Development of Financial Services in India - Care and Confrontations

By

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Abstract

The branchless banking is an innovative concept where account can be opened and operated without going to a bank branch. The profile of Business Facilitator and business Correspondent has been created so that they can work as the agent of the banks who are directly dealing with poor villagers. But the circle of financial inclusion cannot be completed unless and until both awareness as well as participation of rural population will increase in capital market products along with money market instruments. The major focus of the Union Budget for the financial year 2011-12, 2012-13 and 2013-14 was to achieve the larger aim of the financial inclusion. It focuses on the poor who do not have former financial institutional support and getting them out of the clutches of local financers.

The purpose of the paper is to recognize the problems that Government of India is facing to implement the concept of financial inclusion. Simultaneously, this paper will focus on developing the marketing strategies of the financial instruments to the rural population where a significant portion of the population is suffering from poverty, inequality, unemployment, illiteracy and superstition. Another dimension of the paper is to develop the investor awareness programs even in remote villages by which maximum retail participation in capital market can be ensured. Since socio-economically they are most vulnerable portion of the society so it is the part of ethical, moral and social responsibility for every stakeholder of the nation so that they can be protected from the risk of miss selling by some unscrupulous persons.

Keywords: *Financial statement, promotion, joint funds, rural India finance*

1. Introduction

The Government of India is continuously harping on the issue that every Indian citizen should have the access to the basic banking services. The Government is willing to provide a basic minimum banking infrastructure to all stakeholders of the nation so that inclusive growth can be ensured. But the circle of financial inclusion will remain incomplete unless and until it can be ensured that everybody will enjoy equal opportunity of availing the services of both the Money market as well as the Capital market. In a developing nation like India, where higher population growth is accompanied by the poverty, inequality of distribution of wealth, unemployment and underemployment, the demand for jobs is much higher than availability. The focus of the research paper is developing strategies of awareness creation about the various financial instruments in the rural market. The concept of rural marketing is more complicated as penetration in rural market itself poses a challenge for a company. The attractive promotional strategy, customized product campaign, mixing up with rural population and generating Unique Selling Proposition (USP) for the product are some of the policy resolutions that a company can adopt to catch the untapped niche rural and semi- urban markets.

The rural marketing is no doubt more difficult than urban mass marketing. When a product gets saturated in the urban market, the product life cycle has already reached at its maturity stage; a huge untapped potentiality remains in the rural market. So it is up to the credential and the credibility of the company, whether it can utilize this opportunity in order to enhance its market shares beyond the cosmopolitan urban boundaries. Sustainable growth is required for a nation and growth can be ensured only by the continuous increase in per capita income. A nation cannot achieve its desirable growth rate without productive investment and rapid pace of industrialization. In order to boost the pace of industrialization, a nation should have exorbitantly high rate of accumulated savings which is usually contributed by both the household and corporate sectors. The expansion of growth rate of the national income is a necessary but not sufficient condition for the ultimate development of the economy.

The high growth implies that sustainable increase in per capita income, but it does not ensure the distributive justice among all the stakeholders of the economy. The development can only materialize if the growth rate of the nation is accompanied by the equitable distribution so that fruits of high growth can be appropriated by all sections of the society. The development means sustained increase in standard of living. The target of development, progress and prosperity of the nation can only be achieved if high growth rate isfollowed by the permanent reduction in poverty, underemployment, unemployment as well as inequality in the distribution of wealth and income of the nation. The higher growth rate will not be automatically translated into development without the direct policy intervention by the Government.

Rustic marketing is trickier as well as challenging in comparison to marketing in urban areas. The target customers are highly qualified, adequately informed about the product and much exposed to both the print as well as electronic media in urban marketing. In majority of the cases, the marketers need not face many challenges to convince the customer about theirproducts, provided marketers are knowledgeable enough to demonstrate the key features as well as the core competitive advantage of their products.

2.Objectives

- Expansion the concept of the monetary inclusion.
- Significantly analyze to which extent India has achieved the goal of the financial inclusion.
- Discover the opportunities to create the awareness and familiarity about several instruments of money market and capital market in the mind of rural residents.
- Plan necessary strategies to promote financial products in rural market.

Grounds for Non addition

- The essential barrier to financial inclusion is the mental block of rural villagers. In majority of the cases, they are illiterate and they are unable to sign their own name. Therefore psychologically they are not very comfortable to meet and approach a bank executive.
- The restricted rural moneylenders and financial intermediaries are more approachable to them. The rural money lenders are grabbing these opportunities and they are exploiting the poor villagers by giving them the credit at an exorbitantly higher rate of interest. Gradually they are caught in a vicious circle of debt trap. At the extreme case, the situation goes beyond the control and the farmers have to commit suicide because the price they are getting by selling the agricultural produce is really inadequate to fulfill their basic needs for survival. Simultaneously the farming profession has to depend on the volatility of the monsoon season.
- The main reason for financial exclusion is the lack of a regular or substantial income of the farmer. In most of the cases, people with low income do not qualify for a loan. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them.
- Most of the banks need collateral for their loans. It is very difficult for a low income individual to find collateral for a bank loan.
- Banks give more importance to meeting their financial targets as they are profit making institutions and thus their focus is on generation of larger accounts. It is not profitable for banks to provide small loans where the default risk is quite high, leading to accumulation of Non Performing Assets (NPA) as it gives a wrong signal to the shareholders of the bank. The ratio of gross NPA to the gross asset is 3.7% for India as in

December, 2012 which is an alarmingly high figure.

Pains of SEBI to market their creations in countryside area. It is an open secret that the purchasing power of rural and urban population has gradually grown up as the Government is incurring huge expenditure in the social sector projects. As a result the “rising middle class‟ will account approximately to one third of the population in the next 20 years in India.

- SEBI has started its initiatives to penetrate in the Indian rural market by introducing more and more awareness creating campaigns. SEBI has realized that investment in banking products may not be the default choice for the middle class. SEBI has taken multifold strategies to achieve its target of enhancing retail participation in Indian capital market.
- SEBI has already started its investor empowerment program which can be broadly classified into two categories- Investor education and financial education.
- SEBI has designed an investor friendly website (http://investor.sebi.gov.in) which can be seen as part of its effort for promoting its campaign.
- SEBI is conducting different workshops and seminars with the collaboration of brokerage firms and mass media.
- SEBI has started its full swing financial education programme by creating a pool of resource persons in association with the National Institutes of Securities Market (NISM).
- SEBI has adopted an innovative approach to reach to the common people. They are selecting certain professionals from academics through a rigorous selection process. The selected academicians are provided one week residential training for once. At the successful completion of the training programme, those academicians are designated as SEBI certified Financial Resource Persons. These resource persons are eligible to conduct the workshops as the representative of SEBI in different regions of India to spread the financial literacy. No fee is charged from the participants of the workshop and at the end of the workshop, hardcopies of SEBI materials are distributed at free of cost to all the participants. A token honorarium is provided by SEBI to the Resource persons per workshop and this expense is incurred from the Investor Protection Fund of SEBI.
- SEBI has already prepared different teaching modules for different target groups such as Investment planning for retirement (Senior citizen), Investment planning for executives (monthly take home salary more than Rs 25000), Investment planning for home makers, financial planning for young investors(college students), Financial education for middle income group (monthly take home payment less than Rs 25000) and financial education for school children.

3. Confrontations

- The residents of the remote villages are often very shy by nature. They are not willing to open up in front of a financial resource person. The illiteracy, superstition, ignorance are the common characteristics of the Indian rural community.
- It is an established phenomenon that the marginal propensity to consume is higher for a poor family rather than a richer household. Hardly any fund is left in the hands of villagers for saving purposes after meeting their consumption expenditure. Since they are most vulnerable section of the society, they frequently become victims of mis-selling. It is very easy to convince them and a section of unscrupulous money lenders are utilizing this opportunity to exploit their simplicity and ignorance.
- The chit fund players are quite active in the rural and semi urban segment. The chit funds and their mode of operations have created a major dispute over a period of time. In the name of micro finance, the chit fund companies are raising the hard earned money of the poor people. In majority of the cases, these chit fund companies are not registered. As a consequence the realization of the principal amount becomes

almost impossible as hardly there is any documentation, authorized office etc. It will be a great mistake if anybody reaches to the simplistic conclusion that the money invested in registered chit fund companies always remains safe. It has been experienced that often a chit fund company is registered under the companies act, registered with RBI as it is raising the deposit, registered with SEBI as it is simultaneously raising the fund in the form of Cumulative Investment Scheme as well as is registered with the society act as it is running an NGO is also equally unsafe for the depositors.

- Collecting the database of remote villagers is another challenge. The Government of India has already taken some positive steps to achieve the goal for collecting the necessary information. Unique Identification Authority of India (UIDAI) started to enroll people in 16 states, while National Population Registration (NPR) Project did the job in the rest of the nation mostly costal and border areas. UIDAI had already enrolled 200 million people in the 16 States/Union Territories, with a population of 610 million.

4. Conclusion

It is true that SEBI has already taken a series of steps to market the capital market products such as equity shares, mutual fund, bond and debentures in the rural areas. All these steps are taken with the objective of creating a basic awareness about the capital market in the minds of villagers. There are many things yet to be done to meet the bottom line objective of marketing the risky capital market products.

SEBI can provide the instruction to all the depository participants to open their branches in villages. Like no frill account, SEBI should provide the direction to the brokerage houses to open a Demat account for the poorer section of the population at free of cost.

The brokerage houses should be advised to charge a lower rate of brokerage from the poor villagers. This loss of revenue can be compensated by charging higher brokerage from urban and wealthy investors. The price discrimination is ethical if it follows the distributive, retributive and compensatory justice. The expectations will be both unrealistic as well as irrational if it is assumed that all the rural villagers will start to subscribe and trade in equity shares even if all the above-mentioned conditions are fulfilled.

Initial ice breaking exercise can be done through a mutual fund. The mutual fund is a safer option than equity as mutual fund is subject to the market risk only. Mutual fund is a suitable option for the rural residents since no premium is charged in New Fund Offer (NFO) and it is issued at par.

In case of IPO of equity shares, issue price includes huge share premium which the downtrodden section of the society cannot afford.

The Systematic Investment Plan (SIP) Scheme has come as blessings in disguise for retail investors. Certain amount of money is deducted in every monthfrom the savings account of the investor if the investor opts for SIP. Investing in SIP is a preferable option than investing in a traditional mutual fund scheme as in the former case; investor is getting the opportunity to hedge the risk of market volatility over a certain period of time.

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