that a large segment of the Indian population is resident in rural areas with literacy levels lower than in urban areas and they resort to the informal sector for its financing needs. (RBI Report, 2008).

FLCC follows separate approach for both rural and urban area as FLCC centre can focus on different kinds of borrowers. In rural area center, concentrate on financial literacy and counseling for farmer and those engaged in allied activities. While in urban areas, centre give priority to the credit cards, personal loans, housing loans overdue cases.

d) KCC/GCC

GCC is the general credit card which is issued to people in rural and semi-urban areas based on the assessment of income and cash flow of the household by the banks under GCC Scheme.

e) KYC Norms

KYC are the norms which are introduced to remove the barriers in opening bank accounts both in rural and urban areas. KYC stands for Know Your Customer procedure (KYC) which ensures that the person is belonging to the low income group. The procedure of Know Your Customer (KYC) for opening bank account was simplified by asking banks to seek only a photograph of the account holder and self certification of addresses (the amount of outstanding balance in these accounts would be limited to 50,000 rupees and total transactions would be limited to one lakh rupees in one year. (Raihanath. And Pavithran 2014)

f) No-Frill Accounts

In year 2005, it was suggested by the RBI to introduce the “No-frill Account” with low or nil minimum balances. The major challenge in the rural area is to maintain the minimum balance in the account. In 2011-12, the number of NFA accounts counted 50.6 million amounting Rs. 53,860 million. But only 20% of these accounts were actually in use while majority of them were inactive. (Khandelwal and Khurana 2014)

g) BC/BF Model

To fulfill the goal of reaching rural household and farm household, Commercial banks were granted permission to use infrastructure of civil society organizations, rural kiosks, and adopt Business Facilitator (BF) and Business Correspondent (BC) models for providing financial services. In year 2006, permission was granted to use services of NGOs, SHGs, MFIs and other civil society organizations as intermediaries in providing finance and banking services through BF and BC which is known as “Agency model”. (Raihanath and Pavithran 2014).

The function performed by the business facilitator is:

a) Identification of borrowers and fitment activities.
b) Creation of awareness of savings and other products.
c) Collection and preliminary process of loan application.
d) Processing and submission of application to banks.
e) Educating, counseling, advice on managing money and debt.
f) Promotion and nurturing of Self Help group and Joint Liability Group.
g) Post sanctions monitoring.

Apart from above mentioned activities, certain other activities are added in its scope are:

1. Disbursement of small value credit.
2. Recovery of principal/ collection of interest.
3. Collection of small value deposits.
4. Sale of micro insurance/mutual fund products, pension products and other third party products.
5. Receipt and delivery of small value remittances, other payments of instruments. (Raihanath. And Pavithran 2014)

h) Branch Expansion

According to the banking regulation act 1949, there is restriction on the opening up of the branches at the new place by the banks. RBI gives weight age to the provision of banking facilities to the unbanked areas and assessment of actual flow of credit to the priority sector. RBI gives emphasis on the overall efforts for promoting financial inclusion including introduction of appropriate new products and enhanced use of technology for delivery of banking services. (Raihanath. MP, And Dr. K.B. Pavithran, 2014).

i) Mobile Banking

For more financial inclusion, banking industry has taken many initiatives to connect people wherever they live through mobile banking. Rural people also can check their balances, payment via accounting transactions, balance checks, payments via mobile device such as mobile phone. It helps in more accessibility to banking services by the unbanked.

Mobile banking facilitates in doing banking transactions such as balance checks, fund transfers, bill payment etc. It also aid in purchasing goods over internet or phone delivery and fund transfers. RBI has encouraged introducing technology based products and services as pre paid card/debit cards, mobile banking (The total tele-density in the country is 35.67% in February 2009- Rural 11.81%, urban 83.66%). (Raihanath. Mp, And Dr. K.B. Pavithran, 2014)

6. Epilogue

Emerging financial products in the financial market has become very complex as well as there is lack of proper flow of information between the common man and the financial market. This has created the need of financial literacy. Financial literacy is the tool which can be used to make people aware about financial concepts and this makes their way easy for accessing the financial products. Some changes can be incorporated for making change in the ratio of unbanked to the banked population such as:

1. Approach towards the banking for poor should be reworked-
   Bankers should realize that banking to the poor is a profitable opportunity for the bank so that they should go for financial inclusion in a big way.
   The negative thoughts such as "Banking for the poor is poor" should be removed completely from the minds of the bankers. SHG and Microfinance Institutions have been working financial inclusion movement in the past 10 years or more and they had considered that there is a lot of potential business which can be made from 'bottom of pyramid'. This should be imbibed in the minds of the bankers too.

2. For overcoming the challenges faced by the rural poor in the cash management and banking services, bankers should focus on imparting the financial literacy to the rural people.

3. Financial literacy campaign should be a continuous process for better results for financial inclusion.

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