



A SWOT Analysis of financial Inclusion in context of India and its Banking sector

Ms. Shalini Choithrani

Assistant Professor,
Department of Commerce,
Dr. H.S Gour University, Sagar

ABSTRACT

The Indian economy is considered as one of the fastest growing economy of the world and its banking sector is also very strong with a number of players in public and private sector in the form of banking and non-banking finance companies. The government also keeps taking several initiatives for developing the banking sector. But, despite of all these efforts the rate of financial exclusion is very high in the Indian economy. The reasons are lack of financial awareness among people, huge population etc. Thus, the objective of the present study is to do the SWOT analysis of Indian economy in terms of financial inclusion. The strengths of the country in terms of financial inclusion are its population, existence of a hierarchical society with quite a huge population falling in middle income group whose spending and thrift both are important to the economy. The weaknesses include the existence of financial illiteracy among rural population, lack of technological development in rural areas etc. The opportunities include the unemployed youth who can be utilized for increasing inclusion in the economy, large rural population's presence who can give a good business to the banks etc. The threats are unattractive salary to the Business Correspondents, teaching large rural population about the benefits of having bank account and availing banking facilities etc. The study has been done through the secondary data gathered from newspapers, website of RBI in forms of bulletin, research journals etc. In conclusion it has been suggested that the government has to undertake this drive at a large level to bring the financially excluded in the scope of banking to foster the growth of the country.

Key words- Financial inclusion, strengths, weakness, opportunities and threats



Introduction

The Indian banking sector is very large having potential to serve its huge population and the Indian government has taken several efforts to promote and increase the momentum of financial inclusion in the economy. The efforts to increase the speed of financial inclusion started way back in 1969 with the nationalization of 14 banks of the country. From then onwards the government has taken several efforts to promote financial inclusion which includes the concept of delivering doorstep banking facilities to the rural people through business correspondents and Business facilitators. The government has also started its much ambitious Jan dhan Yojana to increase the pace of financial inclusion and large number of accounts has been opened under it.

Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. The access to financial services by poor would lead to their consumption smoothing and investments in health, education and income generating activities, thus expanding growth opportunities for them. Inclusive growth if targeted systematically may lead to financial stability, asset building and economic mobility.

Government policy and efforts for Financial Inclusion

- 1) Launch of Jan Dhan Yojana for promoting financial inclusion.
- 2) Opening of no frill accounts.
- 3) Mandatory for banks to open 25% of their branches in rural areas.
- 4) RBI's vision 2020 has an objective of creating nearly 600 million new customers' accounts.
- 5) Giving relaxation to banks to open branches in tier 3 to 6 having population below 50000 thousand to open branches with a general permission.
- 6) Permitting banks to utilize the services of NGOs, MFIs, to provide financial and banking services through the use of Bank Mitra(Business Correspondent)



- 7) For fostering financial awareness and making it simpler to understand preparation of and publication of financial diary, posters etc.
- 8) Relaxation of regulatory guidelines through a combination of strategies, using techno-based services with new financial products which cater to the need of weaker section of the society.
- 9) Making it compulsory for banks to undertake financial literacy activities once in a month.
- 10) To promote and create awareness among people who are ignorant of banking services and financial products through project " financial literacy" which includes several innovative models of promoting awareness by organizing competitions at school and college level, making these issues a part of the curriculum through state and Central board.

Disadvantages of financial exclusion

- 1) Financial exclusion hinders the economic growth of the country as the savings of the people remain idle and unutilized.
- 2) A majority of the people remain out of the scope of the banking sector hence, are unable to utilize the banking facilities available within the country which in turn also stops the entrepreneurial drive in the country as people in absence of banking facilities do not get enough opportunities to grow and develop or are unable to start their business.
- 3) The government these days has linked all the facilities in the form of transfer to the bank accounts of the people thus in absence of bank accounts it becomes difficult for the government to deliver them these benefits.
- 4) It leads to the loss of business for banks also as the banks also can cater to large population but are catering to only that portion of the population who have a bank account.

Objectives of the study

To do the SWOT analysis of Financial Inclusion in context of India and its banking sector i.e. to find its Strengths, weaknesses, opportunities and threats.



Source of information

The source of information for this study includes secondary data i.e. information gathered from the available literature through internet, journals and RBI bulletins.

The SWOT Analysis

Strengths

- 1) The country has huge population out of which 70% of the population lives in the rural areas of the country. Therefore, banks of both public and private sector have advantage of the situation as the untapped and unbanked rural population can become a big market for the banks.
- 2) Existence of the upper middle and middle-middle income group in the Indian society who along with good spending also save a lot, thus their savings is a strength for the economy.
- 3) The banking sector of the country is quite big having a large number of players in the form of public and private sector banks. India has 57 grameen banks with more than 17,000 branches across the country. Thus, with the existence of these specialized banks who already deal with the rural consumer government can easily increase the momentum of financial inclusion.
- 4) The banking sector of the country is not only strong but has a wide range of financial products to meet the financial demands of upper and middle sections of the society.
- 5) The population of the country is both a strength and a threat but if it is seen from a positive perspective it is more a strength of the country as this population is useful in promoting financial inclusion.
- 6) The existence of the banks in both the sectors i.e. in public and private sector is also one of the strength of the economy. Both, banks of public and private sector go parallel strengthening the financial sector of the economy.
- 7) The government has fixed a target of issuing Adhaar to almost every Indian by 2016. The flow of subsidies in the accounts opened under Jan dhan Yojana which are Adhaar seeded may increase the usage of these accounts and banking facilities by the rural households. Also, if these



accounts are actively used, the savings in these accounts, however small may increase money with the banks in form of savings with the banks in these accounts.

Weaknesses

- 1) A majority of people fall in the lower income group also who are unable to meet their basic needs even and they are the ones who are to be brought in the purview of banking especially. Also, despite so many efforts a number of accounts opened under Jan Dhan Yojana are dormant with not even a single transaction done within 45 days after opening of the account.
- 2) The success of financial inclusion depends upon strong technology in terms of network, more number of towers etc all this needs to be improved as this is a weak area where the country needs to do improvement.
- 3) Lack of awareness about banking facilities and availability of different financial products and services among rural population is a big weakness of the economy.
- 4) The Business correspondents can be used to provide banking facilities but in absence of branches of banks the BCs Cannot receive trust and good response from the rural people as for them banking facilities simply mean a brick and mortar branch.
- 5) Under the BC model the business correspondent is required to report to the affiliated branch at the end of the day which increases the burden of the BCs thus, leading to less attraction amongst BCs to work due to cumbersome process.
- 6) The BCs have less freedom to work they work as per the terms and conditions of the bank and also, they deal in the limited financial services and products as per instructed by the bank.
- 7) Absence of different financial products that suit to the needs of weaker and poor sections of the society especially.



Opportunities

- 1) The country has a large unemployed population which can be utilized for promoting financial inclusion by making them a part of the delivery mechanism of the process in the form of business Correspondents (BCs) and business facilitators (BFs) and this unemployed population of the economy can be used for spreading financial literacy and bringing about financial inclusion.
- 2) A survey can be done on the targeted group to know about their choices and preferences about the type of financial products required.
- 3) Existing institutions such as grameen banks can be used effectively to expand access to financial services to the Poor.
- 4) Post offices if given full fledged permission to act as a bank can reach to even the most remote areas of the country as they already have a brick and mortar branch in the most remote areas of the country thus, by using their services the government can save the expenses of opening of new branches in order to reach the unbanked people.
- 6) Existence of NBFCs in the economy can also be used as they like post offices can be used as an engine of promoting financial inclusion.

.Threats

- 1) The commission given by banks to the business correspondents is very less due to which the people working as BCs are not very satisfied and are not very interested to work as BCs.
- 2) The huge population falling under the category who are to be banked belongs to the rural areas of the country, teaching, educating them and making them aware of the banking facilities' easy availability for them is a difficult task and may pose a challenge and threat to its speed.
- 3) The approach of banks especially the private sector banks for opening their branches in rural areas is very indifferent, they are realizing it just as a compulsion for them not a step to be taken willingly. This indifferent approach of private banks may pose a threat.



- 4) The success of BC model depends largely on BC whose success in turn depends upon the availability of the technology that too in the rural areas of the country and lack of availability of technology and network may pose a problem on ensuring the success of BC model and its smooth implementation.
- 5) A number of states are there like Assam where the percentage of issue of Adhaar cards is very low connecting bank accounts with the Adhaar card may pose a challenge in these states.
- 6) Achieving the target of issuing about 70 crore more adhaar cards by 2016 again looks a target difficult to be achieved if not taken seriously.
- 7) Finding the highly motivated workforce who can act as Business Correspondent competitively is a threat and retaining them in the profession again is a challenge as the success of this initiative largely depends up the BCs.
- 8) The large number of dormant accounts under Jan Dhan Yojana if not taken care of may create unnecessary burden on the banks and can reduce the speed of financial inclusions' growth.

Conclusion

The government has taken several initiatives to promote the pace of financial inclusion in the country but what is the need of the hour is to convert the threats into opportunities by utilizing the excessive population of the country in promoting financial inclusion, spreading financial literacy in the country and efforts should be taken to bring the financially excluded in the scope of banking. Also, instead of opening separate branches or new banks for increasing the pace of financial inclusion which may prove a financial burden on the government the already existing available options like giving license to the post office to act as a bank, RRBs and localites of villages who can act as BC should be looked upon first.



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