

## **Hurdles in Financial participation**

### **What is the issue?**

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- In India there are hurdles to financial participation due to various reasons.
- A flexible environment is needed to develop solutions to address such issues.

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### **What are the concerns with household finances?**

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- Financialization has not been easy, Indian households face considerable hurdles in implementing even simple changes.
- In India there is a strong tendency to keep wealth in physical assets, gold and property.
- Levels of pension wealth are worryingly low, as is take up of all types of insurance, even in areas which are prone to natural disasters.
- When emergency expenditures are necessary, for example, for health reasons, there are high levels of reliance on unsecured debt from non-institutional sources.
- Indians have traditionally shunned pension plans in favour of traditional arrangements in which the younger generation takes care of their elders.
- But these traditional structures are under increasing pressure, putting families in a potentially vulnerable position.

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### **What are the disquiets with government policies?**

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- Recently union budget announced a universal health insurance, but it is yet to be drafted efficiently.

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- Union government introduced the long-term capital gains tax is a step backwards, given how responsive Indians are to tax incentives.

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- Government provides only a basic information about myriad services and providers which is best for each family, and how one can transition between them if necessary.

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- Onerous bureaucracy, a scepticism of organised financial institutions, significant problems with trusting a financial system are also being concerns with the government.

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- Entrepreneurial solutions are facing the hurdle of inflexible regulation, particularly where several regulating bodies might be involved.

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- All of these problems can contribute to a sense of embarrassment and even the fear of exploitation in lower-income households in particular, who often report believing that financial products are for the rich.

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## **What measures needs to be taken?**

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- Innovations in financial technology will surmount many of the challenges associated with helping Indian households to more efficiently use formal financial systems.

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- Technological solutions can help bypass issues of embarrassment and the tedium of bureaucratic processes.

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- By moving to paperless KYC requirements, for instance, customers could relatively easily sign up and switch between to new products without having to go through a cumbersome process.

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- Financial education and explicit opt-ins for access to more complex products, either at the point of e-KYC completion, or at the point of PMJDY account opening is needed.

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- A “regulatory sandbox” needs to be created, this institution could kick-start a

dialogue between regulatory bodies, households, and the financial technology industry.

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- To address challenges in Indian household finance, customised and scalable solutions, in a controlled environment of flexibility and experimentation is needed.

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**Source: Indian Express**

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