Hurdles in Financial participation

What is the issue?

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- In India there are hurdles to financial participation due to various reasons.
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- 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.
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- In India there is a strong tendency to keep wealth in physical assets, gold and property.
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- 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.
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- When emergency expenditures are necessary, for example, for health reasons, there are high levels of reliance on unsecured debt from non-institutional sources.
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- Indians have traditionally shunned pension plans in favour of traditional arrangements in which the younger generation takes care of their elders.
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- 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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