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FINANCIAL INCLUSION: ROLE OF BANKS IN FINANCIAL INCLUSION IN INDIA

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Abstract
IN THE 2016 GLOBAL WEALTH report, Credit Suisse Group AG showed the top 1% of India's adults held 58% of its wealth, up from 36% in 2000.
Financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. Financial inclusion is important priority of the country in terms of economic growth and advanceness of society. It enables to reduce the gap between rich and poor population. In the current scenario financial institutions are the robust pillars of progress, economic growth and development of the economy. The present study aims to examine the impact of financial inclusion on growth of the economy over a period of seven years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP.

Introduction
India is a country of 1.25 billion people, spread across 29 states and seven union territories. There are around 600,000 villages and 640 districts in our country. A vast majority of the population, especially in rural areas, is excluded from the easy access to finance. Forty per cent of the households having bank accounts, but only 38 per cent of the 117,200 branches of scheduled commercial banks are working in rural areas. Accessibility of financial services at affordable and appropriate prices has been always a global issue. Hence, an inclusive financial system is required widely not only in India, but has become a policy priority in various countries. Financial access can surely improve the financial condition and living standard of the poor and the deprived section. So, RBI has been continuously stimulating the banking sector to extend the banking network both by setting up of new branches and installation of new ATMs. Financial inclusion means the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluding. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc.

The different financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families (Kelkar, 2014). India is one country where the Financial Stability and Development Council (FSDC) have a specific mandate for financial inclusion and financial literacy. There is a separate Technical Group on Financial Inclusion and Financial Literacy under the aegis of FSDC with representation from all the financial sector regulators. In order to spearhead efforts towards greater financial inclusion, RBI has constituted a Financial Inclusion Advisory Committee (FIAC) under the Chairmanship of a Deputy Governor from RBI.

Definition
Financial Inclusion is 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" (Rangarajan, 2008) in the report of the Committee on financial inclusion in India. During April 2012, World Bank carried out a study which revealed that only 9 per cent individuals' avails new loans from banks in the previous year and 35 per cent population are having formal bank accounts in India whereas in the case of developing economies it is 41 per cent.

"Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players" (Chakrabarty, 2013). The aim of Financial Inclusion (FI) is to make easy access of financial services to the large underprivileged population of the country. It is an attempt for achieving inclusive growth of the society by making availability of finance to the deprived section of population. In order to reap the benefits of the financial services, lot of measures has been taken by Government of India in the favour of poor and neglected section of the society.

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Factors Affecting Access to Financial Services

Financial Inclusion, on the one hand, is a process aiming at providing banking services like saving account, credit facility, and insurance product to weaker sections of the society. While on the other hand, it refers to the objective of ensuring financial services (banking, insurance, and capital market services) and timely and adequate credit to every section of the society as well as of the economy. Access to financial services has been recognized as an important aspect of development and more emphasis is given to extending financial services to low-income households as the poor lack the education and knowledge needed to understand financial services that are available to them. The lack of financial access limits the range of services and credits for household and enterprises. Although there is some evidence that access is improving but still there are multiple factors which have affected the access to financial services.

Place of Living

Most of commercial banks operate only in commercial areas and these banks set their branches in profitable areas. Hence population lives in rural areas find it difficult to access the financial services. Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (i.e., highly mobile people with no fixed or formal address) etc. also affect access to these services.

Absence of Legal Identity and Gender Biasness

Minorities, economic and political migrants, refugee workers and women's are excluded from accessing financial services due to lack of legal identities such as original birth certificates and identity cards. It is generally difficult to access credit facilities for those females, who do not possess property and assets. They also needed male guarantee to access the credit from any financial institutions.

Limited Knowledge of Financial Services

Incomplete basic education and financial literacy are the major hurdles in order to access various financial services to the individuals. They do not Know the significance of different financial products i.e., bank accounts, cheque facility, bank loan or overdraft and insurance. If people having proper financial literacy, it boost up the use of many financial products by different economic agents like Business Correspondents, NGOs and MFIs and etc.

Level of Income and Bank Charges

Financial prominence of people is always plays a pivotal role in accessing available financial services. It is impossible for poor people to access financial services even when these services are made for lower income level group. Moreover in India, a lot of hidden bank charges which has been demotivated poor persons in availing these services.

Rigid Terms and Conditions

People are also least interested using such type of financial products or services which are attached with some inflexible terms and conditions. Many financial institutions having different rules relating with the use of accounts like minimum balance requirements.

Type of Business

Nature of occupation also an important factor in availing the financial services, whether it is small scale, large scale, organized and unorganized firm. Most of the banks do not prefer the small borrowers and unorganized enterprise for giving loans. Hence these loan applications tend to be rejected.

Review of literature

Many studies (Aghion& Bolton, 1997; Banerjee & Newman, 1993; Banerjee, 2001) discussed that access to finance has been seen as a critical factor in enabling people to transform their production, employment activities and to exit poverty. Researchers have been argued that the very fundamental activity of the banking sector, delivery of credit, are essential to boost any economic activity and enables the generation of capabilities (Sen, 2000). Dangi and Kumar (2013) examined the initiatives and policy measures taken by RBI and Government of India. This study also focused on current status and future prospects of financial inclusion in India. It has been concluded that financial inclusion shows progressive and valuable changes but sufficient provisions should be incorporate in the business model to certify that the poor are not driven away from banking. Suryanarayana (2008) focused on definition of inclusion/exclusion with reference to an outcome scenario for broad-based growth as reflected in estimates of production, income, and consumption distribution. The study helps in drawing a sketch of occupational, social, regional profiles of the excluded in the mainstream growth process. Hence researcher made an attempt to provide a perspective, a measure of inclusion, and finally an evaluation based on the available estimates of consumption distribution for the year 2004–2005 for India. Agrawal (2008) studied the financial inclusion from the behavioural perspective based on both factors supply and demand end. Results revealed that evaluation from the behavioural perspective provided the scope for the policy-makers and marketers to strategically align their approach with the behavioural aspect, without confining their thoughts to the economical evaluations.

On the other hand, in 2003, the RBI policy of financial inclusion was to provide access to financial service to the underprivileged could be earmarked as another bold initiative in serving the rural transects targeting inclusive growth. Committee on financial inclusion in 2008 (Rangarajan Committee) observed that financial inclusion to hitherto excluded segments of the population was critical to sustain and accelerate growth momentum. For achievement of the objective, the committee had put forward multi-pronged strategies include establishment of National mission on financial inclusion, revitalizing the RRBs and Cooperatives, introducing MFI model (SHG-bank linkage) and Business Facilitator and Business Correspondents Model. Mukherjee and Chakraborty (2012) studied the role and efficiency of the commercial banks in Jharkhand state with their capacity and role of institutions like regional rural banks (RRBs), self-help groups (SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion. The results of analysis shown that banks were not able to achieve the desired aims and study suggested that every bank should reports to the RBI on its achievement on financial inclusion more frequently. Uma and Rupa (2013) made an attempt to examine the role of SHGs in financial inclusion and reflected the positive relationship between SHGs membership and financial inclusion. The study revealed that after the membership to SHGs there was increase in the number of bank accounts, credit availed by the members and annual repayment of the loan also shown positive trend.

Joseph and Varghese (2014) analyzed the effect of financial inclusion on the development of Indian economy by bank growth rate in terms of number of bank branches, usage of debit card and credit cards. It has been observed that the usage of debit cards increased tremendously throughout the study period and decreased the number of people with access to the products and services offered by the banking system continues to be very limited, even years after introduction of inclusive banking initiatives in the country. Ravikumar (n.d.) made an attempt to assess the role of banking sector in financial inclusion process from different viewpoints namely branch penetration, ATM penetration, population per branch, distribution of banking branches, credits, deposits of SCBs and Co- operative banks in India. This study revealed that banking is a key driver for financial inclusion/inclusive growth but large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Paramasivan and Ganeshkumar (2013) discussed the overview of financial inclusion in India and concluded that branch density has a significant impact on financial inclusion. Julie (2013) analyzed the relationship between financial inclusion and economic growth in Kenya and found that both have a strong positive relationship. Economic growth has a strong positive relationship with branch networks and a weak positive relationship with the number of mobile money users/accounts. The study also concluded the weak negative relationship with the number of automated teller machines in the country and a strong negative relationship with the bank lending interest rates. Study conducted in India by Kamboj (2014) found out the positive relationship between number of bank branch networks and number of ATMs in the country with the GDP growth rate of the country.

Research Gap

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India effective financial inclusion is needed for upliftment of the poor and disadvantaged people by providing them the modified financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. Some studies are done on the financial inclusion by analyzing selected banks and other work has been found on state wise growth of financial inclusion. A few studies have been analyzed the impact of financial inclusion on Indian economic growth and found mixed results. With this backdrop, this research study is an attempt to find out the present scenario of financial inclusion in India and assessing the role of financial inclusion in economic growth of the country.

Objectives

1. To examine present scenario of financial inclusion in India.
2. To study the major factors affecting access to financial services.
3. To study the impact of financial inclusion indicators on growth of Indian economy.

Research methodology

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, and Reports on trend and progress of banking in India, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines. Various websites were also used like RBI, Ministry of Finance, and Government of India (GoI). The period under consideration for the study is seven years from 2007–2008 to 2013–2015. Data has been analyzed by applying multiple regressions as a main statistical tool. Multiple regression analysis has been used to establish an empirical relationship between Financial Inclusion and growth of the country. The present study taking Gross Domestic Product (GDP)

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as a dependent variable and independent variables are Number of Bank Branches in the country, ATMs growth rate across the country and Credit deposit ratio.

Financial Inclusion Plan and Its Performance Evaluation.

Number Of Functioning Branches Of Public Sector Banks Population Group Wise

As on	Rural	Semi Urban	Urban	Metropolitan	Total
31.03.2011	20,658	16,217	13,450	12,612	62,937
31.03.2012	22,379	17,905	14,322	13,244	67,850
31.03.2013	24,243	19,642	15,055	13,797	72,737
31.03.2014	27,547	21,952	16,319	14,644	80,462
31.03.2015	29,634	23,549	17,387	15,325	85,895

Sources: Department of Financial Services, Ministry of Finance, Government of India

Number of Banking Outlets in Villages (Total)

Year	Outlets
2012-13	268,454
2013-14	383,804
2014-15	553,713
2015-16	586,307

Sources: Reserve Bank of India

Expansion of Banks Credit with ATM Facility and Deposit Ratio

Years	GDP	No. of Bank Branches	ATMS Growth	Credit Deposit Ratio
2007–2008	4,582,086	61,132	28.43	77.6
2008–2009	5,303,567	80,200	25.47	72.6
2009–2010	6,108,903	85,480	37.8	73.3
2010–2011	7,248,860	91,037	23.86	75.6
2011–2012	8,391,691	98,330	28.43	79
2012–2013	9,388,876	102,343	19.15	78.1
2013–2014	10,472,807	117,200	40.38	77.6

Source: Compiled on the basis of different publication of RBI.

The study also covered the Automatic Teller Machines (ATMs) in India as an indicator of financial inclusion growth. The number of ATMs has continuously increasing from the financial year 2007–2008 to the financial year 2013–2014. Fig. 4 depicts growth rate of ATMs across the country and 40.38% maximum growth has been noticed during the year 2013–2014. Minimum growth has been observed in 2012–2013 and it is dropped from 28.43% to 19.5%. The credit deposit ratio during the period of seven financial years which is started from 2007–2008 to 2013–2014. The remarkable growth has been observed in the year 2011–2012 and maximum declined recorded in 2008–2009. Credit deposit ratio is slightly fell in during the years 2012–2013 and 2013–2014.

Therefore, study finds the vigorous relationship between economic growth and financial inclusion indicators in India. These findings are consistent with the findings of Julie (2013) who established that financial sector plays a crucial role in economic development.

Recent Development

Some Notable Financial Inclusion Schemes

Direct Benefit Transfer (DBT): This scheme ensures that money under various developmental schemes reaches beneficiaries directly and without any delay. Banks play a key role in its implementation.

RuPay card: It is a new card payment scheme offering a domestic, open-loop, multilateral card payment system which will allow all Indian banks and financial institutions in the country to participate in electronic payments. RuPay symbolises the capabilities of the banking industry to build a card payment network at much lower and affordable costs to the Indian banks so that dependency on international card schemes is minimised. The RuPay Card works on ATM, point of sale terminals, and online purchases and is therefore not only at par with any other card scheme in the world but also provides customers with the flexibility of payment options.

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USSD-Based Mobile Banking: This offers the facility of mobile banking using Unstructured Supplementary Service Data (USSD). Basic banking facilities including money transfer, bill payments, balance enquiries, merchant payments, etc., can be availed of on a simple GSMbased-mobile phone, without the need to download any application as in the IMPS-based mobile banking.

Current Profile people in India in terms financial inclusion the foremost financial needs—in demand are:

1. For the upper-income people, it is choice, i.e., choice of types of products, often with innovative features which gives HNIs something new to talk about.
2. For the middle-income people, it is planning, i.e., a financial plan to allocate their hard-earned savings in a way that they are able to beat inflation in the long-term.
3. For the lower-income people, it is credit, i.e., small-ticket credit to raise working capital for self-businesses, since wage-based job opportunities may be unevenly spread across regions of the country.

Each of these three segments needs to deepen financial inclusion in its own way for its economic progress, and these three needs are critical to achieve that.

Conclusion

In conclusion, as India's GDP rises, it will open up further opportunities for financial services through banks and capital markets. Efforts to build advisory, manufacturing, and distributing capabilities will feed the supply side for financial inclusion, across these three segments for their specific needs. Efforts to build awareness, education, and marketing will feed the demand side for financial inclusion, apart from broader-based economic growth pushing incomes for more Indians. The scope for deepening the penetration of financial services across the length and breadth of this country is immense. With the present government making the right noises to further the economic development agenda, it may be an opportune time to deepen economic progress for its people through more financial inclusion.

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