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An analytical study on initiatives and impact of financial inclusion in India

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Abstract
Finance has become an essential part of an economy for development of the society as well as economy of nation. For, this purpose a strong financial system is required in not only in under-developed countries and developing countries but also developed countries for sustainable growth. Through Financial inclusion we can achieve equitable and inclusive growth of the nation. Financial inclusion stands for delivery of appropriate financial services at an affordable cost, on timely basis to vulnerable groups such as low-income groups and weaker section who lack access to even the most basic banking services.
Recently India has taken several steps towards financial inclusion for achieving faster inclusive growth. However, the levels of financial inclusion of the states in India have a low mean and high disparity. In this paper, the researcher attempts to understand financial inclusion and its importance for overall development of society and Nation's economy.

Keywords: Finance, growth, economy, nation, banking services

1. Introductions
The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries.
The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, online money transaction, internet banking, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society. Many of research reports and surveys clearly show that large numbers of population do not have an access to basic banking and financial services not only in India but also whole world. This is termed "financial exclusion". These people, particularly, those living on low incomes, cannot be access mainstream financial services and products such as bank accounts which are used for making payments and keeping money, remittances, affordable credit, insurance and other financial services, etc.

1.1 Concept of Financial Exclusion
Before we understand financial inclusion, we should have knowledge about financial exclusion. The word of financial exclusion first time used in 1993 by Leyshon and thrift who were concerned about limited access on banking services as a result number of bank branches were closed. In1999, Kempson and Whiley defined financial exclusion in border sense which refers to those people who have excluded access to mainstream financial services and product till date numbers of analysts added their views to define financial exclusion.

Source: Compiled by the researcher
"Financial exclusion" describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly home insurance, education loan. The effects of financial exclusion can include exclusion from other mainstream services, such as pension or saving schemes, and

can also lead to debt and/or cut off from essential utilities According to the European Commission, Financial exclusion is a process whereby people encounter difficulties accessing or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong."

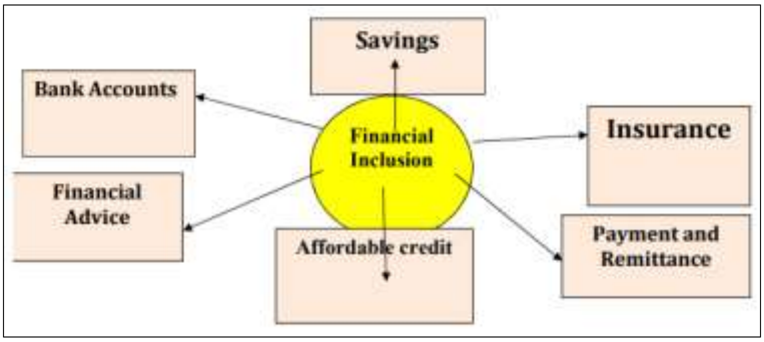

Fig 1: Components of Financial Inclusion

2. Literature Review

Varman P (2005) [11]: Has found that the SHGs in Tamil Nadu have inculcated the banking habits in the rural people. Several empirical studies (Adhikary and Bagli, 2010, 2011,) conducted in West Bengal have shown that SHGs create a smooth path of financial inclusion for the rural poor. The number of total deposit accounts has increased to 734.8 million and credit account to 118.6 million in 2010 for all banks and the number of no-frill accounts in all public and private banks has increased to 33 million in 2009 from seven million in 2006. Besides, KCC scheme has brought 95 million farmers under the purview of the banking system in 2010 as against 84.6 million farmers in 2009 and the SHG bank linkage programme has helped seven million rural people to have access to formal savings and formal.

Mandira Sarma and Jesim Paise (2008) [7]: Suggest that the issue of financial inclusion is a development 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 socio-economic 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.

Michael Chibba (2009) [14]: Noted that Financial Inclusion is an inclusive development and Poverty Reduction strategy that manifests itself as part of the emerging FI-PR-MDG nexus. However, given the current global crises, the need to scale-up Financial Inclusion is now perhaps more important as a complementary and incremental approach to work towards meeting the MDGs than at any other time in recent history.

Joseph Massey (2010) [6]: 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.

Oya Pinar Ardic *et al* (2011) [15]: explained that using the financial access database by CGAP 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.

Karmakar, *et al*. (2011) [10]: have constructed the financial inclusion for rural areas of the major twenty states in India. They have considered number of rural outlets, number of accounts per outlet, per outlet deposit amount, per outlet credit amount and per account deposit amount as indicator of financial inclusion. In order to assess the performance of the public sector banks the Finance Minister of India has introduced Financial Inclusion Index based on two criteria, namely, the number of additional branches covered and the number of new no-frill account opened.

Sheik Mujeebur Rahuman (2018) [16]: In his article, "A Study on Financial Inclusion strategies of Commercial Banks in Tamil Nadu", has examined the strategies adopted by the commercial bank for financial inclusion, and found that financial inclusion has been a major prerequisite to poverty alleviation. 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 information technology. Financial inclusion and inclusive growth are no longer just policy choices but are policy imperatives, which would determine the long-term financial stability and sustainability of the economic and social order, going forward.
It must be ensured that all are collectively willing to walk that extra mile to ensure that the fellow countrymen get easy access to the financial system and can leverage this access to improve their economic and social well-being finance and banking systems are very strong. It is time to focus on people at the bottom of the pyramid and align all sections

with the systems that have been put in place. It is concluded that there are lots of untouched and unexplored areas for fulfilling social and professional commitments.

Swati Anand (2019) [17]: In her paper "A Study of Financial Inclusion of Differently Abled People", has disclosed that in developing economy like our own, it is significant that administration and welfare arranged institutions assume a significant job and offer the obligation of giving disabled a stately life.

The call for financial inclusion is a dream for disabled individuals who face badgering from financial institutions all over the nation. Indian economy faces issues identified with arranging, preparation of assets, development, advancement, and work when it comes to dealing with the differently-abled. The adventure for financial inclusion in India has been an interesting one. However, it's time we take it to next level and guarantee inclusion for differently-abled.

Dr. S. HariBabu (2019) [18]: In his article "Financial Inclusion Challenges and Opportunities in India", has brought out that financial inclusion is indeed a worthful effort by RBI to bring unbanked to the banked. The consistent effort of the banking system has brought cheers in the lives of low-income households being a medium of exchange for various Government schemes to bring sustainable development. financial inclusion has brought many unbanked under the banking net.

3. Objectives of the study

This research paper has the following main objectives:

1. To understand the financial exclusion and its extent.
2. To understand the financial inclusion and its importance.
3. To analyse the initiatives taken towards reaching out to the unbanked areas under financial inclusion.

4. Financial exclusion in India

India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. About 50 percent of adult's reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB‟s and SCB‟s has still stood only 48000 in a country to provide service to 6 lakh villages. So, there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts the most common reason for not having a bank account in formal financial institutions is lack of enough money, a barrier reported by 63 percent of unbanked adults. The second major reason: a family member already having an account was cited by 41 percent respondents. Distance, cost, and lack of necessary documentation were each cited by about 20 percent of unbanked respondents, rates exceeding those in other BRICS economies.

Thus, financial inclusion has become equally important issue of under – developed, developing and developed economies for inclusive growth. Through the process of financial inclusion, we can overcome the situation of the financial exclusion.

5. Dimensions and Directions of Financial Inclusion

The dimensions of financial inclusion are penetration, affordability, convenience, and productivity. Therefore, financial inclusion acts on the supply side i.e. for creating access and financial literacy acts from the demand side i.e. creating a demand for the financial products and services. Banks are the principal vehicle for financial inclusion because of the fact that only they can offer the products that would facilitate meaningful financial inclusion. Banks need support from bank-related as well as non-banking and grassroots institutions like microfinance institutions, co-operatives, self-help groups (SHGs), panchayats, NGOs etc. in the mission of inclusive growth. They are formal or informal organisations to reach and reinforce financial inclusion in India Financial inclusion has 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. Financial inclusion is also necessary to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries‟ bank accounts rather than through subsidising the products and making cash payments. This is the „leverage‟ effect of financial inclusion.

6. Avenues and Advantages of Financial Inclusion

The two main planks of financial inclusion are financial widening and financial deepening. Financial widening refers to financial expansion or growth though institutions and technology. Financial widening can ensure better resilience and enhanced capacity to cope with shocks – distress and crises – and make inclusive growth durable. Simple utility-transfer mechanisms can work wonders. This is definitely possible with smart and digital technology. Mobiles and Apps can do better trade even without middlemen. Technology aids the user in two ways: reaching and self-teaching; makes her self-reliant and avoid undue gains for others.

Financial deepening generally means an increased ratio of money supply to GDP or some price index. It refers to liquid money. The more liquid money is available in an economy, the more opportunities exist for continued growth including the growth of different financial products in India. Thereby, a family's inclusive growth plan makes for a robust and effective macroeconomic policy of growth with stability. Larger, diversified and well-planned investments are the features of financial widening. The growth trend of the Indian economy over the last few years appears to indicate the beginning of a new phase of higher growth. From an average growth rate of around 6.0 per cent for a quarter of a century, the growth rate has accelerated to 8.1 per cent over the last few years. Along with declining population growth, this suggests high growth in per capita income in excess of 6 per cent in recent years, and perhaps approaching 7 per cent, which would lead to doubling of per capita income every ten years. Most importantly, the current growth process is not a flash in the pan so through the financial inclusion we will achieve the inclusive growth, and access of credit facility will lead to increase the entrepreneurial skill of people and overcome the problem of credit crunch among the hitherto disadvantaged people.

The advantages of financial inclusion are that: –

- It is important because recent trends show that financial exclusion results in widespread inequality in incomes and earning opportunities. On the other hand, regions, populace with lower degrees of inequality are those with higher levels of financial widening and deepening.
- Absence of financial penetration and deepening results in absence of debt leverage to micro enterprises and they have to either borrow at very high rates of interest or have to be contented with their own capital. This leads to restricted growth in economic activities.
- Financial inclusion benefits users (e.g. freedom from moneylenders, reduced transaction costs; providers (e.g. better compliance of norms, niche marketing for micro-insurance, micro-pension and other innovative products); regulators (e.g. better handling of benefits transfers like that of subsidies, more accountability and transparency paving the way for good financial and economic governance).
- The rural-urban dichotomy is also reduced a lot by networks of financial institution and people's participation in growth and governance. The whole economy thus, gains; it is a win-win situation.

7. Initiatives and Steps taken by GOI

One of the earliest initiatives in financial inclusion in India is the SHG-Bank Linkage Programme started as a pilot programme by the RBI through the National bank for agriculture and Rural Development (NABARD) in 1992. This is referred to as "Bank-led Growth" model. This paved the way for certain other approaches like the microfinance delivery through microfinance institutions (MFIs). Further other institutions like cooperatives, SIDBI, NGOs etc. took up their roles and duties accordingly. In India microfinance through SHGs formed by NGOs is very popular. The bank-led model was meant to remove hassles and hurdles, especially regulatory bottlenecks in the delivery of financial products and services to the people. Conducive regulatory environment and a strong institutional support for banks and SHGs were created. A welcome trend is that software companies, mobile companies, retail houses also joined the bandwagon. Without doing any credit function they became partners in the microfinance revolution. They became a viable mode of transaction and communication for financial inclusion by customer financial literacy and protection. Mention must also me made here about the role of academia. Professors and research scholars took up projects and studies to evaluate the fabric and functioning of financial inclusion in India, in terms of products, location, organisation, benefits etc. Some of the important steps taken during the process were:

a) Basic Saving Bank Deposit (BSBD) scheme – with e-banking facilities by all banks (e.g. GSM based Mobile phones).
b) Simplified KYC norms – now Aadhar Cards – can be used as proof of customer identity and access.
c) Simplified Bank Authorisation Policy – with emphasis on NE region of India, (d) Better decision-making and forward planning with compliance – banks to have Financial Inclusion Plan (FIP).
d) More emphasis on Banking Correspondent (BC) model such as through the "Swabhimaan Campaign", 2011.
e) Increased distribution of cards to farmers (KISAN), (g) Spread of SHG movement through the Rastriya Mahaila Kosh (RMK) and Women's Development Corporations providing social intermediation.
f) Financial literacy – through camps, choupals, seminars and lectures etc.
g) In 2014 **t**he programme, "Pradhan Mantri Jan Dhan Yojana" (PMJDY) got further impetus with the aims of removing financial untouchability, and the financing of landless farmers under the Bhoomi Heen Kisan scheme.
h) Jnana Jyoti: - Jnana Jyoti is a Trust formed jointly by Syndicate Bank and Vijaya Bank for financial literacy and credit counselling. It is an attempt at productive borrowing – debt planning and restructuring with focus on happy repaying.

Under Pradhan Mantri Jan Dan Yojana, 34.01 crore accounts have been opened with deposits amounting to Rs.89,257 Crore up to January 30, 2019, within a short span of five years. The achievement of opening the largest number of accounts (1, 80, 96,130 nos.) under Pradhan Mantri Jan Dan Yojana, in one week has found a place in the Guinness Book of World Records.

A bouquet of products *viz*., overdraft of Rs.10,000, accidental death cum disability insurance

cover, term-life cover, and old-age pension have been made available under Pradhan Mantri Jeevan JyotiBima Yojana to the account holders. The focus has also shifted from the opening account for "every household to every adult".

Under Pradhan Mantri Suraksha Bima Yojana (PMSBY) a renewable one-year accidental death

cum disability cover of Rs.2 lakhs are offered to all subscribing bank account holders in the age group of 18 to 70 years for a premium as low as Rs.12/- per annum per subscriber. Another insurance product with a one-year term life cover of Rs.2 lakhs Under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) is made available to all subscribing banks account holders in the age group of 18 to 50 years, for a premium of Rs.330/- per annum per subscriber. To take care of the financial needs in old age, a pension product named Atal Pension Yojana (APY) guaranteed by the Government of India has also been made available to the newly included bank account holders. Under APY, a subscriber (in the age group of 18 to 40 years) will receive a fixed monthly pension in the range of Rs1,000 to Rs. 5,000 after completing 60 years of age,

depending on the contributions made by the subscriber.

8. Impact of Financial Inclusion

Slowly but steadily, financial inclusion and human development is improving in India. SHGs have disproved that women cannot save and are not bankable. Long journey starts from a small, single step. So was the journey of the

SHG- Bank Linkage Programme – from linking a pilot of 500 SHGs of rural poor two decades ago, it now boasts of the world's largest microfinance initiatives with over 7.4 million SHGs representing 97 million rural households directly are part of this great movement. Geographically its tentacles have now spread to every nook and corner of India – from the desert sands of Rajasthan to the forest villages of Arunachal Pradesh and from the inaccessible terrain of Jammu and Kashmir to the serene coastal villages of Lakshadweep Islands. Besides Financial Access and Financial Literacy, there is also a new financial intermediation – BCs for instance – wider reach, customer doorstep banking, paper less banking. There is a good progress in availing banking services. Apart for physical and regional initiatives on FI, some special focus on technology-based schemes and approaches has also become part of the FI practice. They include – Mobile banking, Common Service Centres, Financial Literacy &Counselling, Capacity Building & Business Facilitation.

On the impact side however, not everything is rosy. Despite PMJDY not many families have gone up in the ladder of prosperity the ladder socially or out of the BPL line. Thousands of accounts have been opened but not kept operative. Data from the Reserve Bank of India shows that the spread of rural banks has fallen by seven per cent between 2006 in 2013. SBI has opened 3.6 crore accounts and the balance in them is Rs. 1,400 crore. So, it's an average of Rs. 400 per account. The bank on Rs. 400 a year will make Rs. 12. Where is the money? What has happened to productivity? Some blame on monsoon havoc, climate change, crop failure. Another area of concern is the rising controversies regarding interest rates, credit polices etc. Financial inclusion in India is often closely connected to the aggressive micro-credit policies that were introduced without the appropriate regulations oversight or consumer education policies.

9. Recommendations

- Banking technology has progressed fast enough and more importantly the realization that the poor is bankable has arrived. Various immediate measures which government of India should implement or which are under implementations but should be executed in a more effective manner
- Strengthen agency banking micro finance institutions, business facilitators and business correspondents. Our very old post offices will be an ideal channel to pursue the future long-term goals of agency banking especially in rural India.
- Achieve synergies between the technology providers and banking channels to expand reach. Application developers will be required to synergize core banking with micro financial applications.
- Have interest rate ceilings specified for NGO/MFI for they tend to charge higher rates of interest in a sugar-coated form. These legalities can be introduced once an NGO/MFI enters into partnership with a bank.
- The government should include financial literacy in the curriculum of schools and colleges. The government should also raise the Financial Inclusion Fund and a Financial Inclusion Technology Fund to reach banking services to the unbanked areas. The government should pay all the social security payments through the bank account of the beneficiary.
- The banks should offer all forms in the regional language of the customers. The banks must create awareness among the people concerning the significance of banking services by advertisement and financial inclusion campaign. ATMs are one of the most cost-effective ways of reaching the rural poor. Thus, new biometric ATMs have to be established to assist the customers who are unable to memorize PIN.

10. Conclusion

Even though enough efforts are being made by all stake holders *viz* Regulator, Government, Financial Institutions and others, the efforts are not yielding the kind of result expected. The regulator has to create a suitable regulatory environment that would keep the interest of all the stakeholders.

The concern of banks about profitability is to be addressed by the regulator as the entire process of financial inclusion would be a kind of social work in the first few years. The concerns of the government about the reach, feasibility and implementation of government policies to the last mile needs to be addressed. The easy availability of financial services to the last mile user, the people in tier 3 to tier 6 in entirety needs to be addressed. Thus, Innovative products, out of the box service models, effective regulatory norms and leveraging technology together could change the landscape of the current progress of the much needed and wanted, Financial Inclusion Program.

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