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Barriers of Financial Inclusion With Reference to Literature

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Abstract

Financial inclusion means providing basic banking sector services of banking sector at affordable prices to weaker sections of society. Financial Inclusion is an effort to include the excluded section of society under the formal financial services. Many researchers did their research on barriers which make hurdles in the path of financial inclusion. The present study stated the barriers of Financial Inclusion with the reference of other researchers. The nature of data is used in this study data is secondary which had been collected by journals, magazines, articles, blogs etc.

Keywords: Financial Inclusion, Barriers, Financial Services

Introduction

At the initial stage after independence of India, there was a very little progress in rural areas. For developing rural people financial inclusion is an effort. Financial inclusion is a major programme of government of India. Its objective is to bring people from excluded towards inclusion of formal financial services. Reserve bank of India has been taken various initiatives for financial inclusion. After continuous efforts of GOI and Reserve Bank of India still in India 51.4% of farmer households were financially excluded from both formal and informal sources and 73% of the farmer households do not access formal sources of credit (Rangrajan committee, 2006). Less access to formal financial services for small/ marginal farmers was considered as a serious threat to economic progress in developing country like India.

Financial inclusion means providing basic banking sector services of banking sector at affordable prices to weaker sections of society. The committee on financial inclusion, defined the term financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008). Indian banking sector consists of the Reserve Bank of India (RBI), which is the central bank of India, commercial banks and co-operative banks. The financial services include the entire range - savings, loans, insurance, credit, payments etc. The aim of providing these services to marginal farmers and weaker sections of society is to help them to come out of poverty.

Household needs access to credit for livelihood creation, housing, consumption and their emergencies. Several another purposes of households need finance like after retirement, savings against contingencies and unpredictable situations. Finally households require financial services to access a wide range of saving and investment products for wealth creation but it is all depends upon their level of financial literacy.

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Objectives of the study

- To define the meaning of Financial Inclusion.
- To study the various barriers of Financial Inclusion.

Research Methodology

The data collected for this study is mainly from secondary sources like journals, magazines, articles etc. various studies on this subject was also referred in this study.

Barriers of Financial Inclusion

Distance Barrier: Distance is a big hurdle for rural people. People ignored basic financial services due to long distances to the nearest bank branch. People live in rural area could not afford long distance as some of them are daily wage earners and if they travel long distance they have to leave their wages so it was a reason to withdraw interest in formal financial services.The academic literature also supports the idea that distance may oppose individuals from availing of financial services. Aggarwal&Klapper (2013) defined the Global Findex survey in their study the survey found that 20 percent of adults in developing countries cite distance as a reason behind not having an account.Chakrabarty (2011) said reason for financial exclusion is absence of reach and coverage.

Language Barrier: Language is the barrier for rural people. Rural people used their own language for communicate with each other they do not have command on any other language and this barrier stop them to using formal financial services. Aggarwal (2014) stated the RBI guidelines to banks to provide all the material related to opening accounts, disclosures etc. in the regional language so as to increase financial inclusion.

Timing Barrier: timing of banking transaction is also the reason for financial exclusion. Daily wage earners use banking facilities after their working hours and no public bank provide their facility after their hours, and it is a barrier for rural people. Damodaran defined one of the supply side reasons for financial exclusion is branch timings.

Attitude Barrier: Attitude is also an obstacle in the way of financial inclusion. Many people are not comfortable to attach with banking sector for their financial needs, they feel bankers will ask so many questions and disturb them again and again. Singh &Tondon also quoted that research in behavioral economics showed that due to many reasons people are not feel comfortable using formal financial services.

Illiteracy Barrier: illiteracy is also a big constraint in the way of financial inclusion. Here illiteracy means illiteracy against financial information. People are not very much aware about financial services given by government for rural development and due to this barrier people of rural areas could not get benefits of financial services as Raihanath&Pahithran (2014) said in their study as the main reason of financial exclusion is the lack of knowledge about financial system. Aggarwal (2010) also supported this barrier and said many people are unaware of the banking terms and conditions laid down from time to time.Bambuwala () stated that the biggest challenge for total financial inclusion all over the world is financial literacy.

Documentation Barrier: Banks needs lots of identity when a person wants to attach with banks and people who live in rural area does not having any identity prove to show the bankers. Aggarwal (2014) defined many challenges and one of the challenge is to access formal financial services requires various documents of proof but poor people lack these documents and avoid these services. Porkodi&Aravazhi (2013) primary requisite of opening bank account is identity proof & witness. In many cases, people from rural area gave wrong information in their ration cards & voter I-cards, which make them illegible as proof. This problem is basically with the refugees & slum dwellers.

Income Barrier: Income is also a major threat for financial inclusion. People reside under BPL having less income, even though they hardly get food with their income so how can they get money to save. Rao&Bhatnagar (2012) said income level decides financial access, low income people generally have the attitude of thinking that banks are only for the rich. ShabnaMol () stated that, if increasing the income of households it will lead to increase the saving habits of rural household.

Psychological & Cultural Barrier: it is also a big problem in the front of government of India. Most of the people willingly excluded themselves due to psychological barrier. Dangi& Kumar (2013) noticed one psychological barrier in their study and it was older people faced difficulty when they used ATM which is the most convenient service of banking. Batra&Sehgal (2015) also explained religion driven financial exclusion. They said people withdraw themselves even though they do access and can afford the services. Ghatak (2013) also stated that traditions and social practices of the people deter them from using formal financial services.

Conclusion

Financial Inclusion is the process of ensuring access to financial services needed by society including vulnerable groups such as weaker section and low income group at an affordable cost in a fair and transparent manner. For achieving the nation's objective of financial inclusion, Government of India and policy makers should take a step to remove above mentioned barriers of Financial Inclusion.

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