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FINANCIAL INCLUSION FOR INCLUSIVE GROWTH OF INDIAN ECONOMY

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ABSTRACT

Financial inclusion is an important step for the inclusive growth of an economy. It aims at delivering of the financial services and products to the excluded or underprivileged people in the society at affordable cost. It has an important role to eradicate the poverty from the country. The banking sector has shown major changes after liberalisation, privatisation and globalisation. Though commercial banks work with the prime objective of earning profit yet these also play a crucial role in economic upliftment of the society as a part of their social responsibility which can be achieved by making the financial services available to all especially the underprivileged and bringing them to the mainstream. A lot of efforts have been taken in order to achieve financial inclusion in the country yet there is a long journey to go. The present study aims at exploring the indicators of financial inclusion in India. The study also attempts to find the progress made in financial inclusion in the country over a period of 5 years from 2015-16 to 2019-20. The variables used to measure the financial inclusion progress are number of ATMs, new bank branches opened, banking outlets opened in villages and Credit deposit ratio. It has been observed that there is no significant association between GDP and these indicators of financial inclusion.

Keywords: *Financial inclusion, ATMs, Credit Deposit Ratio.*

Introduction

Financial inclusion is the delivery of financial services at affordable costs to low income groups and other disadvantaged section of the society. Bank Nationalisation in 1969, establishment of RRBs and introduction of SHG- bank linkage programs were initiatives taken by RBI to provide financial accessibility to the unbanked groups. The concept of financial inclusion came up with the recommendation of Khan Committee set up by RBI in 2004 which urged banks to review their prevalent practices to be in line with the aims and objectives of financial inclusion. The banks were expected to make available basic banking “No Frill accounts” accessible to vast section of the society. After that many committees were set up and a lot of efforts have been made in the direction of financial inclusion. A good financial inclusion policy has a great effect on the society leading to economic growth and reducing poverty and income inequality.

Need of Financial Inclusion

According to the report by C Rangarajan in 2008, “Financial exclusion” has been explained as limited access to financial services to certain segment of the society specially the low income group people who are unable to get access to even the basic banking services like bank accounts, credit and insurance facilities, financial advisory services etc. Thus there is need to bring those neglected sector to be connected with the banking services for the inclusive growth of the economy.

Ways to achieve Financial Inclusion

- **No frill accounts-** This is the initiative taken by banks to open accounts with zero balance or very minimum balance requirement for the less privileged. In 2012, the banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges. However, under this there is restriction on the number of transactions in order to prevent misuse of such accounts.

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- **Kisan Credit Cards (KCC) –** Under this, banks provide smart cards to the farmers which is aimed at providing credit facilities to the farmers to meet out their farming requirements. This is focussed on single window banking system to reduce the formalities and time in accessing the credit facilities by the farmers.
- **General Purpose Credit Cards (GCC)-** This is also a facility of providing credit cards to the rural and semi-urban under privileged population without the need of any collateral security. It is aimed at providing credit facilities to meet non- farming entrepreneurial needs of individuals.
- **Saving account with overdraft facility-** This is the facility to provide overdraft facility on savings account of customers in order to facilitate credit at lower rates.
- **Self help groups-** Under this scheme the banks involve themselves with a group of local people who come together to meet out the credit requirements of each other by creating a pool of funds. This is based on the concept of savings first, lending later. The bank provides the framework, accounting services and support to the group to manage their deposit and lending. The risk of non payment is also less due to peer pressure.
- **Business facilitators/ Business correspondents-** Under this facility , the business facilitators/ business correspondents are provided with technical power by the banks and provide the financial services to the less privileged section of the society. Later the model changed its form wherein the gap between the public and the bank is fulfilled by these BFs/BCs. Now the banks have started coming up with the concept of ultra small branches to provide support and supervise work of certain number of BFs/BCs. Also banks could have in-house model where BF/BC outfits could be a subsidiary with its own structure but under closer supervisory control

Review of Literature

(Joseph, 2014) conducted her study to identify the extent to which the people having different demographic profile residing in a rural area are conversant with banking habits. It also aimed to explore the financial awareness amongst the rural people. By taking a sample of 100 respondents the study found that Bank ATM facility and security are the main reason for depositing in the banks. The study also suggested that people should not only have access to basic financial services but should also actively use them to have effective financial inclusion. (Iqbal & Sami, 2017) conducted a study to examine the impact of financial inclusion on growth of the economy over a period of seven years. The study found a positive and significant impact of number of bank branch and credit deposit ratio on GDP of the country whereas an insignificant impact has been found in ATM's growth and GDP. (Garg & Agarwal, 2014) in their study made an attempt to explain the concept of financial inclusion and its importance for the development of the society and the country's economy. The authors have also analysed the progress made by the Indian banks in the field of financial inclusion on the basis of secondary data. (Bakhshi & Vijayvargiya, 2018) examined the level of satisfaction and awareness regarding financial literacy and financial inclusion amongst the common masses in Rajasthan. A sample of 1205 residents were taken and structured questionnaire was used to collect the data. Probability cluster sampling methodology has been used in the study. The study revealed highly positive and significant impact of location on financial affairs of the respondents. It also highlighted that education, age, annual income, category, household structure affect majority of aspects of financial knowledge and behaviour of respondents. (Samanta, 2018) focussed on identifying the utilisation of existing resources like mobile phones, banking technologies, Indian post office, Business correspondence and others for financial inclusion of rural population

Objective of the Study

- To explore the factors affecting access to financial inclusion
- To examine the current scenario of financial inclusion in India.
- To explore the association amongst the variables of financial inclusion and GDP

Research Methodology

The present research uses various indicators of financial inclusion and examine their association with the GDP of the Indian Economy. Secondary data has been used in the study. The data has been collected from the official website of RBI and its publications. Correlation has been applied to analyse the data using SPSS software.

Period of the study

The study covers a period of 5 years from 2015-16 to 2019-20

H_0: There is no significant association between indicators of financial inclusion and GDP.

H_1: There is significant association between indicators of financial inclusion and GDP.

Present scenario of financial inclusion in India

According to Report on trends and progress of Banking in India 2019-20, the latest Financial Access Survey (FAS) data of the IMF revealed that as a result of the initiatives taken by the Reserve Bank of India and Government of India, there has been a major improvement in the direction of financial inclusion. The number of bank branches per 1,00,000 adults has risen to 14.6 in 2019 as against 13.6 in 2015 which is more than Germany, China and Africa. With a view to speed up the level of financial inclusion in the country, the National Strategy for Financial Inclusion (NSFI) 2019-24 has been released in January 2020. In order to examine the current scenario of financial inclusion in the country the growth in the number of branches of banks, banking outlets in villages and credit deposit ratio are used as measures. Moreover ATMs play a major role in availing the banking services so focus is also given on increasing the ATMs all over the country. There are various reasons causing hindrance in accessing the financial and banking services to reach the remote places and the low income people in the country which may be listed as under:

- **Place of living:** As most of the commercial banks are located in urban and semi-urban areas, so the people in rural areas or remote areas are at distance places making financial inclusion less accessible.
- **Level of income:** Majorly the financial services are availed by the higher class people in the society, the lower income group is deprived of the services either due to lack of knowledge, lack of access to the authorities, financial or literacy factors etc.
- **Absence of legal identity proofs:** People having problems like non-availability of birth certificate, aadhar card, driving licence, pan card etc. are unable to prove their identity thereby remain neglected from getting access to the financial services.
- **Gender Biasness:** The females who are not having sufficient assets to serve athe purpose of security, are not able to avail the credit facilities and also deprive of financial inclusion.
- **Bank charges:** There are many hidden bank charges which throws back the intensity of using the financial services and financial products by the lower income group people.
- **Lack of knowledge/ Illiteracy:** Being illiterate or having limited knowledge about the financial products and financial services offered by the banks also prove to be major hurdle in accessing the banking services
- **Terms and conditions:** The rigid terms and conditions for opening the accounts, availing credit facilities, opening of locker facility etc. are also the reasons which demoralise the poor class from accessing the financial services.
- **Type of business:** The financial institutions also take less interest in providing the credit facilities and loans to small entrepreneurs, new ventures and other unorganised sectors. This also proves to be a hindrance in successful implementation of financial inclusion.

Data Analysis and Interpretation

Table 1: Measures of financial inclusion in the country from 2015-16-2019-20

Year	Number of ATMs	Number of Village outlets	Number of newly opened bank branches	Credit Deposit ratio (CDR) (in %)
2015-16	198952	586307	6986	78.20
2016-17	208354	598093	5306	73.03
2017-18	207052	569547	3948	74.20
2018-19	202196	597155	4516	75.10
2019-20	210760	599217	4116	73.70

Source: Report on Trends and progress of Banking in India (2015-16 to 2019-20)

Table 2: Gross Domestic Product

Year	In (Rs. Crores)
2015-16	13771874
2016-17	15391669
2017-18	17098304
2018-19	18971237
2019-20	20339849

Table 1 shows the various measures of financial inclusion in the country namely number of ATMs, new bank branches opened, total number of village outlets and credit deposit ratio. There has been an increase in the number of ATMs from 198952 in 2015-16 to 210760 in 2019-20. Similarly the number of banking outlets of villages has also risen from 586307 to 599217 during this period of 5 years. The new branches opened in 2015-16 were 6986 which is 4116 in 2019-20. There has been decrease in credit deposit ratio from 78.20% to 73.70% during this period.

Table 2: shows the gross domestic product of India. GDP is considered as an indicator of growth of an economy. The GDP has been Rs. 13771874 crore in 2015-16 which has increased to Rs. 20339849 crore in 2019-20.

In order to understand the trend of these indicators of financial inclusion, these have been depicted in the form of graph as under:

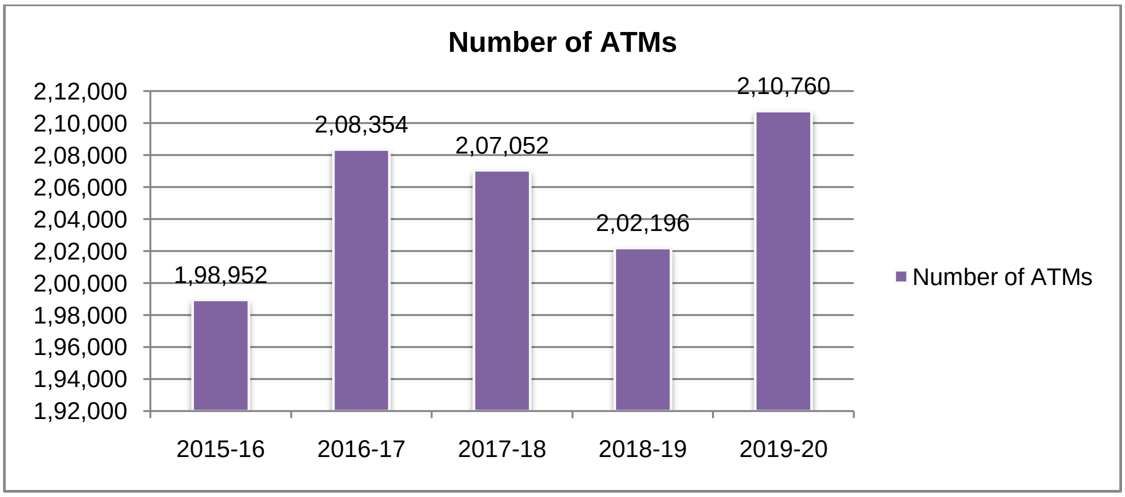

Figure1: Number of ATM in the country during 2015-16 to 2019-20

It has been observed from figure 1 that the number of ATMs have increased from 2015-16 to 2019-20 with a fall in the year 2018-19.

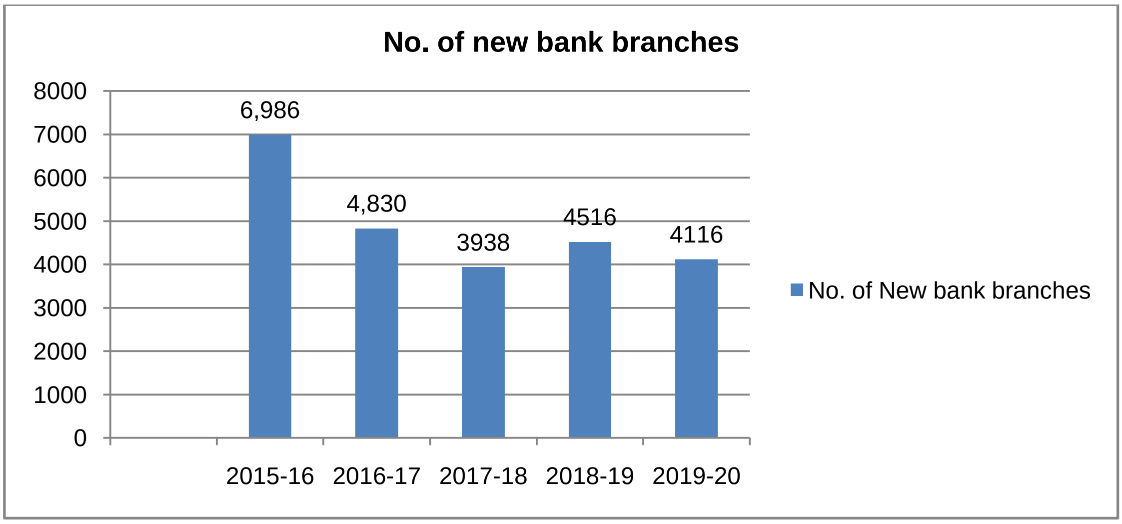

Figure 2: Number of New bank branches opened during 2015-16 to 2019-20

The new branches opened by the banks had been 6,986 in 2015-16 and there has been considerable number of branches opened in each year under study which can be observed form figure 2.

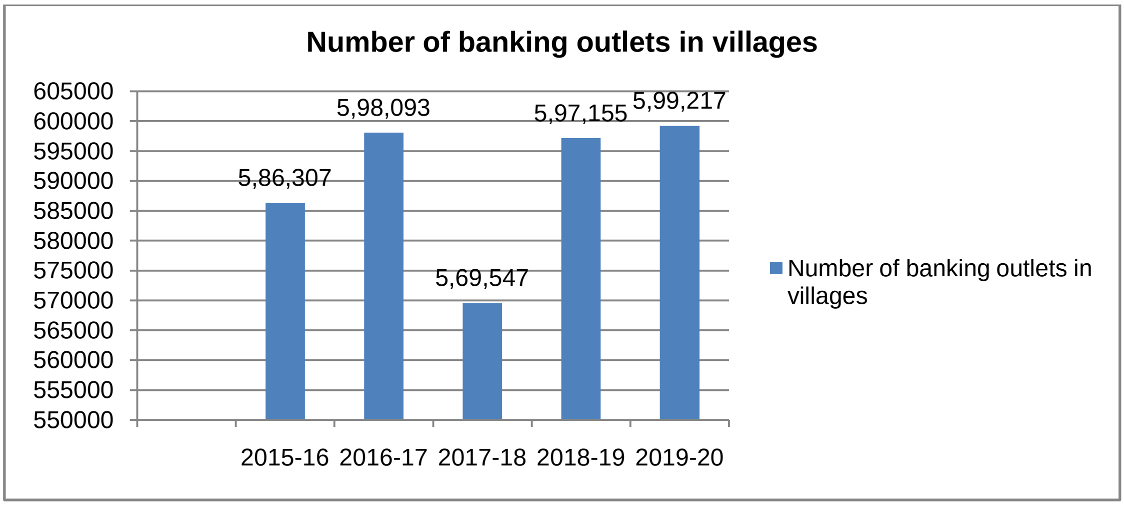

Figure 3: Number of banking outlets in villages from 2015-16 to 2019-20

It can be seen from the figure 3 that as per the requirement of financial inclusion the banks have opened various branches and branchless outlets in villages, the total of which is reflected in the above figure. There has been considerable number of outlets in 2015-16 which is rising in all the years except 2017-18.

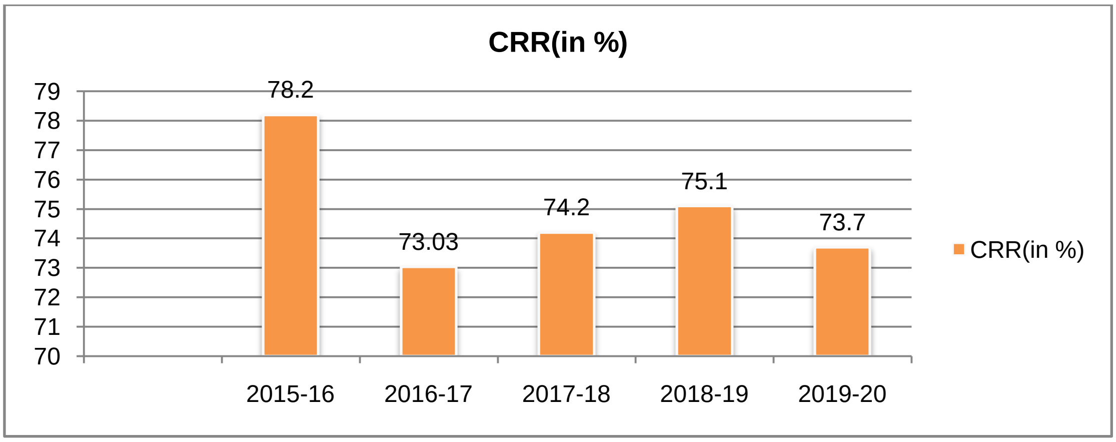

Figure 4: Credit deposit ratio (in %) from 2015-16 to 2019-20

The credit deposit ratio of the banks has been shown in figure 4. This shows a high CRR of 78.2% in 2015-16 which has been lowered in 2016-17 to 73.03% and then reached to 73.7% in 2019-20 after a gradual rise in 2017-18 and 2018-19. In order to see the association between various indicators of financial inclusion and indicator of growth of economy, correlation has been applied.

Table 3: Correlations

		Gross domestic product	Number of bank branches	Number village outlets	Credit deposit ratio	Number of ATM opened
Gross domestic product	Pearson Correlation	1	-.830	.313	-.528	.547
	Sig. (2-tailed)		.082	.608	.360	.340
	N	5	5	5	5	5
Number of bank branches	Pearson Correlation	-.830	1	.081	.765	-.707
	Sig. (2-tailed)	.082		.897	.132	.182
	N	5	5	5	5	5
Number village outlets	Pearson Correlation	.313	.081	1	-.222	.167
	Sig. (2-tailed)	.608	.897		.719	.788
	N	5	5	5	5	5

Credit deposit ratio	Pearson Correlation	-.528	.765	-.222	1	-.903*
	Sig. (2-tailed)	.360	.132	.719		.036
	N	5	5	5	5	5
Number of ATM opened	Pearson Correlation	.547	-.707	.167	-.903*	1
	Sig. (2-tailed)	.340	.182	.788	.036	
	N	5	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).						

The above table shows the association between various indicators of financial inclusion and GDP. It has been observed from the above table that the pearson correlation has been applied between GDP and number of newly opened bank branches in which the p value is .082 which is higher than the significant value .05 that leads to the acceptance of the null hypothesis that there is no significant association between the two variables. Similarly the p value of correlation between GDP and number of village outlets is .608 which also leads to acceptance of the null hypothesis that there is no significant impact of number of village outlets on GDP. The p value of correlation between credit deposit ratio and GDP is .360 which is also more than the significant value that also leads to the conclusion that there is no significant association between these two variables. The p value of correlation between ATMs and GDP is 0.340 which is also more than the significant value 0.05 and leads to the conclusion that there is no significant association between GDP and ATMs.

Conclusion

Financial inclusion is of prime importance for the inclusive growth of the economy. There are various hindrance in accessing the financial services by the under-privileged which needs to be addressed. The various approaches have been adopted by the banking sector of India. Number of ATMs, newly opened bank branches, banking outlets in villages and credit deposit ratio are some prime indicators of financial inclusion. In order to check their association with the growth correlation has been applied and it has been found that these indicators of financial inclusion do not show any significant association with GDP.

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