IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES
ISSN PRINT 2319 1775 Online 2320 7876

Research paper UGC CARE Listed (Group -I) Journal Volume 10, Iss 4, Dec 2021

FINANCIAL INCLUSION : KEY ROLE OF INDIAN BANKING SECTOR

Dr. Sachin Rajendra Suryawanshi

Assistant Professor, Department of Commerce Dhananjayrao Gadgil College of Commerce, Satara, Maharashtra (India)

ABSTRACT

Exclusion from formal finance led to exploitation, lack of confidence, confiscation of collateral, slavery in case of non-repayment, and lack of opportunities for gainful employment and so on. This necessitates inclusion of hither to financially excluded section of marginalized people into formal financial sector. There is no equal opportunity to everyone to grow and flourish. Though market liberalization and globalization create new opportunities for rapid growth, relative poverty, economic and regional disparities have tended to widen. This situation demands Inclusive growth and financial inclusion for participatory development of the society.

As a solution to the problem of exclusion, the concept 'Inclusive Growth' gained enormous importance. Inclusive growth is nothing but economic growth with more inclusion providing each and everyone to participate in and benefit from the growth activities. Financial inclusion is a powerful tool for achieving inclusive growth. It refers to the provision of affordable financial services including access to savings, loans, overdraft facility, payment and remittance facilities, financial advice and insurance services to vast sections of low income groups and disadvantaged. It helps to uplift the poor from the clutches of poverty and also to reduce the widening gap between poor and rich.

Introduction

Financial inclusion is believed to be the game changer to achieve inclusive growth by including hitherto excluded poor people into the formal financial sector. It is an attempt towards social justice which intends to bring marginalized people into the mainstream economy. It is both, an opportunity and a challenge to financial system. Development experience evidences a strong correlation between financial access and economic growth. In the process of development they are supplementary to each other. Financial exclusion traps poor people in the vicious circle of poverty.

Financial exclusion is nothing but exclusion of people from affordable credit, savings, insurance, productive assets and financial counseling, which led to deprivation of benefits of these services. The financially excluded section largely comprises marginal farmers, landless laborers, small unorganized sector enterprises, slum dwellers, migrants, weaker sections, socially excluded groups, senior citizens and women.

The causes for Financial exclusion can be attributed to both demand and supply factors. Demand side factors are low income and irregular cash flow, low literacy rate that too low financial literacy, gender, age, fear and hesitation to approach formal institutions, penalties, and conditions attached to financial product, cumbersome procedures and documents required, collateral requirements, language problem, unsuitable products, unaffordable prices of financial products nature of occupation, lack of required information, poor financial habits and so on. Supply side factors are geographic remoteness, distance of formal financial institutions, unavailability of diversified products and services, poor infrastructure, inadequate number of financial institutions to existing number of population, high information barriers and low awareness, psychological and cultural barriers, poor functioning and financial history of some financial institutions, improper identity proof, poor credit record and low credit worthiness of creditors, high transaction costs, unable to market the financial products, lack of customized products and easy availability of informal credit and so on.

Financial exclusion trapped poor in a vicious circle of poverty. Financially excluded people cannot actively participate in mainstream economic activities. Financial exclusion may lead to loss of opportunities to thrift and borrow, reduced consumption, unemployment, increase in crime rate, turn down in investment, low productivity, difficulties in gaining access to formal credit or receiving credit from informal sources at very expensive rates, decline in social and economic status, reducing growth prospects, hindrances in money payment and transfers, loss to bank business, inaccessibility to pension and insurance and so on. The excluded people have to rely on personal savings or local sources to meet

ISSN PRINT 2319 1775 Online 2320 7876

Research paper © 2012 IJFANS. All Rights Reserved, UGC CARE Listed (Group -I) Journal Volume 10, Iss 4, Dec 2021

the expenses of health, education, unexpected events and entrepreneurial needs. Financial exclusion eventually leads to other societal problems like increase in social and gender inequalities, concerns of health, lack of education, low productivity, and low agricultural development and so on. These consequences necessitate inclusive growth.

Financial inclusion has high significance in context of achieving inclusive growth. It is a step to inclusive and participatory development. It boosts self confidence of excluded section of society. Equitable growth, reduction of poverty, increase in national income, easy and safe financial transactions, social security transfers, and secured savings with formal financial institutions, protection from risks and shocks, financial security are the benefits of financial inclusion. Financial inclusion benefits all the stake holders. Common people are benefitted with the access and use of bank products and services. For 'Banks' financial inclusion, may be a social responsibility in the short-run but that boosts business opportunities in the long- run. It widens the customer base and enhances resource for efficient intermediation and allocations, helping them to improve their asset-liability management. For the 'Regulator' of the financial sector, when transactions are carried through formal financial institutions, monitoring will become easy and transparency can be maintained. For 'Government', financial inclusion drive would help crucially to achieve inclusive growth and participatory development.

Providing financial literacy, ensuring enough income, developing customized financial products, overcoming identification problem, introducing customer centric approach to financial institutions, reducing the transaction cost, adopting viable delivery mechanism and appropriate technology, developing the supporting infrastructure in unbanked areas are the challenges faced by financial inclusion.

Importance of the study

Financial inclusion is required to uplift the poor and disadvantaged people by providing them the customized financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. This study intends to look at the changes occurred in conditions of India by considering the appropriate variables to test. The basic objective here is to understand the dynamics of growth in the country which is resulting in regional imbalances and propose measures for alleviating the problem.

Against this background, it was felt that a study on financial inclusion in India would give important clues to understand the nature, causes and determinants of financial inclusion. The objective of the study is primarily to study the causes and determinants of financial inclusion in India

Objectives of Study

Present study is taken up to achieve the following research objectives:

- To study the determinants of financial inclusion in India.
- To assess the important determinants of financial inclusion which are responsible for inclusive growth of India.

Methodology of the study

The present research study is based on secondary data. The secondary data used in the research are World Bank Reports and working papers, RBI Annual Reports, Trends and progress of banking in India, Basic Statistical Returns, Banking Statistical tables published by RBI, various issues of Economic Survey of India publications of Ministry of Finance, newspapers, magazines, books, journals, conference proceedings, and related websites. The financial data has been analysis from the financial period 2010-2019. For data analysis and interpretation, descriptive statics as well as ANOVA test and T test have been used.

Table 1: Financial Inclusion at National Level (Deposit and Credit in ` billion)

SL No	Year	Number of offices	Deposit Mobilization	Credit Mobilisation
9	2010	68365	17001.88	11525
10	2011	69866	21090.49	15139
11	2012	72261	26199.33	19470
12	2013	76256	31969.39	24170
13	2014	80217	38341.10	28477
14	2015	85518	44928.26	33452
15	2016	91156	52079.69	40756

16	2017	98597	59090.82	46119
17	2018	105753	67504.54	52605
	CGR (%)	**5.60**	**17.20**	**18.70**

Source: Reserve Bank of India (2019): Handbook of Statistics on the Indian Economy

Compound growth rate is calculated to check the growth rate of all the above three indicators. This reveals the difference in growth rate between pre financial inclusion and financial inclusion period.

The compound growth rate percentage for branch expansion for the period-I i.e., from 2010-2018 is 5.60. However, for the same period, the growth rates for deposit mobilization and credit penetration are estimated to be 17.20 and 18.70 respectively. This has called for banking authorities to evolve suitable policy measures to expand the vertical growth in order to reach the benefits to account holders.

Hypothesis-I The hypothesis test is based on the values presented in table 1 for both pre financial inclusion (pre FI) and financial inclusion (FI) periods.

H0: Financial Inclusion does not bring positive growth of branch expansion, Deposit mobilization and Credit penetration.

H0: Financial Inclusion brings positive growth of branch expansion, Deposit mobilization and Credit penetration.

Table 2: Comparison of Financial Inclusion parameters

Parameter	Periods	N	Mean	Std. Error Mean	F	Sig	t	Sig
Offices	Pre FI	8	65494	429.7096	17.918***	0.001	3.992***	0.004
	F Inclusion	9	83109	4392.1573				
Deposit	Pre FI	8	6051	557.4468	9.233***	0.008	6.272***	0.000
	F Inclusion	9	15869	1462.8331				
Credit	Pre FI	8	3458	353.3772	10.442***	0.006	6.619***	0.000
	F Inclusion	9	11975	1237.3715				

Source: Reserve Bank of India

Note: ***Significant at one percent level.

The above table presents comparison of parameters for financial inclusion between pre financial and financial inclusion period. Before testing the deposit and credit parameters, deflated values were obtained by using 2010-2019 as base year to neutralize inflationary impact.

The average amount of credit distribution before implementation of financial inclusion policy was ` 3458 and it has increased to ` 11975 during the inclusion period. It is found from the F test that the variance between the two is significant. Therefore, equal variance not assumed. Here also t-test results reveal that the mean difference between the two is significant. Therefore, financial inclusion period performance related to credit penetration is significantly high compared to pre- inclusion period in terms of credit penetration.

Based on the findings the null hypothesis is disproved. Accordingly, financial Inclusion does bring positive growth of branch expansion, Deposit mobilization and Credit penetration.

Population Group wise Credit Penetration:

Table 3: Credit of Commercial bank according to population group (Amount in ` crore)

Sl No	Year	Rural		Semi-Urban		Urban		Metropolitan	
		N A	A O	N A	A O	N A	A O	N A	A O
				Period-II					
9	2010	29357	1605	18226	1428	10177	2123	19391	6369
10	2011	29054	1994	21475	1748	12919	2764	21988	8633
11	2012	31029	2357	22099	2128	13254	3501	28060	11484
12	2013	33546	3231	24021	2560	14194	4306	35230	14073
13	2014	33823	3096	24973	3111	14750	4986	36690	17284
14	2015	37074	3852	27047	3679	16242	5936	38285	19985
15	2016	40018	3924	28772	4520	16896	7795	35038	24517
16	2017	41749	4422	31292	5283	17740	8549	40099	49779

 UGC CARE Listed (Group -I) Journal Volume 10, Iss 4, Dec 2021

17	2018	44035	4561	34437	5560	18190	9079	31623	36051
	CGR (%)	**5.50**	**14.20**	**7.00**	**18.70**	**7.01**	**19.80**	**10.00**	**25.60**

NA-Number of Accounts

AO-Amount outstanding

Source: Basic Statistical Returns of Scheduled Commercial Banks in India

Table 3 depicts the comparative figures of flow of credit to Rural, Semi- Urban, Urban and Metropolitan areas. The steady increase in number of credit accounts and amount outstanding indicates increased credit penetration, which will improve the consumption capacity and productive activities. Regarding the number of credit accounts, the compound growth rate shows 2010-2019. It shows improvement in amount outstanding in credit accounts. This is due to enhanced economic opportunities with economic liberalization, more demand for consumer loans, changing lifestyle and easy access of housing loans.

Hypothesis-II:

This hypothesis is based on the values presented in the table. Information relating to branch expansion under financial inclusion period is considered to test the hypothesis.

Ho: Financial inclusion does not enhance banking reach in rural areas.

H2: Financial inclusion enhances banking reach in rural areas.

Financial inclusion mainly targets rural people. This is because of enormity of financial exclusion in rural areas. The following study intends to test whether the target of reaching rural areas has been achieved through financial inclusion.

Table 4: Descriptive analysis of National level population wise branch expansion

Indicator	N	Branches	Mean values	Std. Deviation	Std. Error
Branch Expansion	9	Rural	32978.56	3105.33026	1035.11009
	9	Semi-urban	20262.67	4578.50109	1526.16703
	9	Urban	15550.78	2872.74660	1005.23934
	9	Metropolitan	14317.67	2872.74660	957.58220
Total			**20777.42**	**13176.47205**	**4392.15735**

Source: Reserve Bank of India

Table 4 shows the descriptive analysis regarding branch expansion in Rural, Semi-Urban, urban and Metropolitan Areas in absolute terms. Based on Mean values it appears that branch expansion in rural and semi-urban areas is high as compared to urban and metropolitan areas.

Table 5 Results of ANOVA test

Penetration		Sum of Squares	df	Mean Square	F	Sig
Branch Expansion	Between Groups	1963609936.972	3	654536645.657	54.598	.000***
	Within Groups	383623811.778	32	11988244.118		
	Total	**2347233748.750**	**35**			

Sig: ***Significant at one percent level

It has been found from the ANOVA test that there is significant difference among the groups in terms of branch expansion. However the difference between groups is not specifically identified from the ANOVA test. Hence Tukey HSD test has been conducted.

Table 6: Multiple Comparisons- Tukey HSD

Branch Expansion				
(I)Area	(J)area	Mean Difference (I-J)	Std. Error	Sig.
Rural	Semi-Urban	12715.88889***	1632.19308	.000
	Urban	17427.77778***	1632.19308	.000
	Metropolitan	18660.88889***	1632.19308	.000
Semi-Urban	Rural	-12715.88889***	1632.19308	.000
	Urban	4711.88889**	1632.19308	.033
	Metropolitan	5945.00000***	1632.19308	.005

IJFANS International Journal of Food And Nutritional Sciences
Official Publication of International Association of Food and Nutrition Scientists

Urban	Rural	-17427.77778***	1632.19308	.000
	Semi-Urban	-4711.88889**	1632.19308	.033
	Metropolitan	1233.11111	1632.19308	.874
Metropolitan	Rural	-18660.88889***	1632.19308	.000
	Semi-Urban	-5945.00000***	1632.19308	.005
	Urban	-1233.11111	1632.19308	.874

Note: The mean difference is significant at one and five percent respectively

The Post Hoc test conducted to know the significant difference between four different population wise branch penetration i.e., rural, semi-urban, urban and metropolitan areas.

Based on the results of the above tables, the study proves that bank branch expansion in rural and semi-urban areas is more compared to urban and metropolitan areas. Based on the study, the null hypothesis that financial inclusion does not enhance banking reach in rural areas is disproved. Accordingly financial inclusion resulted in more bank penetration in rural and semi-urban areas.

Conclusion

Government of India and Reserve Bank of India are attempting vigorously to reach cent percent financial inclusion by taking all stake holders into account. Financial Inclusion marked a paradigm shift in the focus from class banking to mass banking. Bank led financial inclusion model has been adopted to reach the unreached. In India tremendous growth has been found in case of branch expansion under financial inclusion period when compared to pre- inclusion period. Regarding the growth of bank branches in rural areas, land mark change can be seen as it changes from negative growth to positive growth. This has resulted in significant improvement in financial viability, profitability and competitiveness of banking system. In spite of vigorous efforts still miles to go to reach the goal.

Reference

1. Andrianaivo, M., & Kpodar, K. (2011). *ICT, financial inclusion, and growth evidence from African countries*. International Monetary Fund.
2. Chitta, Ranjan, Mishra. (2012). Financial Inclusion and Poverty Reduction. *Research Journal of Commerce and Behavioural Science:* Volume: 01,39-42.
3. Chakrabarty, K. C. (2011). Financial Inclusion and Banks: Issues and Perspectives. *RBI Bulletin, November*.
4. Vaas, Peter. (2007). Solving Financial Exclusion Needs Joined-Up Government.*Public Money & Management*, Vol. 27 Issue 1, pp. 3-4.
5. Sahu, H. et al. (2013). Commercial Banks, Financial Inclusion and Economic Growth in India. *International Journal of Business and Management Invention*, *2*, pp.01–06.
6. Yajnya Dutta, (2015) "Financial Innovations Towards Indian Capital Market", International Journal of Academic Research, Vol.2, Issue 4(5), ISSN: 2348-7666, , www.ijar.org.in P-82 to 90.
7. Srikanth, R., & Narayana, D. T. A. (2014). Boon or Bane of Financial Inclusion. *International Journal of Applied Financial Management Perspectives*, *3*(3), pp.1225–1234.
8. Srinivasan, N. (2007). Policy issues and Role of banking system in financial inclusion. *Economic and Political Weekly*, pp.3091–3095.
9. Singh Kuldeep and Singh Kondan (2012) "Financial Inclusion, Development and Its Determinants: An Empirical Evidence of Indian States" *The Asian Economic Review* Vol.53 (1) 115-134.
10. Sinclair, S. P. (2001), *Financial Exclusion: An Introductory Survey*, Report of Centre for Research in Socially Inclusive Services, Heriot-Watt University, Edinburgh.
11. Thapar, Ashima (2013), "A Study on the Effectiveness of the Financial Inclusion Program in India", *VSRD International Journal of Business and Management Research*, Vol. 3, No. 6, June, e-ISSN: 2231-248X, p-ISSN: 2319-2194.
12. Sharma. R, Didwania. M, Kumar (2011), "Need of Financial Inclusion for Poverty Alleviation and GDP Growth", *International Journal of Multidisciplinary Research* Vol.1 Issue 6, October, ISSN 2231 5780.
13. World Bank. (2019). *World Development Report.*
14. RBI. (2010-2019). *World Development Report.*