International Journal of Information Movement Vol.2 Issue X February 2018)

Website: www.ijim.in ISSN: 2456-0553 (online) Pages 5-8

FINANCIAL INCLUSION IN INDIA- AN EMPIRICAL STUDY

Kunal Samanta
Guest Lecturer,
Department of Commerce, Surendranath College
Email: Kunalsamanta1997@gmail.com

Abstract: As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated by the Reserve Bank of India and Government of India in favor of financial inclusion but the impact of these did not yield satisfactory results. The paper aims to focus on utilizing the existing resources such as Mobile phones, Banking Technologies, India Post Office, Fair Price Shops and Business Correspondents (BCs) thereby making it more efficient and user friendly for the interest of the rural population as well as the formal sector.

Keywords: Financial Inclusion, Inclusive Growth, Bank, RBI, Finance

1.0 Introduction: With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking.

The penetration of financial services in the rural areas of India is still very low. The factors responsible for this condition can be looked at from both supply side and demand side and the major reason for low penetration of financial services is, probably, lack of supply. The reasons for low demand for financial services could be low income level, lack of financial literacy, other bank accounts in the family, etc.

2.0 Objectives of the Study

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

3.0 Methodology

Secondary data has been used for the purpose of the present study. The data is taken from journals and research papers, newspapers articles, websites and published reports.

4.0 Review of Literature

Select Studies RBI (2005) proposed financial inclusion based on the business facilitators/ business correspondent model, adapting the Brazilian success story in India. In 2005, efforts were made enabling banking services to reach the rural areas through credit facilities. While the banking network started expanding in the rural areas, there were still a majority of the population in rural areas without having access to banking services.

GOI (2008) examined financial inclusion as a delivery mechanism providing financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups.

Kamath (2008) attempted to understand the impact of Micro-Finance Institution (MFI) loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The Financial diary methodology was used to collect the data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of the households of Ramanagar area, Karnataka, India, and the Principle Component Analysis (PCA) methodology was used to analyze the data.

CRISIL (2016) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount.

5.0 Definition of Financial Inclusion:

According to the Planning Commission (2009), financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation.
GOI (2008) defines Financial inclusion 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. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

6.0 Advantages of Financial Inclusion:

Given below are some of the advantages of financial inclusion –
1. In villages where there are no banks available poor people take loans from moneylenders and rich people who tend to exploit these people by charging higher interest ranging from 15 to 30 percent per year. With financial inclusion these people can take loan from banks and also from government through banking.
2. It will also develop a habit of saving among poor people. If they have banks or financial institution at nearby place then they can save their money in banks and can rely on that money in time of emergency.
3. It will also be helpful for the country as a whole also because these small savings by rural people can be channelized and can help in capital formation and growth of the country as a whole.
4. It will also be beneficial for the government because various schemes meant for poor does not reach the poor because of middle men, but with the banks being present in these areas these limitations can be eliminated

7.0 Scope of Financial Inclusion

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to as savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

8.0 Dimensions of Financial Inclusion with Reference to India:

The level of financial inclusion in India can be measured based on three tangible and critical dimensions. These dimensions can be broadly discussed under the following heads:

8.1 Branch Penetration: Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

8.2 Credit Penetration: Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

8.3 Deposit Penetration Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed. Among the three dimensions of financial inclusion, credit penetration is the key problem in the country as the all India average ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply.

9.0 Financial Inclusion Initiatives

- ✓ Relaxed and simplified KYC norms.
- ✓ Simplified Branch Authorization Policy
- ✓ Compulsory Requirement of Opening Branches in Un-banked Villages
- ✓ Opening of intermediate brick and mortar structure

On the regulatory side, the banks were mandated to open at least 25 per cent of their new branches in unbanked rural centers. Taking into account the difficulties encountered by common people in meeting the 'Know Your

Customer (KYC)' requirements for opening bank accounts, several measures were taken. For example, RBI allowed banks to accept self-certification for opening of basic service bank accounts. RBI has encouraged banks to open Aadhaar Enabled Bank Accounts by linking Aadhaar numbers of individuals, wherever available, with the Basic Savings Bank Accounts opened for them, so that their credit histories can also be built up over time.

10.0 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.

11.0 Discussions

While studies on financial inclusion have tackled the issue from variety of viewpoints, with the exception of conceptual studies, the focus is seemingly on finding out the relationship between financial inclusion with awareness, digital technology and constraints to access. Moreover, at the present global scenario, technology is found to be a determining factor in the ultimate performance of financial inclusion policy, regardless of the context or the participants of the study with relevant to this topic. Financial inclusion is the only hope for financial development, which will lead to growth of economy. It was well documented in the above literature that supports this study to the great extent. An apparent increase in addressing the population of financial exclusion requires a holistic approach for the banks to put forth the level of awareness on financial system, appropriate financial advice and affordable system of credit to kindle the whole importance of formal financial system management for which banks needs to enact strategies for reach in a cost-effective manner and it should also be less time consuming process. It is possible through bridging relationship with NGOs, microfinance institutions and eligible individual and agents. The promotion of financial system should reach the person which is possible through technology, a viable tool that provides financial access in quick and cost effective way.

12.0 Conclusion

It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions, NGO's and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English.

13.0 Bibliography

13.1 Books:

1. **Towards Financial Inclusion in India -** K G Karmakar, G D Banerjee, N P Mohapatra.
2. Financial Inclusion of the Marginalised - Sharit Bhowmik, Debdulal Saha.
3. Financial Inclusion, Inclusive Growth & the Poor –Padmaja Mishra.

13.2 Articles:

13.2.1 Financial Inclusion in India: An Analytical Study- Dr. Vipin Kumar Aggarwal Department of Commerce, Sri Aurobindo College University of Delhi.

13.2.2 Financial Inclusion: Can It Meet Multiple Macroeconomic Goals - Srobona Mitra, Annette Kyobe, Yen Nian Mooi, and Seyed Reza Yousefi.

3. http://citeseerx.ist.psu.edu
4. https://iimb.ac.in
5. https://www.sciencedirect.com
6. https://www.ripublication.com

I. WEBSITES:

1. WWW.RBI.GOV.IN
2. HTTPS://MYGOV.IN/
3. HTTPS://DATA.GOV.IN