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DETERMINANTS OF FINANCIAL INCLUSION AND ITS IMPACT ON GROWTH: A STUDY IN INDIAN CONTEXT

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ABSTRACT

Financial inclusion refers to the provision of financial services for the low income groups and under privileged. Number of initiatives have been taken by the Government of India and Reserve Bank of India to provide financial services for those, which have been financially excluded. Financial inclusion is vital for the growth of the economy as it bridges the gap between the rich and poor and ensures their participation towards the growth of the economy by mobilisation of funds which ultimately leads to more savings and investment. Despite being various initiatives taken by the Government there still exists a gap between the providers of the financial services and those who are in need of those financial services. Study intends to investigate the reasons behind that gap between the demand and supply of financial literacy as well. The present study aims to investigate various indicators of financial inclusion and the extent of financial inclusion in economy and finally its impact on growth on the economy in India by taking a period of 10 years. Regression analysis will be used to study the impact of financial inclusion on the growth of the economy and to suggest policy measures for bridging the gap between the demand and supply of financial services with special emphasize on rural population.

KEYWORDS: *Financial Inclusion, Financial Literacy, Growth, India, Rural.*

Introduction

Financial Inclusion is a matter of concern in the economies all across the word. Major concern of the Government is the provision of financial services for those who are financially excluded and also to help them managing their finances efficiently so that they could have an important contribution towards the growth of economy. Many international institutions and the national governments have taken various policy initiatives to provide the poor with the basic financial services. Pradan Mantri Jan Dhan Yogna in India is an important example of the initiative taken by the Government for financial inclusion. This initiative of Indian Government is basically demand driven as compared to the earlier initiatives which were basically supply driven, access to the basic financial services starts with a bank account, so banks could play an important role in the financial inclusion. Technology also has an important role in financial inclusion, i.e. in" Sub-Saharan Africa, 12% of the adults have a mobile money account and 45% of them rely on mobile phones alone for formal banking". (Arun and Kamath, 2015). Forty percent of Indian households have bank accounts but out of 1,17,200 branches of scheduled commercial banks, only 38% are operating in rural India. Data shows that 70% of the adult population in the emerging economies is deprived of the basic financial services, when it comes to India; the story is not so different (Gwalani and Parkhi, 2014). An important aspect of financial development is to provide the access of basic financial services with special emphasize to the poor and low income households. Major hindrances in the access of basic financial services are place of living, absence of legal identity and gender biasness, lack of financial literacy, level of income and bank charges, rigid terms and conditions (Iqbal and Sami, 2017).

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Despite being the factors responsible for the lack of access to the financial services at an individual level, there are some of the factors which result in the lack of providing financial services for those who are in need of it or in other words these are the factors at Institutional level. But such constraints may be overcome by making available the legal identity cards, simplifying the complicated procedures and rigid terms for availing the basic financial services (Gupte et al, 2012). Various Governments, Central banks of the countries and international organisations have taken number of initiatives for financial inclusion at regular intervals.

Financial Inclusion- the Conceptual Framework

The committee set up under Dr. Rangarajan (Report of the Committee on Financial Inclusion, 2008) defined "financial inclusion to be a 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 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).

Review of Literature

- **Determinants of Financial Inclusion**
  - **Gupte et al (2012)** studied the determinants of financial inclusion and computation of an index with specific reference to India by taking a geometric mean of four critical dimensions- outreach (penetration and accessibility), usage, ease of transactions and cost of transactions.
  - **Goel and Sharma (2017)** attempted to develop an index that allows for a general overview of India in terms of financial inclusion by taking a period from 2005-2015. The index was calculated using three dimensions related to the measurement of the level of access and usage of financial services. Methodology used by United Nations Development Programme (UNDP) in computation of some popular indices such as Human Poverty Index, Gender Development Index etc were adapted for constructing Financial Inclusion index. Three dimensions taken for financial inclusion index were: Banking penetration (measured by demographic branch penetration), availability of banking services in demographic as well as geographic terms (no.of ATMs per 1,00,000 population, number of bank branches per 1,00,000 population, number of ATMs per 1,000sq.km) and access to insurance (measured by number of life insurance (LIC) offices). It was evident from the results that India had low financial inclusion from 2005-2012 as FII value was between 0-0.4, during 2013, India fall in medium level of financial inclusion as FII value rose to 0.6 whereas India fall in the category of high financial inclusion during 2014-2015 with FII value of 1.
  - **Yorulmaz (2018)** measured the extent of financial access by constructing a broader multidimensional financial inclusion indices using both demand and supply side information. Indicators for financial inclusion index were outreach indicators (number of bank branches per one lakh population, number of ATMs per one lakh population, number of branches per 1000 sq km, number of ATMs per 1000 sq km, deposit accounts per 1000 adults, credit accounts per 1000 adults), usage indicators (deposit-income ratio, credit-income ratio, life insurance premium volume/GDP) and cost indicators (bank cost-income ratio) and ease indicators over a period of 8 years from 2004-2011 in 179 countries.
  - **Bihari (2011)** conducted a study to provide with an index of financial inclusion by following a multidimensional approach such as Banking penetration, availability of banking services, usage. Results of the study showed that India had low level of financial inclusion as index of financial inclusion was 0.194 which was below 0.3.
  - **Arun and Kamath (2015)** attempted to study the picture of financial inclusion at a global level by providing a global macro perspective on the situation of policies and practice and the intricacies of the challenges involved in achieving full financial inclusion. The study showed that cultural beliefs affects the understanding of the participants about the money, savings and investment so more culturally appropriate policies need to be formed to better suit their needs.

- **Financial Inclusion and Economic Growth**
  - **Julie (2013)** conducted a study to examine the relationship between financial inclusion and growth in Kenya by applying a multiple regression analysis. The study concluded that the economic growth in Kenya had a strong positive relationship with the financial inclusion in Kenya. A branch network had the highest influence on the growth followed by number of mobile money users/accounts then the number of ATMs in the country and bank lending interest rates.
  - **Sarma and Pais (2008)** examined the relationship between financial inclusion and development by using an index of financial inclusion developed by Sarma (2008) to investigate macro level factors that can be associated with financial inclusion. Study concluded that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanization and poor connectivity seem to be less financially inclusive.
  - **Iqbal and Sami (2017)** investigated the impact of financial inclusion on the growth of the Indian economy over a period of seven years. Data was analysed using multiple regression analysis. Results of the study concluded that number of bank branches and credit deposit ratio had a significant positive impact on the GDP whereas ATMs growth had a non-significant impact on the growth of economy. The study concluded that financial inclusion has a strong association with the progress and growth of the country but government should focus on organising financial literacy and E-banking training programmes to have a better access to the basic financial services.

Status of Financial Inclusion in India

Government of India and RBI has been making continuous efforts towards the penetration of banking system in India, the process started with the establishment of State Bank of India in 1955 which launched its campaign titled “Swabhiman” in February, 2011 for Financial Inclusion (Gwalani and Parkhi, 2014). RBI has taken numerous initiatives for the financial inclusion which includes liberalising regulations, introduction of various financial products and started with various programmes related to the financial literacy and awareness. Some of the recent initiatives include no frill accounts, introducing Business Correspondents and General Credit Cards (GCC) for small deposits and credit. NABARD launched Self Help Groups (SGH)-Bank linkage programme in 1992 which was a major initiative towards financial inclusion. Started as a pilot project to finance 500 SHG across the country, it proved very successful. Another initiative was the issuance of Kisan Credit Cards (KCC), as per Mr. Namo Narayan Meena, Mininster of state for Finance in 2010, India’s banking system has issued 9.25 crore KCCs as on March 31, 2010 since its inception in August, 1998. Number of bank branches are opened by scheduled commercial banks in the rural areas which basically include Regional Rural Banks. Apart from these initiatives, numerous other initiatives for providing ease and minimising cost of transactions are taken by RBI such as no frill account, which require minimum or zero balance to open an account, relaxing Know Your Customer (KYC) norms, adoption of Electronic Benefit Transfer (EBT), GCC etc (Gupte et al, 2012). Despite being taken numerous initiatives by GOI and RBI, India’s dream of 100% inclusion has not been achieved so far. Only 38% of the bank branches are operating in rural area providing coverage to the 40% of the country’s population. A target of 5 crores new accounts by March, 2012 was set and the target was over met, but its just a number game, reality is totally different because the number of operative accounts is very less.

Financial Inclusion and Economic Development

There is a lot of debate on the relationship between financial inclusion and economic development of a country. But it is a well know fact that provision of basic financial services for poor and unprivileged sections of the society is helpful for them in management of their routine expenses, inculcate a habit of savings and investment in them, as a result of which their money would be utilised in more productive activities. World Bank has indentified financial inclusion as one of the indicator out of various indicators of the growth of an economy. Also World Bank Group is of the view that financial inclusion helps in poverty reduction and sustainable development. But, majority of the population living in rural areas in India is still deprived of the basic financial services even after so many years of independence, it is also true that the major reason behind that is lack of financial literacy but a large part of the population still don’t have any access to these financial services.

Objectives of the Study

- To study the concept of Financial Inclusion and various determinants of financial inclusion
- To study the impact of Financial Inclusion on Economic Growth in India
- To study the specific measures for the policy makers for achieving high level of financial inclusion.

Hypothesis of the Study

H_{01}: There is no significant relationship between Financial inclusion and economic growth in India

H_{11}: There is a significant positive relationship between financial inclusion and economic growth in India.

H_{02}: Financial inclusion has no impact on economic growth in India.

H_{12}: Financial inclusion has a significant positive impact on economic growth in India.

Research Methodology

Present study is descriptive in nature. Data for the purpose of the study is collected from the secondary sources such as website of RBI and Ministry of Finance for a period of 10 years from 2009-10 to 2018-19. Financial inclusion is measured by the variables: number of banking outlets in villages, number of KCCs, number of GCCs and number of Basic Saving Bank Deposits Accounts whereas for measuring growth of economy GDP at constant prices is taken.

Financial Inclusion in India

The following table 1 shows the various variables of financial inclusion over a period of 10 years from 2009-10 to 2018-19 (KCC, GCC, BSBDAs etc.)

Table 1: Financial Inclusion in India

Year	Total Banking Outlets in Villages	Total Number of KCC (in millions)	Total Number of GCC (in millions)	Total BSBDAs (in millions)
2018-19	597155	49	12	574
2017-18	569547	46	12	536
2016-17	598093	46	13	533
2015-16	5,86,307	47	11	469
2014-15	553713	42.5	9.2	398.1
2013-14	383804	39.9	7.4	243
2012-13	268454	33.79	3.63	182.1
2011-12	181753	30.24	2.11	138.5
2010-11	116208	27.11	1.7	104.76
2009-10	67694	24	1	73.45

Source: Annual Reports of RBI

Table 2: Relationship between Financial Inclusion and Economic Growth Correlations

		GDP	Banking Outlets in villages	KCC	GCC	Basic Saving Bank Deposit Accounts
GDP	Pearson Correlation	1	.773**	.941**	.938**	.961**
	Sig. (2-tailed)		.009	.000	.000	.000

** Correlation is significant at 0.01 level

Table 2 depicts a positive and significant relationship between GDP and various indicators of Financial Inclusion, Since p value<0.01, so null hypothesis is rejected and concluded that there is a significant positive relationship between Financial Inclusion and Economic Growth in India. Basic Saving Bank Deposit Accounts, Kisan Credit Cards, General Credit Cards have a very strong positive relationship with the growth of economy.

Impact of Financial Inclusion on Economic Growth

Multiple regressions has been applied to study the impact of financial inclusion on economic growth, results are shown in Table 3 as follows:

Table 3: Impact of Financial Inclusion on Economic Growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change			df2	Sig. F Change
1	.982[a]	.964	.935	.14523	.964	33.196	4	5	.001

a. Predictors: (Constant), BSBDA, BaOut, KCC, GCC

Table 4: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.801	4	.700	33.196	.001[a]
	Residual	.105	5	.021		
	Total	2.906	9			

a. Predictors: (Constant), BSBDA, BaOut, KCC, GCC
b. Dependent Variable: GDP

Table 5: Multiple Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	106.373	.642		165.679	.000
	About	5.955E-7	.000	.248	2.087	.091
	KCC	.036	.025	.570	1.402	.220
	GCC	-.086	.069	-.724	-1.250	.267
	BSBDA	.003	.001	.953	2.096	.090

Multiple regression is applied to find out impact of different components of the financial inclusion on the GDP growth. Results of table reveals that different components of financial inclusion jointly account for 93.5% in the GDP growth rate with F value= 33.196 and p value is 0.001, therefore null hypotheses is rejected that financial inclusion has a significant impact on the economic growth. Standard error of estimate is 0.14523 which shows that predicted scores may vary from the actual with the divergence of 0.14523 [Table 3, 4, 5] The partial regression coefficients 'B' of Financial inclusion components (Bank Outlets in Villages, number KCCs, number of GCCs and BSDBAs) are 5.955E-7, 0.36, -0.86 and 0.003 respectively, which means that the direction of influence for 3 predictors (Banking outlets in villages, KCC, Basic saving Bank deposit accounts (BSBDAs)) is positive and for one predictor (GCC) is negative.

Following regression equation is obtained from the above results:

$Y=106.373+5.955E\text{-}7X_1+0.036X_2-0.086X_3+0.03X_4$

Conclusion

Results of the study shows that various indicators of financial inclusion have a strong and significant positive relationship with the growth of the economy. Also various variables jointly account for about 93.5% variance growth in the economy which is significant at 0.01 level. Government and RBI have taken various initiatives to achieve 100% financial inclusion but still some part of the rural population is not having access to the basic financial services, financial literacy would be an important factor towards fulfilling the dream of full financial inclusion, government must take various measures to increase the level of financial literacy in amongst the young population. Also technology plays an important role in financial inclusion, so more initiatives need to be taken by RBI and Government regarding the use of technology in financial services.

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