Risk Reduction Through Financial Services, Insurance And Financial Inclusion

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ABSTRACT

Every risk involves the loss of one or other kind. The economic climate and markets can be affected very quickly by changes in exchange rates, interest rates, and commodity prices. Counter parties can rapidly become problematic. Risk refers to the possibility that something unpleasant or dangerous might happen. As we all know that human beings always prefer and strive for happy situations in life and want to avoid the adverse ones. In order to face this risk factor in life, be it individual risk or financial risk, we look for something that will shield us getting affected by this risk. Besides personal risks and financial risks, there is also risk relating to new technologies. Personal risks are risks that will directly affect an individual and they involve the possibility of the complete loss or reduction of earned income. Whereas financial risk is the risk arising from the changes in the values of measurable financial values. Due to the expanding frontiers of science and new technologies in all areas, risks are larger and much more complex than in the past. It is here, we think of some financial services like insurance and other means of financial inclusion. Insurance occupies an important place in the complex modern world since risk, which can be insured ha increased enormously in every walk of life. Since it is not always possible to eliminate risk, understanding it an important step in determining how to manage it. This research paper intents to throw light on the relationship between insurance and financial inclusion and as to how, in our daily lives, we can reduce financial risks and enjoy a state of wellness.

Key words: *Financial services, Insurance, Financial Inclusion, Financial literacy and Risk.*

INTRODUCTION

Due to the expanding frontiers of science and new technologies in all areas, risks are larger and much more complex now than in the past. With the new technologies, problems like breakdown or non-functioning and under functioning of equipment are likely to surface and customers will expect cover against these contingencies. Every risk involves the loss of one or other kind. Risk refers to the possibility that something unpleasant or dangerous might happen. As we all know that human beings always prefer and strive for happy situations in life and want to avoid the adverse ones. In order to face this risk factor in life, be it individual risk or financial risk, we look for something that will shield us getting affected by this risk. Besides personal risks and financial risks, there is also risk relating to new technologies. Personal risks are risks that will directly affect an individual and they involve the possibility of the complete loss or reduction of earned income. Whereas financial risk is the risk arising from the changes in the values of measurable financial values. Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to the growth in the insurance business and evolution of various types of insurance covers. In the financial system insurance acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. The centrality of finance in an economy and its importance for economic growth naturally raises the importance of financial innovation and its diffusion. A better finance can encourage more savings and investment besides encouraging more productive investment decisions; these direct positive effects from financial innovation can further its value for an economy. Financial innovations can be grouped as new products or services (e.g. Internet banking), or new organizational forms (e.g. Internet-only banks). The scope of financial services has expanded without boundaries.

The main aim of the Indian financial system is to establish a regular, smooth, efficient and cost effective link between savers and investors. The financial system in India underwent a change after 1990 with the adoption of new economic policy, which is one of liberalization. The Indian financial system is concerned about money, credit and finance – the three terms are intimately related yet are different from each other. Financial services are the process by which funds are mobilised from a large number of savers, and make them available to all those who are in need of it. These services are generally offered by the banks, financial institutions etc. Over the years, micro finance, as financial service innovation, is fast emerging as an important method of bettering the lot of the poor and the downtrodden. Need for managing financial risks has given birth to a number of micro credits, micro insurance products and many other financial services that are micro in nature.

Micro credit is based on the premise that the poor have skills which remain unutilized or underutilized. Microcredit must reach the poor, building their capacity to absorb higher credit, and also ensure greater availability of credit for small enterprises. This group of individuals includes artisans, tiny and small industries, grocers, vegetable vendors, rickshaw pullers, roadside retailers and the like. Other activities include farming, poultry, cattle rearing, piggery, fishery etc. It is amazing to know how many people are desperately looking forward to getting money to kick-start their lives. It is also unfortunate to know that larger banks are not yet willing to lend money. As a result the credit demands in India remain unfulfilled. There are some restrictions regarding what the money is used for. Usually micro credits can´t be used for the purposes like:

- Payments of other loans or other debts;
- Production of tobacco and liquor;
- Establishing trading points;
- Forming turnover capital of trade and intermediary business;
- Organization or purchasing products for gambling;
- Purchase of property that´s not used for business etc.

Such restrictions will direct and help people to concentrate on investing in positive and productive projects. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. The above mentioned are only a few which I have listed.

OBJECTIVES

1. To study the impact of financial system on risk.
2. To analyse how financial services, insurance and financial inclusion help in reducing the risk in human life.

FINANCIAL INCLUSION

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion is now one of the most talked about agendas towards holistic development of the country. Financial Inclusion, refers to universal access to a wide range of financial services at a reasonable cost. Financial inclusion also mitigates the exploitation of vulnerable sections by the money lenders by facilitating easy access to formal credit. India has made a massive contribution to the economic development by finding innovative ways. Building inclusive system can be through any of the following ways:

- Microenterprise loans (working capital)
- Safe place to save (education,
- Remittances and transfers (access to funds sent by relatives)
- Insurance (death and assets protection)
- Loans for emergency needs (illness and other emergencies)
- Pensions (old age).

According to Dr. Raghuram Rajan, in his report of the 'Committee on Financial Sector Reforms' says, "The essence of financial inclusion is to ensure delivery of financial services at low cost, specially low cost credit for productive, personal and other purposes financial advisory services, insurance facilities (life and non-life) etc. in India, a large population lives below the national poverty line and is extremely poor. In this financial inclusion has become an urgent need of the hour. Bringing low income groups within the parameter of formal banking sector is a difficult task.

Given below is the financial inclusion chart which gives us a clear understanding that there are a number of ways in which we can achieve financial inclusion.

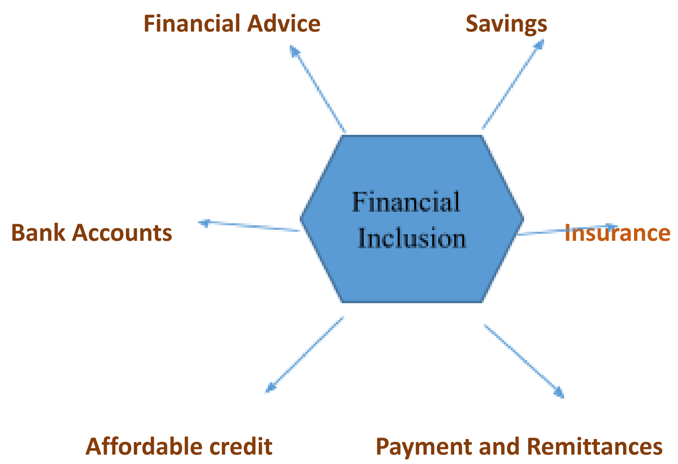

Figure: Financial Inclusion Chart

Financial inclusion broadens the resource base of the financial system by developing a culture of saving among large segment of the rural population and plays its role in the process of economic development.

FINANCIAL LITERACY

Covid has caused a huge amount of loss to both life and business. Due to the unexpected job losses and wage cuts, people have experienced financial hardships and companies, especially medium and small companies throughout the world have suffered difficulties previously unheard-of. With this unexpected income shocks – loss of jobs and wage cuts – people now understand how important it is to save money and make investments in order to handle any such emergency. Though there are many categories under financial services, the awareness of the public about such services is very important. In the rural areas, people are unaware of the innovative financial services and products made available in the market by the RBI, Banks, Financial Institutions and the Government. Therefore, financial literacy is very important in risk management. Technology also plays an important role in reducing operating cost of providing banking services, particularly in the rural and low income groups segments.

Financial services include not only banking products but also other financial services such as insurance and equity products. Access to affordable basic financial services (having a bank account, credit, deposit and insurance etc.) is one of the key challenges facing the rural and semi-urban population in India. With the advent of insurance business in India, and risk, which can be insured, has increased enormously in every walk of life. This in turn has led to growth in the insurance business and evolution of various types of insurance covers have played a great role in enhancing the financial inclusion. Liberalization has created an acute competition in the insurance market because more and more players join in the greater Indian insurance. It is necessary to promote more awareness about insurance among the public because there is a lot of untapped market in the country. Consumers should be made aware of how good money management may help them safeguard their future and avoid having to deal with unexpected expenses.

LITERATURE REVIEW

Delzad D. Jivaasha, (2019), enumerates a good number of possible risks that an organization faces and the risk management process. Risk identification, risk assessment, risk evaluation and risk treatment are the four pillars of risk management process. Enterprise risk management is extremely imperative in today's challenging environment and the individuals and enterprises which are able to manage risks are free of anxiety and worry.

G. N. Bhaskar Rau, (2019), states that where there is uncertainty there is risk and they are inseparable. The existence of risk is due to uncertainty. When an individual generates a need in his/her mind, he/she actually anticipates in the mind, a satisfactory level of fulfilment of that need. The expectancy of the outcome that is total satisfaction of the need fulfilment is a future event meaning an uncertainty and co-existing with risk. The author concludes saying, though the entire need fulfilment process is laden with risk, nobody takes risk in the expectation that it will fail.

Dr. Pareesh Shah (2018), asserts that universal financial inclusion can be achieved only through strategic efforts between the main stream financial entities and fringe players like rural co-operatives, NBFCs, MFIs, credit societies, NGOs etc. He further states that all of them have to play a complementary role in championing the cause of financial inclusion. According to him, financial inclusion is a national priority for the Indian government as it is an enabler for inclusive growth. The main objective is to bring the bottom of the pyramid of the financial landscape under the ambit of formal banking and financial system.

Thiravia Mary Gloria and P Santhi (2016), in their study found that financial literacy and financial planning is all that is needed for achieving financial stability. As the weaker section is encouraged to borrow from the bank, the banker should counsel the borrowers on the rationale behind such procedures. Government of India is making all efforts to introduce novel products measures, especially for the weaker sections. They admit that due to improper monitoring and supervision, the true purpose of the initiatives are not fully achieved. There is a need for coordinated financial education by all concerned stakeholders. There is a need for imparting financial education at school to enable early adoption of financial accountability and responsibility.

Dr. M Rifaya et al. (2016), states that the number of new policies issued in insurance sector declined over the year. Insurance products and related services are resigned to meet the risk protection needs for the low-income and financially excluded sector, affordability of premium payments are key consideration under financial inclusion through insurance. They further state that the insurance industry has undergone transformational changes after the liberalisation. To ensure a seamless growth in business, a few important factors like distribution channels, customer needs and preferences etc. should be focused. Life insurance is a big saving vehicle along with banking in such uncertain economic environment and so the industry is expected to fare reasonably well.

THE NEED FOR MICRO FINANCIAL SERVICES

Financial services need to be tailored to the needs of the poor, and marginalized. Extending access to finance in rural areas is helping farmers and small businesses thrive. Thanks to the micro financial services aimed at expanding financial inclusion in India. It is true that the first- time users may need customized products and accompanying financial literacy services that explain how to use financial products. Without financial access, these small entrepreneurs would be telling a different story. The need for micro financial services arises on account of the following reasons: Micro financial services facilitate enterprise development and provide for employment generation in rural areas. In a country like ours, there is an urgent need to alleviate poverty and one of the means to accomplish this is through the promotion of sustainable livelihood by providing easy and affordable access to credit and other complementary services. Micro finance is considered as a potential instrument for combating poverty in a sustainable manner. Micro financial services are needed to ensure effective credit delivery system. The system seeks to ensure rational allocation of resources in the form of subsidized credit especially in rural areas. Over the years, micro finance as a financial service innovation is fast emerging as an important method of bettering the lot of the poor and the downtrodden.

RISK AND RISK MANAGEMENT PROCESS

Risk is the likelihood of losses resulting from events such as changes in market prices, natural calamities etc. Events with a low possibility of occurring, but that may result in a high loss, are particularly troublesome because they are often not anticipated. In a sense risk is the probable variability of returns. Human beings always prefer and strive for happy situations and want to avoid the adverse ones. Since it is not always possible to eliminate risk, understanding it is an important step in determining how to manage it. Risk is a measurable uncertainty. How does financial risk arise? Financial risk is risk arising from the changes in the values of measurable financial variables. When financial prices change dramatically, it can increase costs, revenues, or otherwise adversely impact the profitability of an organization. Theses financial fluctuations may make it more difficult to plan and budget, price goods and services and allocate capital. The financial risk and its output can be measured in monetary terms. The range of crisis that the poor are vulnerable to includes accidents, sudden hospitalization, and death of a bread earner, loss of crops or assets, and natural calamities like floods, cyclone and droughts. Expenses incurred during such crisis are met either by borrowing from money lenders, sale or mortgage of assets or drawing of scarce savings. The affected households suffer a simultaneous reduction in income and savings and an increase in debt and expenditure. Each such crisis leaves a poor family weaker and more vulnerable.

The risk management process is built on four pillars:

RISK IDENTIFICATION	**RISK ASSESSMENT**
RISK EVALUATION	**RISK TREATMENT**

Risk identification is aimed at identifying existing and prospective risks. Risk assessment is focused on assessing risks based on frequency and severity. Based on the first two, gradation of risks factors affecting risk prioritization and thereby determining the order of risk treatment can be done. Further risk treatment is focused on devising and implementing a suitable plan to bring down the evaluated risk.

MEASURES TAKEN BY GOVERNMENT OF INDIA TO ACHIEVE FINANCIAL INCLUSION

Multiple steps have been initiated by the Reserve Bank of India (RBI) over the years to increase credit access to the poor sections of the society. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as economically & socially weaker sections and low income groups at an affordable cost. Some of them are the following:

- No-frills account
- Opening of bank branches

- Simplification of know your customer (KYC) norms
- Ensuring reasonable bank charges for the services rendered.
- Business correspondent model
- Expansion of ATM network
- General credit card
- Micro credit.
- Micro insurance.
- Micro finance.
- Pradhan Mantri Jan Dhan Yojana (PMJDY).

The Government has taken a number of initiatives in the area of Financial Sector covering the banking system and the capital market aimed at creating a more efficient and competitive financial system. Insurance, financial services and financial system itself are critical components in bringing about financial inclusion, and this in turn, will reduce risks in both life and business. Life Insurance not only provides for financial support in the event of untimely death but also acts as a long term investment. You can meet your goals, be it your children's education, their marriage, building your dream home or planning a relaxed retired life, according to your life stage and risk appetite. Need for managing financial risks has given birth to the insurance industry which has become an integral part of global finance system as well as financial system of a nation. At present the demand for micro insurance all over the world is very high.

Significance of micro insurance and micro finance

Insurance Industry also has come up with a number of innovative products, especially micro insurance products, under both life-insurance and non-life insurance. It gives the entrepreneurs the chance to focus more on their core business which drastically reduces the risk affecting their property, health or working possibilities. Insurance is fast emerging as an important strategy even for the low-income people who are engaged in wide variety of income generation activities and who remain exposed to a variety of risks mainly because of lack of financial literacy or perhaps absence of cost effective risk hedging instruments. The need for financial protection is paramount for the underprivileged sections in India. These sections, however, do not actually have any protective financial umbrella, thus Insurance can address this need by providing cover to the people across the country that need it the most. Insurance is an important financial service available in today's world as it provides security and safety against the loss on a particular event. The security and safety in turn affords peace of mind, which tends to stimulate to more work done. After the reform process, this sector has been changed according to the needs of the present days. Poor people are exposed to a wide array of risks, which make them vulnerable to income shocks. Micro insurance is a powerful weapon to fight such income shocks in life. Micro insurance makes it possible for people to take more risks. For example, when farmers are insured against a bad harvest (resulting from drought), they are in a better position to grow crops which give high yields in good years, and bad yields in years of drought. Without the insurance however, they will be inclined to be more conservative and do the opposite; since they have to safeguard a minimal level of income for themselves and their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather conditions.

According to IRDA, Micro-Insurance Regulations announced in 2005, micro insurance can be a life or general insurance policy with a sum assured of Rs 50,000 or less and the average ticket size ranges between Rs 500 and Rs. 1000/-. There is flexibility in the regulations for insurers to offer composite covers or package products that include life and general insurance covers together. There are varieties of innovative micro insurance products available in the market. More of financial literacy programmes are to be conducted to educate ourselves and others in this regard. Households need access to finance for several purposes like retirement, saving to hedge against unpredictable situations and take products for insurable contingencies. Households also need access to credit for livelihood creation, housing consumption and their emergencies.

CONCLUSION

The decisions that need to be taken in the face of risk are very different from those taken in the face of shock. Households have strategies to cope with their risk. They may develop personalized informal credit arrangements. After the deregulation of insurance business in India there is a significant change in the industry both in the products as well as the services offered to the customers. Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups are recognized as a pre-condition for accelerating growth and reducing disparities and poverty. An often- neglected aspect of emerging economies is the severe poverty that still remains, and there have been many strategies designed to provide the necessary financial assistance that can help to eradicate the third world living conditions. The potential of micro finance is to ensure financial inclusion and thereby inclusive development which is not hidden from anybody.

Innovative products, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted financial inclusion programme. Households require financial services to access a wide range of saving and investment products for wealth creation but it is all depends on their level of financial literacy. Access to financial services will empower the vulnerable groups. All commercial transactions carry risk. Here, risk management is of vital importance in the day to day business as well as human activities. As a well informed and financially literate consumer, one adds to economic stability because well informed consumers make sound investments which help to inject funds into the economy. Therefore, it is time to set aside the financial anxiety and take one's bank balance to one's own hands.

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