Financial Inclusion – The Banks Perspective

What is the issue?

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- While financial Inclusion is viewed largely from the consumer perspective, it also contributes to greater banking stability.
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How is this?

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- Financial inclusion means granting effective access to all economic agents to formal financial services.
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- This has become an important public policy priority following the global financial crisis (sub-prime crisis).
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- Financial inclusion helps banks garner ample risk-free, cheap retail deposits, reducing their reliance on volatile, costly money market.
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- This effect is pronounced in banks having higher customer deposit funding and lower marginal costs of providing banking services.
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- Such trends in countries having stronger institutional quality tend develop greater institutional stability.
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What are the benefits?

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- Greater access to finance services - increases savings, reduces income inequality & poverty and increases employment.
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- Banks operating in an inclusive financial sector along could experience greater operating efficiency in financial intermediation.
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- **Increasing Deposits -** Through innovative technology, banks can provide financial services to a large number of customers.
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- This could be potentially at a reduced cost, thereby mobilising large non-wholesale long-term funding.
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- As retail deposits are sluggish, cheap and insensitive to risks when compared to wholesale funding, it tends to add considerable stability to the sector.
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- **Prudent lending –** Also, increasing banking sector outreach by opening up in newer areas helps reduce distance for consumers.
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- This enables banks to build a good customer relationship and also provides with the opportunity to know consumers better.
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- This leads to judicious lending & pricing decisions which helps making the right decisions regarding lending.
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What could be the negative spin-offs?

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- Despite having many benefits, financial inclusion also has some countervailing effects.
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- Informational asymmetries while dealing with poor households or small firms is indeed a problem that may arise.
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- Scaling up managerial and technical expertise to serve a wide-ranging customer base might not be easy.
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What are the opportunities?

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- Broadening banking services to unbanked and under-banked people offers big business opportunities.

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- Banks can tap into the potential of customers and aid an inclusive development agenda.
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- This will help in streaming resources into more productive areas.
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- Thus, the overall benefits may outweigh the costs associated with greater financial inclusion.
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Source: Business Line

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