# A COMPARATIVE STUDY OF INCLUSIVE GROWTH: ECONOMIC POLICY REFORMS AN FINANCIAL INCLUSION IN INDIA

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**Abstract**

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to the sections of disadvantaged and low-income segments of the society, in contrast to financial exclusion where those services are not available or affordable. In spite of Govt. Policies for betterment of poor sections of the society, it is still requires major investments in this objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups, this comes with some issues and challenges that need to be addressed.

**Key words:** Financial Inclusion, Jan-Dhan, Planning commission, Poverty

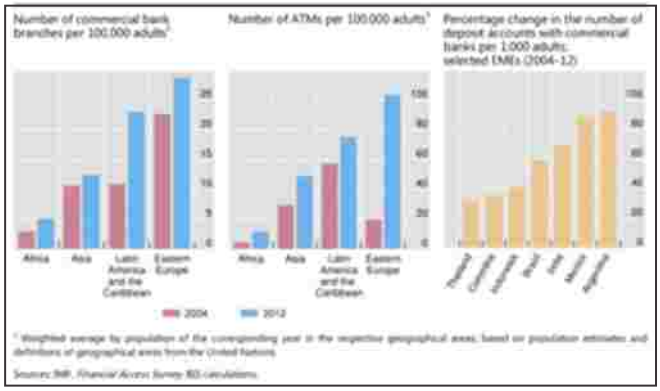
## I. INTRODUCTION

Financial inclusion enables improved and better sustainable economic and social development of the country. In this paper attempt has been made for the evaluation of issues and challenges in front of the banks and for policies related to financial inclusion. It takes into account the participation of vulnerable groups such as weaker sections of the society, the oppressed and the low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions, etc. A recent report on financial inclusion by the World Bank shows that the impact of financial inclusion strategies has been quite modest globally. While access to basic financial services does help the poor, throwing easy credit at them rarely raises prosperity in a sustainable way.[21].

The history of the microfinance industry illustrates the limited potential of credit interventions. Studies that assessed the impact of MFIs in recent years found very little impact of microfinance loans on either the growth of microenterprises or on poverty levels. In contrast, the so-called social banking model of yore, involving state-directed credit interventions in developing countries such as India seemed to have had a greater impact both in raising growth and indenting poverty. [21] Overall the picture is very positive in terms of global efforts for financial inclusions.

As shown from the data from IMF Financial access surveys suggest that there have been significant increases in financial inclusion over the past decade. In terms of the geographical outreach of financial services, the number of commercial bank branches per 100,000 adults increased from three to five during 2004-12 in Africa, and from 11 to 23 in Latin America and the Caribbean (Graph 1, left-hand panel). Meanwhile, the number of ATMs per 100,000 adults surged in eastern Europe (center panel). Most bank branches or ATMs should help to improve access: surveys report that "too far away" is an important barrier to having an account (Demirgüç-Kunt and Klapper (2012)). The use of financial services has increased as well, with the number of deposit accounts per 1,000 adults rising by over 30% in Colombia and Thailand and by over 80% in Argentina and Mexico (Graph 1, right-hand panel). [19].

Graph No -01




## II. REVIEW OF LITERATURE

There is scope for research in financial inclusion, issues and challenges area, some of the researchers have already added significantly to the body of knowledge. The earliest references to "financial exclusion" seem to date from the early to mid 1990s. The vast majority of published works examining financial exclusion, either as the central focus or as a partial focus, emanate from the United Kingdom. Definitions of financial inclusion in literature tend to vary on dimensions such as 'breadth', 'focus' and 'degree' of exclusion (RBI, 2009). The breadth dimension is the broadest of all definitions which defines financial inclusion as a consequence of social inclusion which prevents the poor and the disadvantaged from gaining access to the mainstream financial system. The prominence of the term financial exclusion in the late 1990s parallels the rising prominence of the concept of social exclusion in social policy; the notion of "exclusion" is common to both (Chart Link and Associates, 2004). Some of the definitions of financial inclusion reiterating this view are as follows. Financial Exclusion refers to a situation in which people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs (European Commission, 2008). Leyshon and Thrift (1995) define financial exclusion as [17] "those processes that serve to prevent certain social groups and individuals from gaining access to the financial system". According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Financial exclusion can be seen as a consequence of social exclusion. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self exclusion in response to negative experiences or perceptions. [17].

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. (Chattopadhyay, 2011). [22].

## III . RESEARCH METHODOLOGY

This is the descriptor type of research. In this paper attempt has been constituted to study and understand the challenges and issues in front of implementation of financial inclusion policies in India.

Objectives:

i. To study what is financial inclusion
ii. To understand various issues and challenges for financial inclusion
iii. To find a solution for better implementation of policies on financial inclusions in India

This is a study based upon secondary data, from research papers and reports from planning commissions. This study focuses on critical analysis of policies of financial inclusion in India. Attempting to compare growth prospect with financial inclusion and without inclusion

## IV. IMPORTANCE OF FINANCIAL INCLUSION

Without financial inclusion, two major factors have often been cited as the consequences of financial

exclusion. First, it complicates day to day cash flow management- being financially excluded means households and micro and small enterprises deal entirely in cash and is susceptible to irregular cash flow. Second, lack of financial planning and security in the absence of access to bank accounts and other saving opportunities for people in the unorganized sector limit their options for providing for themselves for their old age. [20] Social security is another major issue in front of financially excluded people. Access to finance is seen as access to growth and prosperity.

In majority of the developing countries, access to finance is now being perceived as a public good, which is as important and basic as access, say, to save water or primary education. A question that arises is whether the financial inclusion can be interpreted as a public good. [20] One of the important effects of financial inclusion is that the entire national financial system benefits by greater inclusion, especially when promoted in the wider context of economic inclusion. The growing economy like India has special significance for the concept of financial inclusion ,as it is bringing the large segment of the productive sectors of the economy under formal financial network could release their creative capacities besides augmenting domestic demand on a sustainable basis driven by income and consumption growth from such sectors. There are multiplier effect due to financial inclusion on the economy as a whole through higher savings pooled from the vast segment of the bottom of the pyramid (BoP) population by providing access to formal savings arrangement which results in expansion in credit and investment by banks. Deeper engagements of the BoP, under-banked population in the economy could lead to the improvement of their financial conditions and living standards, enabling them to create financial assets, generate income and build resilience to meet macro-economic and livelihood shocks through the formal financial system. The government also benefits to a great extent by way of efficiency and leakage-proof transfer of vast amounts of welfare benefits to the targeted, disadvantaged groups of the population. [15] It is possible due to advances in technology and communications Every successive government has taken necessary efforts to move toward better financial inclusion scenario. RBI also has also been particularly instrumental in introducing initiatives in this regard. However, the key lies in efficient implementation of the current policies as well as introducing innovative schemes and methods as to increase the accessibility of the rural poor towards better financial services. Government and RBI working in concert can definitely help India in its pursuit of complete financial inclusion.(Pooja Sharma, 2014).

## V. FINANCIAL INCLUSION: SCHEME & GROWTH

The objective of Financial Inclusion is to extend financial services to the large un-served population of the country to unlock its growth potential until now. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.[16].

Table No-01, Position of households availing banking services[16].

| | As per Census 2001 | | | As per Census 2001 | | |
|---|---|---|---|---|---|---|
| Households | Total number of households | Number of house holds | Percent | Number of house holds availing banking | Number | Percent |
| Rural | 138,271 | 41,639 | 30. | 167,82 | 91,369, | 54. |
| Urban | 53,692 | 26,590 | 49. | 78,865 | 53,444, | 67. |
| Total | 191,963 | 68,230 | 35. | 246,692 | 144,814 | 58. |

Source : RBI

Bank Branches and ATMs -Expansion of Bank Branch network: The number of branches opened by Public Sector Banks (PSBs) and Scheduled Commercial Banks (SCBs) during last five years: [16].

Table No-02-Number of functioning branches[16].

| AS on | Rural | Semi Urban | Urban | Metropolitan | Total |
|---|---|---|---|---|---|
| 31.03.2011 | 20658 | 16217 | 13450 | 12612 | 62937 |
| 31.03.2012 | 22379 | 17905 | 14322 | 13244 | 67850 |
| 31.03.2013 | 24243 | 19642 | 15055 | 13797 | 72737 |
| 31.03.2014 | 27547 | 21952 | 16319 | 14644 | 80462 |
| 31.02.2015 | 29634 | 23549 | 17387 | 15325 | 85895 |

Source : RBI

Table No-03- Scheduled Commercial Banks (SCBs):[16].

| AS on | Rural | Semi Urban | Urban | Metropolitan | Total |
|---|---|---|---|---|---|
| 31.03.2011 | 33923 | 23089 | 17629 | 16255 | 90896 |
| 31.03.2012 | 36546 | 25834 | 18879 | 17274 | 98533 |
| 31.03.2013 | 39816 | 28546 | 19935 | 18092 | 106389 |
| 31.03.2014 | 45293 | 31530 | 21532 | 19275 | 117630 |
| 31.02.2015 | 48557 | 33766 | 23036 | 20498 | 125857 |

Source : RBI

Table No-04 Number of ATMs of Public Sector Banks (PSBs)[16].

| AS on | Off | On | Total |
|---|---|---|---|
| 31.03.2011 | 200 | 302 | 5023 |
| 31.03.2012 | 241 | 340 | 5819 |
| 31.03.2013 | 294 | 402 | 6965 |
| 31.03.2014 | 445 | 659 | 1104 |
| 31.03.2015 | 587 | 699 | 1286 |
| 30.06.2015 | 592 | 719 | 1312 |

Source : RBI

Direct Benefit Transfer (DBT) and Direct Benefit Transfer for LPG (DBTL): [16].

The main objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme was launched in the country from January, 2013 and was rolled out in a phased manner, starting with 25 welfare schemes, in 43 districts and extended to additional 78 districts and additional 3 schemes from 1st July, 2013. [16] The above mentioned are one of the innovative steps taken by the UPA government, due to these beneficiaries will be directly getting the funds in their savings accounts.Pradhan Mantri Jan-Dhan Yojana (PMJDY) was formally launched on 28th August, 2014. The Yojana is conceive of as a possibility for universal access to banking facilities with at least one basic bank account for every household, financial literacy, access to credit, insurance and pension. The beneficiaries would get a RuPay Debit Card having inbuilt accident insurance cover of Rs.1.00 lakh. In addition, there is a life insurance cover of Rs.30000/- to those people who opened their bank accounts for the first time between 15.08.2014 to 26.01.2015 and meet other eligibility conditions of the Yojana. (RBI, 2011) [16].

The financial inclusion index is based on following three basic dimensions of an inclusive financial system–banking penetration, availability of the banking services and usage of the banking system. The most critical definite parameter for measuring the depth financial inclusion is Banking penetration which is measured as a ratio of bank accounts to the total population. The second parameter is availability of banking services which provides an indication to the number of bank outlets available per 1000 people to deliver financial services. The bank outlets may include the brick and mortar branches, ATMs, business correspondents, etc. The third parameter seeks to determine the usage of banking services going beyond mere opening of accounts. Therefore, this is evaluated on the basis of outstanding deposits and credits. Accordingly, the volume of outstanding deposit and credit as proportion on the net district domestic product is used for measuring this dimension.As per the value of the index, there are 3 categories in which Indian States can be classified as, states having high, low and medium extent of financial exclusion. The empirical results show that, Kerala, Maharashtra and Karnataka are some of the States having wider extent of financial inclusion as compared to other States of India. Tamil Nadu, Punjab, Andhra

Pradesh, Himachal Pradesh, Sikkim and Haryana fall under the category of medium financial exclusion.[15].

## VI CHALLENGES AND OPPORTUNITIES

In spite of governments positive approach, the financial inclusion is suffering some issues and challenges, ranging malpractices, from banks while opening accounts, from users with inaccurate information, illiteracy, use of ATMs , security of passwords and cards, from Barriers to financial access Banking and financial institutions are providing services to low income groups in many ways Demantas, I. (2014). But, there are some factors which create barriers for vulnerable groups to access the financial products and services provided Majumdar, C., & Gupta, G. (2013 . The constraints were segmented based on demand, supply and institutional constraints Gasparini L. F.(2005) The major constraints found are less educated, illiteracy, high proximity of their living area to service institutions, low density of population, poor channel design and low product quality Cressy. R. (2002). The above constraints represent all the major issues in accessing financial services by the weaker individuals as well as rendering of services by financial institutions Arya, P. K. (2015). Various risks are like banks profitability and risk of NPA, risk of changes in Govt Policies. [18].

Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. The main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. Thus financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management and offering debt counseling etc. by the banks.

## VII. CONCLUSION

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. [18] Due to advancement in technology, there is hope for complete financial inclusion, but issues like illiteracy, poverty and banks profitability remains as issues, How to measure the success of financial inclusion? One of the measures of the level of financial inclusion is the Financial Inclusion Index. The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. The wide extent of financial exclusion in India is visible in the form of high population per bank branch and low proportion of the population having access to basic financial services like savings accounts, credit facilities, credit and debit cards. India is progressing in terms of providing banking to the last person, who was not having access to the growth. Governments can improve upon implementations of policies and use of technology so that they can limit or stop the malpractices in banking related to DBT or opening bank accounts for the poor and helpless.

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