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Financial Inclusion: Barriers from Supply Side and Demand Side

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***Abstract*: Financial inclusion is one of the tools of inclusive development. Rangarajan committee defines financial inclusion as "the mechanism of ensuring access to financial services and timely & adequate credit whenever needed by the vulnerable groups such as the weaker sections and low income groups at an affordable cost". Schemes like Pradhan Mantri Jan Dhan Yojana are playing very important role to make the poor people financially inclusive. Population of unbanked people has also decreased nearly 5-6% from the year 2014 to 2017. Despite the various initiatives and steps taken by the Indian government, 11% of the total unbanked population of the world resides in India, it is nearly 190 million people who are unbanked in India (The Global Findex database, 2017). If we see from India's perspective these 190 million people amounts to nearly 15% of the Indian population. So that it has become very important to identify the factors which are responsible for the financial exclusion of these 190 million people. In this papers author has made an attempt to understand the concept of financial inclusion from both supply and demand side, author has identified various barriers to financial inclusion from both supply side (like documentation barrier, lack of suitable products etc.) and demand side (lack of financial literacy, religious reasons, lack of trust etc.). Author has also suggested some measures through which these unbanked people can be made financially inclusive.**

***Keywords*: Financial inclusion, supply side barriers and demand side barriers.**

1. Introduction

Financial inclusion is one of the tools of inclusive development. Rangarajan committee defines financial inclusion as "the mechanism of ensuring access to financial services and timely & adequate credit whenever needed by the vulnerable groups such as the weaker sections and low income groups at an affordable cost" Globally, about 1.7 billion adults remain unbanked without an account at a financial institution or through a mobile money provider. In 2014 that number was 2 billion. Because a large number of people who possess a bank account lives in high income economies. Mostly unbanked adults live in developing economies. China and India both have a very large population, even population having bank account is very high in both the countries but number of unbanked people is also very high in both the countries. Home to 225 million adults without an account, China has the world's largest unbanked population, followed by India (190 million), Pakistan (100 million), and Indonesia (95 million). Indeed, these four economies, together with three others Nigeria, Mexico, and Bangladesh are home to nearly half the world's unbanked population (Global Findex Database, 2017). If we see from India's perspective these 190 million people amounts to nearly 15% of the Indian population (Fig. 2)

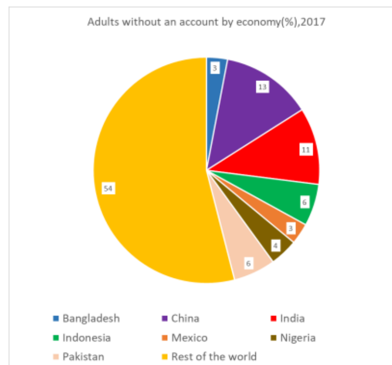

Fig. 1. Adults without an account by economy (%), 2017
(Source: Global Findex Database, 2017)

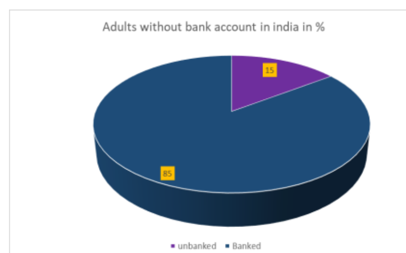

Fig. 2. Adults without bank account in India in %
(Source: Global Findex Database,2017

2. Literature review

Sarma & Pais (2008) said that it is a process which consists tree aspects ease of access, availability and usage of formal financial system to all individual of the economy. Access to financial services and products must be there in transparent manner. Timely and adequately access of finance must be there at affordable cost. (Sarma, 2008 and Solo, 2008). Murari & Didwania (2010) stated that delivery of various financial services to the vulnerable, low income group and enterprises at affordable cost. Kuri & Laha (2011) stated that financial inclusion is a process to bring the vulnerable and disadvantaged section of the country in the formal financial channel and provide required financial services and products according to

the need of the people at affordable cost whenever needed. Bhuvana & vasantha (2016) supply side factors of financial inclusion include distance, policy regulation, inappropriate products and risk and demand side factors of financial inclusion include irregular income, lack of trust, literacy level, high cost and technology. Barriers of financial inclusion are high cost, non-price barriers, behavioural aspects geographical barrier financial illiteracy, technological hindrances environmental and market factors, Social barriers, Psychological and cultural barriers and Lack of social security payments (Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86734.pdf.).
(Mitton 2008) financial illiteracy is one of the major demand side barriers. Financial capability is also a demand side barrier to the financial inclusion because if people are not financially capable or their income is very less than they would not use the bank account.

3. Objectives

- To understand the financial inclusion from both supply side and demand side.
- To find out the barriers to financial inclusion from supply side.
- To find out the barriers to financial inclusion from demand side.
- To give some suggestions to overcome from these barriers.

A. Financial inclusion

Report of the Committee on Financial Inclusion in India (Chairman: C. Rangarajan) (2008) defines financial inclusion. "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." World bank (2000) "Broad access to financial services implies an absence of price and non-price barriers in the use of financial services, it is difficult to define and measure because access has many dimensions".

United Nations (2006 b) A financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone. Inclusive finance doesn't need that everybody who is eligible use every of the services, but they should be able to choose to use them if desired. Asian development bank (2000) "Provision of a broad vary of monetary services like deposits, loans, payment services, cash transfers and insurance to poor and low-income households and their micro-enterprises".

Different institutions define financial inclusion differently but one thing is common in all the definitions that there should be universal access of financial services. The aim of financial inclusion is including all the people in banking channel and meet the financial need of the people whether they are banked or unbanked. Financial inclusion can be broadly defined as universal access to a big range of financial services at a affordable cost These include not only banking products but also other financial services such as insurance and equity products (see Fig. 3). Households require finance for various purposes, most importantly for contingency planning and risk reduction. Once these requirements are met, households typically require access to credit for livelihood creation as well as consumption and emergencies (in the event that they do not have savings/insurance to fund them).

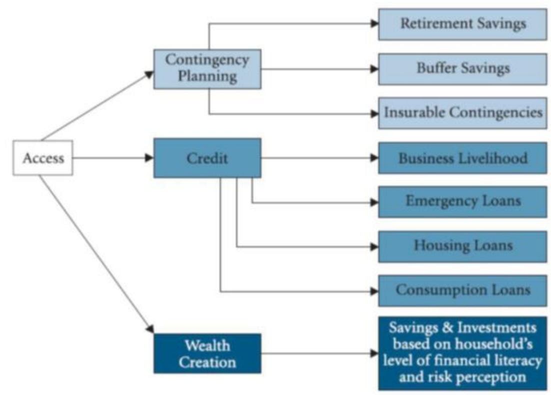

Fig. 3. Household access to financial services
(Source: A hundred small steps a Report of the Committee on financial sector reforms by Raghuram G. Rajan)

Finally, wealth creation is another area where financial services are needed Households need a range of savings and investment products for the purpose of wealth accumulation depending on their level of financial literacy with their risk perception.

B. Financial inclusion from supply side

Financial inclusion means providing a range of financial services to the people and particularly those who are unbanked. Here it has become very important to categorize financial inclusion in two parts one of them is financial inclusion from supply side. It is the duty of the government and central bank of the country to provide access to the financial services to the unbanked people. But when financial institutions of the country are not providing a platform or services to those unbanked people then it means that financial inclusion is not happening from supply side.

C. Financial inclusion from demand side

When all the facilities of providing the financial services to the people have been provided or we can say that access is there but people are not using those services it means financial inclusion is not happening from demand side.

1) Barriers to financial inclusion

While dealing with the inclusion one must be conversant with the distinction between two seemingly similar words viz. access and use. In a straightforward commonsensical view, access is just conveying the same meaning of "supply", while the 'use' connotes both demand and supply (WB, 2008). "A bank existing in a locality ensures the availability of necessary financial products in that locality. That means use is driven by both demand and supply”. Alternatively, to use a thing first we must have the demand for that thing, and then there must be a source to supply the thing. The similar is the case with finance. In the advanced economies even, the wealthy customers, despite having accessing to all kinds of financial services may be inclined not to use such services. Various barriers to financial inclusion are depicted in the fig 4.

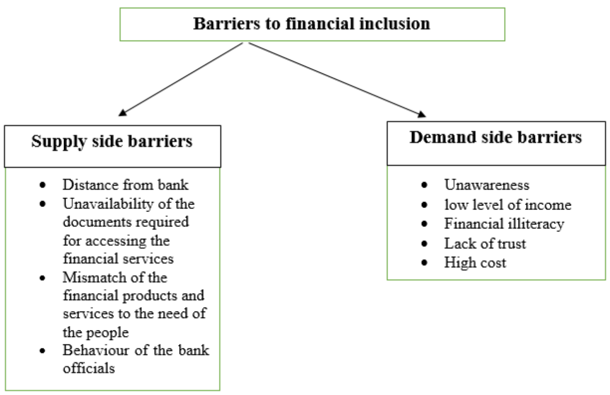

Fig. 4. Barriers to financial inclusion

D. *Supply side barriers*

1) *Distance from bank*

It is the most common barrier in rural areas because in rural areas location of branch of the bank is very far away from the houses of the people. So it becomes very difficult for them to go to the bank. People find it very difficult to go to the bank at the cost that they have to leave their work for opening a bank account. Hence they remain unbanked.

2) *Unavailability of the documents required for accessing the financial services*

For accessing the financial services from the banks or various formal channels of finance requires various documents regarding the identity, address proof. Generally, people don’t have all the required documents or there are some errors in their documents which become a hurdle to become financially inclusive. Mostly poor and illiterate people suffer from this problem.

3) *Mismatch of financial products and services to the need of people*

(Savita Shankar) said that mismatch of financial products and services to the need of the people is one of major supply side barriers of financial inclusion. (Priya Naik) said that that inappropriate products and processes are said to be a supply side barriers of financial inclusion.

4) *Behavior of bank officials*

Behavior of the bank official towards the poor people is also a supply side barrier to the financial inclusion. The feeling that bank officials are not interested in their work and delaying the process of accessing the financial services by bank officials create feeling of mistrust among the people which leads to financial exclusion of the poor people.

E. *Demand side barriers*

1) *Unawareness*

This is the most common demand side barrier to the financial inclusion because people don’t aware of the various banking products, services and schemes which are launched for them. So they don’t get enrolled in the particular scheme which is launched for them. Various reasons are there for their unawareness like publicity of the schemes is very less and illiteracy. Schemes may be there for their particular need but they don’t come to know that the scheme is there.

2) *Low level of income*

Low income or irregular income is a demand side barrier because low income groups which are mostly unbanked don’t feel any requirement to open an account because they earn and spend all the money, they don’t save any money. If they save, then it is a very little amount for which no need of any bank account occur, they save it in home.

3) *Financial illiteracy*

Lack of financial literacy is one of the major demand side barriers to the financial inclusion. Because mostly poor people are illiterate they don’t know what are the products and services are there for them. They don’t understand even the details of the schemes which are launched for them. They feel hesitant in going to the bank. (Savita Shankar) said that for the first time user financial literacy is very important, they cannot fulfill all the documentation related conditions which requires literacy hence they remain unbanked.

4) *Lack of trust*

Lack of trust occurs due to the negative experience in the bank. Bank officials generally don’t behave in a welcome behavior to the rural people. Then those people lose their trust in banking channel. various negative experiences like they have to stand in queue for a very long time even then their work has not been done. they have been sent back to collect required documents. All these kind of negative experience create mistrust among the poor people and they lose trust in formal financial channel.

5) *High cost*

Providing financial services or products like credit card, debit card, passbook, cheque book etc., occur cost to the service provider. So they charge for it from the customer. It has been found that poor people feel reluctant to open an account because of requirement of keeping minimum balance in the account, deduction of bank charges, charges for providing debit card, ATM card etc.

F. *Suggestions*

Solution to overcome from these barriers to financial inclusion from both supply side and demand side is not so easy. Both government and the RBI have to work simultaneously with the bank and non- banking financial companies. Indian government is doing very well for the financial inclusion of low income group. Schemes like Pradhan Mantri Jan Dhan Yojana and MUDRA Yojana are working very well. A big strata of unbanked people has been brought in the banking channel by the PMJDY. Supply side seams very good in Indian context of financial inclusion but demand side barriers are still there we are unable to overcome from them. More and more awareness programs should be started to increase the awareness among the low income groups. To remove the barriers like high cost more cheaper products should be provided to the poor people minimum balance requirement should be decreased to the minimum level. Awareness among the banking officials should be created. They should be make understand that these unbanked poor people are the large part of our country, to make them financially inclusive is our responsibility. Financial literacy programs must be started which provide information about the financial products and the various schemes launched for the poor people.

4. Conclusion

Financial inclusion is the major tool for achieving inclusive growth, a prerequisite for economic development, for the inclusive development of the society. Efforts are being taken to make the financial system more inclusive. After the efforts made by the Indian government there are still 15% people who are unbanked in India (Global Findex Database,2017) More focus should be given towards the demand side of financial inclusion so that barriers can be removed,

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