INTERNATIONAL JOURNAL OF RESEARCH CULTURE SOCIETY ISSN(O): 2456-6683
Monthly Peer-Reviewed, Refereed, Indexed Journal [Impact Factor: 6.834]
Volume - 7, Issue - 8, August - 2023 Publication Date: 05/08/2023

DOIs:10.2017/IJRCS/202308002 --:-- Research Paper / Article / Review

Financial Inclusion in India: A Study on Banking Industry

Bharata Bhusan Sahoo
Head & Lecturer, Department of Commerce, Karilopatna College, Kendrapara, Odisha, India
Email: bharatabhusan@gmail.com

Abstract: *The term 'Financial Inclusion' has remained a buzzword in the past few years among the banking industry. The term is related with increasing the spread of financial services to those who are not aware of or who are not in a position to avail financial services due to remote areas or lack of technology etc. In India, the reforms done in past few years are consistent with the growth and development of poor and disadvantageous groups. The term financial inclusion focuses on providing the financial services such as banking and insurance to all people at affordable rates. The present study aims to examine the impact of financial inclusion on growth of the economy over a period of time. Secondary data is used for analysis of the study.*

Key Words*: Financial inclusion, Banking sector, ATMs.*

1. INTRODUCTION:

Financial exclusion is the main cause of poverty. Lack of opportunities and access to finance besides financial illiteracy are the main causes of financial exclusion. Financial exclusion is proving to be a major thorn in the path of Indian economic growth. Access to finance by the poor, disadvantaged and unprivileged group is a prerequisite for poverty reduction and social upliftment. One of the main reasons why the large section of the rural population still remains under below poverty line is lack of opportunities and access to finance besides financial illiteracy. Financial Inclusion is the process of ensuring access to appropriate financial products and Services needed by all sections of the society in general and vulnerable groups such as weaker Sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial Inclusion can help the society and the economy. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another. Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

2. RESEARCH GAP:

Financial inclusion is an important step towards inclusive growth. It helps in the overall eco -nomic 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.

3. OBJECTIVES:

- To examine present scenario of financial inclusion in India.
- To study the role of commercial banks in the financial inclusion programme.

4. RESEARCH METHODOLOGY:

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, 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).

5. 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 Jharkh and 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. Ravi kumar (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 Ganesh kumar (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.

6. WHAT IS FINANCIAL INCLUSION AND WHY IT IS IMPORTANT?

Financial inclusion helps in achieving the sustainable development of the country, through available financial services to the unprivileged people with the help of financial institutions. Financial inclusion may be defined as the process of ensuring access to financial services and credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan)

Being included in the formal financial system helps people:

- Financial inclusion helps in economic development as it widens the resource base of the financial system by developing a culture of savings among large segment of rural population. Further, financial inclusion protects their financial wealth and other resources in exigent circumstances by bringing low income groups within the perimeter of formal banking sector. Financial inclusion also mitigates the exploitation of poor sections by the money lenders by facilitating easy access to formal credit.
- Make day-to-day transactions, including sending and receiving money;
- Uphold savings, which can help households manage cash flow spears, smooth consumption and build working capital;
- Finance small businesses or micro enterprises, helping owners invest in assets and grow their businesses;
- Improve overall welfare of rural masses.
- The rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account can be completed using fingerprint authentication. The confidence of fulfilment is provided by issuing an online receipt to the customer.
- Reduction in cash economy as more money is brought into the banking ecosystem
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- Direct cash transfers to beneficiary bank accounts will become possible. Financial inclusion ensures that the funds actually reach the intended recipients instead of being draw off along the way.
- Availability of adequate and transparent credit from formal banking channels will increase the output and bring prosperity by encouraging the entrepreneurial spirit of the masses

In the 21st century, Govt. of India has been taking the right path to advance financial inclusion and economic citizenship by channelling its own transactions to grease the system. Hence, it is believed that financial inclusion can initiate the next revolution of growth and prosperity. India’s journey towards economic development relies on how the 65% unbanked population of India is enabled with financial infrastructure.
The benefits of financial inclusion are not only significant for individuals but for economies as well. Financial inclusion is linked to a country’s economic and social development, and plays a role in reducing extreme poverty.

7. ROLE OF COMMERCIAL BANKS IN THE FINANCIAL INCLUSION PROGRAMME:

Given the evidence that financial access varies widely around the world, and that expanding access remains an important challenge even in advanced economies, it is clear that there is much for policy to do. It is not enough to say that the policy will provide. Policy may failures related to information gaps, the need for coordination on collective action, and concentrations of poor people, mean that banks in India everywhere have an extensive role in supporting, regulating, and sometimes directly intervening in the provision of financial services. Financial inclusion is one of the top most policy priorities of the Government of India. Ever since the UPA government has come into power in the centre, one of the most visible aspects of the governance has been agenda of social inclusion of which financial inclusion is an integral part. Taking cue from the state proclivity towards inclusive growth agenda, the Reserve Bank of India (RBI) has taken a proactive role in ushering the enabling environment for expediting financial inclusion across length and breadth of the country through bank led model. To reach out at 400 million plus unbanked population at pace with profitability is the single most important challenge faced by the multi stakeholders, particularly banks and delivery channels.

Following are the role of commercial banks to be performed as part of financial inclusion programme:
a) Financial literacy
b) Credit counselling
c) BC/BF model
d) KYC norms
e) KCC/GCC
f) No-frill accounts financial literacy
g) Branch expansion,
h) Mobile banking, and
i) Other measures.

a) Financial literacy:

Providing financial literacy is the core function of financial inclusion, as the main reason for exclusion is the lack knowledge about formal financial system. Financial literacy refers to knowledge required for managing personal finance. The ultimate goal is empowerment of people to take action by them that are in their self interest. When the people know about the financial products available and when they are able to evaluate the merits and demerits of each product and the suitability of the product for the specific needs they are in a better position to decide what they want and feel empowered in a meaningful way. The main functions to be performed by commercial banks in relation with financial literacy are:
1. Disseminating information regarding financial services and general banking concepts to various target groups, including school and college going children, women in rural places and urban poor, senior citizens, etc.
2. Extending financial education which will include:
a) Need for savings,
b) Advantages of banking with formal financial institutions, various financial products offered by banks relating to deposits, advances.
c) Other financial services through electronic mode such as ATMs, Smart Cards, mobile banking etc.
d) Method of calculation of interest on savings bank accounts, Fixed Deposits.
e) Benefits of nomination facilities of accounts.
3. Bringing awareness of customer rights under fair practice code.
4. Organizing public awareness campaigns, seminars, press conferences etc.

b) Credit counselling:

There are two types of credit counselling, one is preventive counselling and the other is curative credit counselling. **Preventive counselling** will include bringing awareness regarding cost of credit, availability of backward and forward linkages, etc., need to avail of credit on the basis of customer's repaying capacity. In case of **curative counselling** the credit counselling centre will work out individual debt management plans for resolving the unmanageable debt portfolio of the clients by working out effective debt restructuring plan in consultation with branch of the bank, taking into account income level and size of the loans. Reserve Bank of India has indicated that banks may adopt segmented approach specific to different categories of borrowers. The centres in rural and semi- urban areas could concentrate on financial literacy and counselling for farming communities and those engaged in allied activities. The centres in metro and urban areas could concentrate on individuals with over dues in credit cards, personal loans, housing loan etc.

c) BC/BF model:

With an effort to focus commercial banks, to reach rural household and farm household, banks were permitted to use infrastructure of civil society organizations, rural kiosks, and adopt Business Facilitator (BF) and Business Correspondent (BC) models for providing financial services. RBI has operators and agents of small saving schemes of government of India/Insurance companies, retired and authorized functionaries of well run SHGs linked to banks as BCs. In January 2006 RBI permitted to utilize the services of NGOs, SHGs, MFIs and other civil society organizations as intermediaries in providing finance and banking services through BF and BC which is known as "Agency model". (This allows banks to do 'cash in cash out' transactions at a location closer to rural population and facilitate greater financial inclusion and income)
The type of services of Business Facilitator is:
a) Identification of borrowers and fitment activities.
b) Creation of awareness of savings and other products.

c) Collection and preliminary process of loan application.
d) Processing and submission of application to banks.
e) Educating, counseling, advice on managing money and debt.
f) Promotion and nurturing of Self Help group and Joint Liability Group.
g) Post sanctions monitoring.
In addition to the activities listed under business facilitator model, the scope of activities listed to be undertaken by BCs will include:
a) Disbursement of small value credit.
b) Recovery of principal/ collection of interest.
c) Collection of small value deposits.
d) Sale of micro insurance/mutual fund products, pension products and other third party products.
e) Receipt and delivery of small value remittances, other payments of instruments.

d) KYC norms:

In order to ensure that persons belonging to the low income group both rural and urban areas do not encounter difficulties in opening bank accounts, the Know Your Customer procedure (KYC) for opening bank account was simplified asking banks to seek only a photograph of the account holder and self certification of addresses (the amount of outstanding balance in these accounts would be limited to 50000 rupees and total transactions would be limited to one lakh rupees in one year.

e) KCC/GCC:

Banks were asked to introduce a general credit card (GCC) scheme for issuing GCC to their constituents in rural and semi-urban areas based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card without insisting on security and the purpose or end use of credit (as Point Of Sale-POS and ATM facilities) with similar products are not feasible or available and limited infra structure in rural areas. The limit under GCC is up to 25000 rupees. Banks were advised to utilize the services of Schools, Primary Health Centre, local government Functionaries, Farmers' Association / Clubs, well established community based agencies etc.

f) No-frill accounts:

In November 2005 RBI advised banks to make available a basic banking "No-frill Account" with low or nil minimum balances as well as charges to expand the outreach of such accounts to vast sections of the population.

g) Branch expansion:

In terms of existing provisions of banking regulation act, 1949 banks are not allowed to open new place of business or change the locations of the place or villages in India without prior approval of RBI. While considering the application of banks for opening branches, RBI gives due weightage to the nature and scope of banking facilities provided to common person, particularly in unbanked areas, actual flow of credit to the priority sector, pricing of its products and overall efforts for promoting financial inclusion including introduction of appropriate new products and enhanced use of technology for delivery of banking services. RBI has identified districts were the population per bank office is higher than national average in rural and semi urban areas. The lead banks have been advised by RBI to identify unbanked villages of populations above 2000 and to provide banking services through a banking outlet in every village by March 2011. Now it is completed through the lead banks of the concerned districts. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of Information and Communication Technology (ICT) models, including through BCs.

h) Mobile banking:

Mobile banking is a term used for performing accounting transactions, balance checks, payments via mobile device such as mobile phone mobile banking enables:
a) Users to perform banking transaction using mobile phone like balance checks, fund transfers, bill payment etc.
b) Purchase goods over internet or phone delivery
c) Person to person fund transfers
d) To pay goods at merchant location point of sale.
As the penetration of mobile phones particularly among low income people and enormous opportunities they afford in extending the banking outreach, RBI has formulated guidelines on mobile banking. It has encouraged introducing

technology based products and services such as pre paid card/debit cards, mobile banking (The total tele-density in the country is 35.67% in February 2009- Rural 11.81%, urban 83.66%).

i) Other measures:

The excluded segments of the population require products which are customized, taking into consideration their varied needs. Their banking requirements being small, the issue of servicing and delivery in a cost effective manner assumes significance. The need for savings by these groups require special attention, e.g. for meeting life cycle needs, creating assets, repaying high cost borrowings, meeting emergencies etc.

a) Small Savings: Savings products to meet the specific requirements of the poor need to be evolved. One way of meeting this would be to utilize the amount of MGNREGP wages of the poor who gets payment through banks, and another way to utilize the SHGs for tapping the small savings by providing incentives to the SHGs with suitable back-end technology support. The banks can develop medium and long term savings instruments by issue of pre-printed deposit receipts to the SHGs which in turn can be sold to the SHG members. Banks could be given the freedom to develop their own products, suiting local requirements and felt needs of the poor.

b) Micro-Credit: With regard to credit products, the savings linked financing model can be adopted for these segments**.** The approach should be kept simple which should guarantee the beneficiaries a credit limit, subject to adherence to terms and conditions. The credit within the limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behaviour of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it also ensures good credit dispensation.

C) Micro-Insurance: Since the income of the poor are uncertain they are more prone to risk, thus to provide the insurance cover the concept of micro insurance is used. Micro insurance is used to refer for providing insurance facilities to poor/low income group. The need for micro finance arises due to the fact that the risk faced by the poor is different from that of other income class, secondly they are more prone to all types of risk and thirdly the product that is applicable for high income are not applicable for them.(Ragnar Nurkse**).**

8. CONCLUSION:

For the success of the financial inclusion initiative what is important is to provide banking services at an affordable cost to the disadvantaged and low income group. Commercial banks have to perform a vital role in this regard. However the road towards 100% financial inclusion is yet to complete. Important areas of financial inclusion performed by commercial banks are: Financial literacy, Credit counselling, BC/BF model, KYC norms, KCC/GCC, No-frill accounts, Branch expansion, Mobile banking, and other measures such as micro insurance, micro- credit etc.

REFERENCES:

1. Levine R, Loayza N, Beck T (2000) Financial intermediation and growth: Causality and causes. Journal of Monetary Economics 46: 31-77.
2. Jerry B, Bruce G (2005) “There Are No Banks Here” Financial and Insurance Exclusion in Winnipeg North End. Social Sciences and Humanities Research Council of Canada.
3. Burgess R, Pande R (2003) Do rural banks matter? Evidence from the Indian Social Banking Experiment. London school of Economics 95: 790-795.
4. http://anu070886.blogspot.in/2010/04/ nancial-inclusion-in-india-impact.html
5. FitzGerald V (2006) Financial development and economic growth: A critical view. Background paper for World Economic and Social Survey.
6. Thorat U (2008) Inclusive growth: The role of banks in emerging economies. Economic Developments in India, Academia Foundation.
7. Thorat U (2007) Financial inclusion - the Indian Experience.
8. Swamy V, Vijayalakshmi (2002) Role of Financial Inclusion for Inclusive Growth in India -Issues and Challenges.
9. Basu P (2005) A nancial system for India’s poor. Economic and Political Weekly.
10. World Bank (2008) Finance for all? Policies and pitfalls in expanding access, World Bank Policy Research Report.
11. Beck T, Kunt AD, Levine R (2004) Finance inequality and poverty: Cross- country evidence. The national bureau of Economic research.
12. Sendhilvelan M, Karthikeyan K (2006) No frills account: A basic drive for nancial inclusion. Southern Economist 45: 13-14.

13. Fernando N (2007) Low-income households' access to nancial services: International experience, Measures for Improvement and the Future.
14. Levine R (1997) Financial development and economic growth: Views and agenda. Journal of Economic Literature.
15. Basu P (2008) Improving access to nance for india's rural poor. World Bank. 17. Sarma M (2007) Index of Financial Inclusion, ICRIER, New Delhi.
16. Narayan (2011) Fund to Boost Financial Inclusion in the Works.