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Role of Financial Inclusion in the Development of Indian Economy

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Abstract
Mobilization and circulation of finance is the primary requirement of development of an economy. Achieving inclusive growth makes financial inclusion a key policy concern for a developing nation like India.The basic objective of the study is to analyse the effect of financial inclusion in the growth of Indian economy and the initiatives taken by the banking institution in India to attain inclusive growth.The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country.
This paper attempts to assess the current status of financial inclusion on the development of Indian economy by analyzing five state bank group and five private sector banks.Bank growth rate in terms of number of bank branches, offsite and onsite ATM,usage of debit card and credit cards were analysed. It was observed from the study that the usage of debit card has increased tremendously throughout the study period and banks focused more on rural and semi-urban areas.But still it is disheartening to note that 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,like cooperative movement, nationalization of banks, creation of regional rural banks,etc.From this it can be concluded that the financial inclusion contribute much to the development of Indian economy and there is further scope for achieving inclusive growth.
Keywords: Financial Inclusion, SCB, On-site & Off-site ATM.

Concept

Banking and financial services play very crucial role in the growth and development of an economy.Research shows that a well-functioning and inclusive financial system is linked to a faster and equitable growth. There is wide range of personal finance options for higher and upper middle income population in the form of financially engineered and innovative products whereas a significantly large section of population still lack access to the most basic banking services that is holding a bank account.This is termed as “financial exclusion” which further leads to social exclusion.So it is necessary to provide individuals with easy and affordable institutional financial products or services popularly called “financial inclusion”.Universally, it is accepted that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit the people with low incomes. In India, there is a need for coordinated action amongst the banks, the government and related agencies to facilitate access to bank accounts to the financially excluded. In view of the need for further financial deepening in the country in order to boost economic development, there is a dire need for expanding financial inclusion.

Twenty-three years after economic reforms unfurled in India, the financial sector still suffer from many maladies.There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy. From supply side, lack of avenues for investment such as poor bank penetration,unwillingness of banks to do financial inclusion or high cost involved in financial inclusionseem to be some likely reasons for financial exclusion. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section.

It can also 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.[1]. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

Financial inclusion is aninnovative concept which helps to achieve the sustainabledevelopment of the country, by making available financial services to the unreached people with the help of financial institutions.The concept of financial inclusion get popularity from 2000. Financial inclusion is concerned with providing financial and banking services on lower costs to low section and slum people of society.It can be a great weapon to overcome financial backwardness.Access to financial services plays a critical part in development by facilitating economic

[1] The Committee on financial inclusion, Chairman, Dr. C. Rangarajan

growth and reducing income inequality. Inclusive financial systems allow poor people to smooth their consumption and insure themselves against the many economic vulnerabilities they face—from illness and accidents to theft and unemployment. Financial inclusion enables poor people to save and to borrow—allowing them to build their assets, to invest in education and entrepreneurial ventures, and thus to improve their livelihoods. It is likely to benefit disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor.

Significance of Financial Inclusion

- It mobilizes savings that promote economic growth through productive investment.
- It promotes financial literacy of the rural population and hence guides them to avoid the expensive and unreliable financial services.
- This helps the weaker sections to channelize their incomes into buying productive resources or assets.
- In the situations of economic crisis, the rural economy can be a support system to stabilize the financial system.

Significance of the study

Financial inclusion has now become the buzzword today in academic and policy circle due to its role in percolating the benefits of economic growth and development to the 'bottom of the pyramid'.Research in last decade shows that financial inclusion will bring faster and equitable growth. Both Government and banks are taking initiatives to promote financial inclusion so that any individual can get access to the financial services. So there exist a number of gaps regarding the implementation of the financial inclusion drive at ground level so as to bring it to the note of various stakeholders involved in its execution such as policy makers, state government and banks. This study also helps to understand the disparities in various geographical categories of rural,semi-urban, urban and metropolitan areas of India.

Research Design

This research study is based on secondary data andreview of literature. Secondary data was mainly collected with the help of RBI Report, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines.The period under consideration for the study was from June-November 2013.

The parameters which were analyzed to check the impact of financial inclusion on Indian economy werenumber of functioning branches of scheduled commercial banks during last five years,Bank Group-wise Number of branches as on 31-03-2013,ATM and card statistics of five state bank groups and five private sector banks.

Statement of the Problem

To achieve greater financial inclusion, financial services should reach the poor and socially excluded groupsof our country.Banks and other financial institution have played a vital role in filling up this gap. This study helps us to know the involvement of various banks to attain financial inclusionand the extent of it in the development of Indian economy. But still it is disheartening to note that 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 through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc. This study helps us to know the involvement of various banks to attain financial inclusion and the extent of it in the development of Indian economy

Objectives of the Study

- To understand the coverage of financial inclusion in India.
- To list the various measures & initiatives of government and RBI to financial inclusion.
- To find out the implications of Indian Banks in reaching out to the unbanked and backward Areas.
- To evaluate &analyze the contributions of these initiatives to the Economic development of the nation.
- To analyse the challenges and way ahead for attaining inclusive growth.

Hypotheses of the Study

This study is based on the following null hypotheses (H_0).

There is no significant relationship between financial inclusion and economic growth.

Review of Literature

Rangarajan Committee (2008) on financial inclusion stated that: "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." The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty. MandiraSarma and JesimPaise (2008) suggest that the issue of financial inclusion is adevelopment policy priority in many countries. Using the index of financial inclusion developed in levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. Among socioeconomic factors, as expected, income is positively associated with the level of financial inclusion. Further physical and electronic connectivity and information availability, indicated by road network, telephone and internet usage, also play positive role in enhancing financial inclusion.Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

Bihari (2011) analyzed financial inclusion plans in the light of global practices, eleventh five year Indian plan and banks performance as well as no frill account. This study suggested financial literacy and quality improvement in no frill account can achieve financial inclusion plans growth.Oya Pinar Ardic et al (2011) explained that using the financial access database byCGAP and the World Bank group, this paper counts the number of unbanked adults around the world, analyses the state of access to deposit and loan services as well as the extent of retail networks, and discusses the state of financial inclusion mandates around the world. The findings indicate that there is yet much to be done in the financial inclusion arena. Fifty-six percent of adults in the world do not have access to formal financial services. Band, Naidu and Mehadia (2012)argued about opportunities and problems in the path of success of financial inclusion plan. This study is based upon the human index, RRBs and SHG role in financial inclusion progress. Authors suggested better coordination in between different banks, NGOs, etc for better improvement of financial inclusion plans.

Financial Inclusion -International Initiatives

The origin of the current approach to financial inclusion can be traced to the United Nations initiatives, which broadly described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking and payment services to all *'bankable'* households and enterprises at a reasonable cost. The World Bank Group takes a comprehensive approach to promote financial inclusion among the 2.5 billion adults who lack access to formal financial services. With continuing support from the World Bank Group, the Alliance for Financial Inclusion, and others, 38 countries have now made headline commitments to financial inclusion targets and action plans, with countries such as South Africa, India, the UK, and Brazil leading the way in prioritizing financial inclusion. The World Bank is committed to support low and middle income countries in designing reforms and other initiatives to meet the goals through a planned Financial Inclusion Support Framework.

The G20 Toronto Summit (June, 2010) had outlined the "Principles for Innovative Financial Inclusion", which serves as a guide for policy and regulatory approaches aimed at fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helps to provide conditions for fair competition and a framework of incentives for the various bank, insurance and non-bank actors involved in the delivery of a full range of affordable and quality financial services. The global financial crisis has brought the need for financial inclusion into greater focus worldwide as it is believed that widespread incidence of financial exclusion was one of the factors that precipitated the financial crisis.

Financial Inclusion – National Initiatives

The concept of financial inclusion is not unique in India. The message of itspositive impact is wide-spread across the globe. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the financially excluded Indian population.Mangalam a census town in Coimbatore ,Tamil Nadu became the first village in India where all households were provided banking facilities.

Recommending sweeping changes in the banking structure, RBI suggested setting up of specialized banks to cater to low income households to ensure that all citizens have bank accounts by 2016. It also suggested that facility for withdrawal, payment and deposit should be set up within a 15-minutes walking distance anywhere in the country. It also suggested that Aadhaar card should be used automatically opening a bank account. But even after the work of the past three years, close to 90 per cent of small businesses have no links with formal financial institutions and 60 per cent of the rural and urban population does not even have a functional bank account.RBI governor RaghuramRajan made a strong push for India's information and communications technology industry to get more involved in figuring out solutions to improve financial inclusion in the country.This can be done with technologies that automate high-volume, low-ticket-size transactions that comprise the bulk of transactions made by poor people. In a country of 900 million mobile phones, "the potential for mobile banking is a huge opportunity". While cash withdrawal isn't currently available with 'mobile wallets', this should happen in the near future. Inter-operable banking correspondents were another innovation that was helping extend the reach of the organized financial system.Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bankbranches in rural areas continue to be a road block to financial inclusion in many states.

RBI's Policy Initiatives to foster Financial Inclusion

The initiatives taken by RBI can be broadly classified under reach, access, products and transactions.

a) Reach

(i) Branch expansion in rural areas

Branch authorisation has been relaxed to the extent that banks do not require prior permission to open branches in centres with population less than 1 lakh. To further step up the opening of branches in rural areas, banks have been mandated to open at least 25 per cent of their new branches in unbanked rural centres. In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritizing) the opening of branches in unbanked rural.This is expected to facilitate the branch expansion in unbanked rural centres.

(ii) **Business Correspondent/ Business Facilitator Model**

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted by RBI in 2006 to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs). Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. It enables a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable.

(iii) Combination of Branch and BC Structure to deliver Financial Inclusion

The idea is to have a combination of physical branch network and BCs for extending financial inclusion, especially in geographically dispersed areas. To ensure increased banking penetration and control over operations of BCs, banks have been advised to establish low cost branches in the form of intermediate brick and mortar structures in rural centres between the present base branch and BC locations, so as to provide support to a cluster of BCs about 8-10 BCs at a reasonable distance of about 3-4 kilometers.

(b) Access

(i) Relaxed KYC norms

- Know Your Customer (KYC) requirements have been simplified to such an extent that small accounts can be opened with self certification in the presence of bank officials.
- RBI has allowed 'Aadhaar' to be used as one of the eligible documents for meeting the KYC requirement for opening a bank account.

Roadmap for Banking Services in unbanked Villages

- In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 by March 7,2010. Banks have successfully met this target and have covered 74398unbanked villages.
- In the second phase, Roadmap has been prepared for covering remaining unbanked villages i.e. with population less than 2000 in a time bound manner. About 4,90,000 unbanked villages with less than 2000 population across the country have been identified and allotted to various banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village.

(c) Products

Bouquet of Financial services

In order to ensure that all the financial needs of the customers are met, we have advised banks to offer a minimum of four basic products, viz.

- A savings cum overdraft account
- A pure savings account, ideally a recurring or variable recurring deposit
- A remittance product to facilitate EBT and other remittances
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC)

Opening of no-frills accounts

Basic banking no-frills account is with nil or very low minimum balance. It is to ensure that bank account is accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

(d) Transactions

Direct Benefit Transfer

The recent introduction of direct benefit transfer, leveraging the Aadhaar platform, will help facilitate delivery of social welfare benefits by direct credit to the bank accounts of beneficiaries. The government, in future, has plans to route all social security payments through the banking network, using the Aadhaar based platform as a unique identifier of beneficiaries. In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to:

- Open accounts of all eligible individuals in camp mode with the support of local Government authorities.
- Seed the existing and new accounts with Aadhaar numbers.
- Put in place an effective mechanism to monitor and review the progress in implementation of DBT .

ANALYSIS OF CONTRIBUTION OF BANKS IN FINANCIAL INCLUSION

In order to continue with the process of ensuring access to banking services to the excluded, banks have now been advised to draw up a fresh 3 year Financial Inclusion Plan for the period 2013-2016.Banks have also been advised that the FIPs prepared by them are disaggregated and percolated down up to the branch level. The disaggregation of the plans is being done with a view to ensure involvement of bank staff across the hierarchy, in the FI efforts and also to ensure uniformity in the reporting structure under the Financial Inclusion Plan. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive.There has been an increase in the number of ATM that is being set up in India. These have been set up at different places across the country, making it more convenient for people to access ATMs for their banking needs.For banks this is a massive opportunity to serve the new demographics and tap into the previously untouched wallets of the unbanked.

Table-I

Bank Group-wise Number of branches as on 31-03-2013

Bank Group	Rural	Semi -urban	Urban	Metropolitan	Total
Public Sector Banks	23286	18854	14649	13632	70421
Private Sector banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural banks	12722	3228	891	166	17007
Total	37953	27219	19327	17844	102343

Source:www.financialservices.gov.in

Interpretation

The above table shows the number of bank branches in Indiaas on 2013.From the table it is clear that Foreign banks operates more in metropolitan cites with 166 branches whereas public sector and regional rural banks operate more in rural areas.The private sector bank dominates in semi-urban areas with 3228 bank branches.The total number of banks operating all across India accounts to 1,02,343.

Table- II

Number of functioning branches of SCB during last five years

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31,2009	31476	19126	15273	14325	80200
March 31,2010	32493	20855	16686	15446	85480
March 31,2011	33905	23114	17599	16419	91037
March 31,2012	36356	25797	18781	17396	98330
March 31,2013	37953	27219	19327	17844	102343
Growth rate %	20.58	42.31	26.54	24.57	27.61

Source:www.financialservices.gov.in

Interpretation

The scheduled commercial banks during the last five years showedan increasing trend in the number of functioning branches.The highest growth rate of 42.31% was marked by SCB in semi-urban area.The number of branches increased from 19126 to 27219 in five years. The growth rate in rural area is 20.58% which is comparatively less compared to other regions,but still it is showing an increasing trend and will improve much better due to steps taken by RBI as a part of financial inclusion.The number of bank branches operating in metropolitan citiesincreased from 14325 in 2009 to 17844 in 2013 which makes 24.57% growth.

Table No. III

Number of bank branches of SCBs over the years

Number of scheduled commercial bank branches as on 31-12-1969	8,826
Number of scheduled commercial bank branches as on 31-03-1990	59,762
Number of scheduled commercial bank branches as on 31-03-2013	1,02,343

Source:www.financialservices.gov.in

Interpretation

The above table clearly depicts the increase in the number of bank branches from the year 1969 to 2013.The number of scheduled commercial bank branches increased from 8826 to 102343.It shows a remarkable effort by the governmentand RBI to make available the fruits of banking industry to the people of India. In the span of 44 years there was a tremendous growth in the banking sector of India.

Table: IV

Bank Group-wise Number of branches as on 31-03-2013

Bank Group	Rural	Semi -urban	Urban	Metropolitan	Total
Public Sector Banks	8552	18445	22518	20137	69652
Old Private Sector banks	768	2760	2354	1684	7566
New Private Sector banks	2214	6484	10995	15842	35535
Foreign Banks	30	21	244	966	1261
Total	11564	27710	36111	38629	114014

Source:www.financialservices.gov.in

Interpretation

The total number of bankoperating in India during the year 2013 is 114014.The number of banks in metropolitan cities is much more compared to other regions. Foreign banks majorly concentrate on metropolitan cities whereas public sector banks concentrate mainly on semi-urban and urban areas. It is clear from the table that as a part of financial inclusion the banks take initiatives to include the rural and excluded areas by starting more bank branches. The total number of banks operating in rural sector was 11564 as on march 2013.

CARD STATISTICS OF FIVE STATE BANK GROUPS AND FIVE PRIVATE SECTOR BANKS

Offsite ATMs

Offsite ATMs are machines that are set up on a standalone basis. This means that if the bank has a place where there is only an ATM machine then this becomes an offsite ATM. It is done to ensure that the bank reaches out to more geographical areas and that people are able to use its services even when there is no bank branch in the area. The offsite ATM's helps in financial inclusion.

Table: V

OFF-SITE ATM STATISTICS 2013

Bank Name	June	July	August	September	October	November	Growth Rate %
State Bank Group							
State Bank of India	13228	13404	13945	14422	14881	15475	16.99
State Bank of Hyderabad	533	533	530	528	530	536	0.56
State Bank of Mysore	252	257	260	263	268	271	7.54
State Bank of Patiala	271	274	275	276	276	276	1.85
State Bank of Travancore	314	304	314	332	335	340	8.28
Private Sector Banks							
HDFC Bank Ltd.	6564	6614	6573	6570	6616	6694	1.98
ICICI Bank Ltd.	7481	7468	7483	7480	7469	7483	0.03
Axis Bank Ltd.	9102	9202	9199	9389	9478	9596	5.43
South Indian Bank Ltd	211	218	219	222	224	228	8.06
Catholic Syrian Bank Ltd.	62	56	56	56	58	58	-6.45