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ROLE OF FINANCIAL INCLUSION IN THE GROWTH OF ECONOMY

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Abstract

In order to foster higher economic growth for a country, it is very important to mobilize savings, allocating and utilizing the scarce resources which can only be done using an effective financial intermediation. In this connection, financial organizations aim at inclusion which prominently relates to the Indian principle. The prerequisites for the long journey of ensuring happiness are identified as equal access and equal opportunities. This mantra can actually be applied by using financial inclusion. In other words, financial inclusion is identified to be radical steps in order to identify and evaluate the pros of improvement within the formal financial sectors without waiting to be minimised within the due course. The paper focuses on assessment of the integration status of financial inclusion within Indian economy. This is primarily done by evaluating five private sector banks as well as five state bank groups. It was primarily observed from the study is that in recent times, there is a sharp increment in debit card usage till the entire time period. The banks are focused more on semi urban as well as rural areas. However, the findings of various studies have identified that the number of individual using banking products and services offered are continued to be distinctively limited although inclusive banking initiatives such as nationalization of banks, cooperative movement, and development of rural financial system. Therefore, from the outcomes it can be said that inclusive finance has the potential to contribute much more. Moreover, there is further scope of achieving the inclusive growth.

Keywords: Financial Inclusion, Economic Growth, Banking, Financial Sector

1. Introduction

As per the observation of K.C. Chakrabarty, the former deputy director of RBI, “Inclusive growth is identified to be the shortest route to the economic development. Financial inclusion is identified to be one of the four pillars of inclusive growth that are intended to improve the formal banking connectivity with under banked as well as un-banked.” Some of the notable studies in this context proved that there is a distinctive correlation between economic development of a country and effective financial system. The developing as well as the

developed economies can effectively scale up the development ladder by actualization of financial inclusion initiatives. "Consequently, there would be a steady increment in the household savings, added entrepreneurial activities and better life for individuals, especially the underprivileged."

It can be identified that the world leaders have distinctively shown an interest and commitment that boosted the financial inclusion related initiatives all over the world. The G20 leader significantly emphasized financial inclusion as one of the key pillars of the development agenda in 2010 G20 summit which was organized in Seoul. Financial Inclusion has been identified as a compelling and urgent target that is required to be persuaded. The G20 leaders also recommended the need for a well-defined action plan in this context. Moreover, the leaders evaluated the needs and formulated nine distinct principals in order to face the challenges regarding existing financial inclusion issues. In order to implement and monitor international level financial inclusion agendas, three agencies have been formed. Eventually other top level global financial organization such as "Better than Cash Alliance and the International Fund for Agricultural Development (2014), World Bank (2012), and Organization for Economic Co-operation and Development (2013) merged in Global partnership for Financial inclusion (GPFI) as partners for implementation." "It can be identified that although the target setting was one at the global level, the actual monitoring and implementation were left with individual economies. The apex banks and national governments have integrated a number of legislations and constituted committees as they tried out innovative models and rolled out innovative products with commitment to attain the foal of financial services for all."

2. Literature Review

2.1 Financial Inclusion and economic growth

Economic growth refers to the increment in economic services and goods value compared within a specific time period. It helps in increment to the capacity and supply of public goods of the state. Economic growth can be supported by different sectors with the economy such as economic sector. There are primarily four financial sector roles that are responsible for providing benefits to economy. The said benefits include mobilize savings, being able to reduce risks, reduce information and transaction costs and encourage specialization. Moreover, as per Fabya (2011), a range of financial instruments can be provide with risks

that are low or high quality with will responsible for acceleration of the growth of economy. As shown by Flaherty and Hook (2013), financial developments identified to be one of the most effective determinants of economic growth. In this connection, Law, Azman-Saini, and Hui (2014) evaluated the fact that a economic system that is well developed is very crucial for the economic growth. More specifically Sarma (2016) analyses the causality relation between different economic growth dimensions that indicates a causality relationship that is two way between access to banking services and economic growth. Financial inclusion can effectively improve the standard of living and financial condition along with reduced income inequality. Brune et al. (2011) in this connection identifies that saving help families to improve the capacity to absorb financial shocks, accumulate assets, and smooth consumptions ad investing in health and education. As per mechanisms Dixit & Ghosh, (2013), "access to financial services has a distinct potential to remove the poor from poverty cycle through development of low cost payment mechanisms that are efficient". Sanjaya (2014) integrated the fact that inclusive finance through credit programs at the micro levels can improve economic and social status of the poor. Park and Mercado (2015) continued this research and found "key evidence of negative relationship between poverty, financial inclusion and income inequality". As per the study of Boukhatem (2016) found that poverty reduction is directly influenced by the increment in financial development. Similarly, Nguyen et al. (2020) in his research identified that "financial inclusion does not have a steady influence towards reducing poverty." As per the study of Dienillah and Anggraeni (2016), increment in banking assets can be crucial in managing inclusive finance. As stated by Pham and Doan (2020), Ahmed and Mallick (2019), and Neaime and Gaysse (2018), financial inclusion has the ability to contribute to the financial stability in a distinct manner.

3. Research methodology

This research study is conducted on the basis of literature review and secondary data which was primarily collected with Newspaper, RBI report, Research Journal, Research Articles, E-journals, magazines and books. Number of functioning branches of the identified commercial banks within Indian economy and their performance in the last 5 years, ATM and card statistics of five private sector banks as well as five state bank groups, and group wise number of branches were used as the parameter for analysis.

3.1 Objectives of the study

- To evaluate the financial inclusion coverage in India and Government initiatives of financial inclusion
- To determine the implication of the financial organizations in India in reaching out to the backward and unbanked area
- To understand the challenges and possible solutions to attain inclusive growth.

3.2 Hypothes is of the Study

This study is based on the following null hypotheses

(H_0)-There is no connectivity between economic growth and financial inclusion

4. Data Analysis and Interpretation

4.1 International initiatives related to financial Inclusion

The most recent approach towards financial inclusion are identified within the initiatives of United Nations that critically focused on accessing different financial services such as credit, insurance, remittance and savings. In this connection, a comprehensive approach is considered by the World Bank to promote financial inclusion among people who tend to lack access to formal financial services. As World Bank, alliance for financial inclusions and others continue their support; a lot of countries have taken significant steps in implementing financial inclusion action plan and targets (Pradhan et al. 2016). Countries such as The UK, India, South Africa and Brazil are currently leading the aspects of financial inclusion. The World Bank is distinctively committed to different strategies in terms of designing reforms as well as other initiatives to meet the goals for low and middle income countries through a support framework for financial inclusion.

“The principals for sustainable inclusive finance has been outlined at the G20 Toronto summit that serves as a guide for regulatory and policy approaches targeted at execution of sound and safe adoption of adequate, low-cost and innovative delivery models that helps in providing conditions for a framework of incentives” and fair competitions for different financial institutions. Non bank and insurance forces are involved in the integration of quality and affordable financial services. Financial inclusions and its needs have become more prominent.

4.2 Financial Inclusion: National Initiatives

In Indian financial context, financial inclusion is an age old concept. The reserve bank of India and Government has been outlining an effective strategy in order to market financial inclusion as prominent objectives of the nation. In the last five decades, the country has seen lot of strategic shifts that include "building up of robust network of commercial banks, building up of robust branch network and co-operates and regional rural banks, formation of self-help groups, lead bank scheme, zero balance BSBD accounts and door step delivery". The primary objectives of these stratgies are to get a significantly large section of the mass that is financially excluded (Kim et al. 2018). Mangalam, a small town in Coimbatore, Tamilnadu became the number one village in India in which every houses were supported with banking facilities. In order to foster change within the banking structure reserve bank of India indicated the need for a range of specialized banks in order to cater Indian mass to ensure providing bank accounts to all the citizens. "The organization moreover suggested that the facility of payment, withdrawals and deposit should be set up within a 15 minute walking distance anywhere within the country". Moreover, reserve Bank has stated that Aadhar card is required to be used in order to open an account in the bank. However, after three years of operation, about 90 percent of the small businesses hardly have any links with formal financial institution; Whets more shocking is that 60 percent of the rural and urban population doesn't have a functional bank account. In reference to this, the governor of RBI pushed the Information and communication technology industry strongly in order to figure out the solutions in order to improve financial inclusion in the country. This can be specifically done with the technologies that are responsible for automating low-ticket sized, high volume transactions. Moreover, the bulk of the transactions are typically mad by poor people. India has now approximately 900 million mobile phone users. Hence, the potential for mobile banking is very high in India. It can be identified that currently cash withdrawal is not available with mobile wallets, which is required to be happening i near future (Raza et al. 2019). "Inter-operable banking correspondents were another innovation that helped in reaching the organizational financial system. The vision of reserve bank of India for 2020 was to open nearly 600 million customer account and service them through a variety of channels."

4.3 Financial inclusion initiatives of RBI

The policy taken by RBI can be differentiated into four parts. i.e., reach, Access, products and transactions.

4.3.1 Reach

4.3.1.1 Branch expansion in rural areas

RBI provided massive relaxation to a significantly large extent to the banks. Now the institutions do not necessarily need the permission in order to in areas where the population is "less than 1 lakh". In order to maximization of the branch opening in rural areas, it was made mandatory for the banks "to open 25 percent of the new branches in rural areas that are still unbanked." According to the annual policy statement for 2013-14, RBI has advised the banks in order to consider branch opening in "unbanked rural areas" which is expected to "facilitate the branch expansion in rural centres" that are unbanked.

4.3.1.2 Business Correspondent/ Business Facilitator Model

In order to ensure inclusive finance, RBI has decided to permit the banks to improve financial services using the facilitators and correspondents. Correspondents in business are identified to be the retail agents who are engaged by the banks in order to provide services without branches or ATM. It is responsible for enabling a bank in order to extend the reach.

4.3.2 Access

4.3.2.1 Relaxed KYC norms

In recent times, the KYC requirements have been distinctively simplified in order to foster more hassle free account opening with self certification with the presence of the bank officials. Reserve bank of India recently asked for taking eligible documents among which Aadhar is certainly certified.

4.3.2.2 Roadmap for banking services in unbanked village

During Phase I, the financial institutions were instructed to "develop a roadmap for integrating banking services in every village that have a population over 2000 by March 2010, the financial institution s have met this target and covered 74398 unbanked villages". During the second phase, the roadmap has been prepared in order to cover remaining unbanked villages with population less 2000 in which "4,90,000 unbanked villages across the country have been identified and allotted to a range of banks."

4.3.2.3 Range of products in financial services

To understand that finance related requirement of the consumers are met, the RBI have indicated banks to offer basic products such as a remittance product and a overdraft account and a pure saving accounts with a recurring or a variable recurring deposit and credit cards.

4.3.2.4 Transactions direct benefit Transfer

The RBI has recently leveraged Aadhar Platform by introducing direct benefit transfer. That will help social welfare benefits and facilitates delivery by direct credit to the beneficiaries account. In order to ensure effective involvement of DBT imitative, the banks have been instructed to open accounts of people in camp mode. Seed the accounts with aadhar and effective mechanism to put in place to review the progress in DBT implementation.

4.4 Bank contributions in Financial Inclusion

In order to integrate accessing the banking services to the underprivileged, the banks were instructed to develop a 3 year financial inclusion. The banks have been advised that "the disaggregation of the plans with view in order to ensure involve of bank staffs across the banking system." There has been a steady increment in the number of ATMS is setting up in India. In current situation, the transaction volume got more focus as part of the financial inclusion drive. This is a great opportunity for the financial institution to reach to the untapped area of Indian demography.

Table-I

Bank Group-wise Number of branches

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

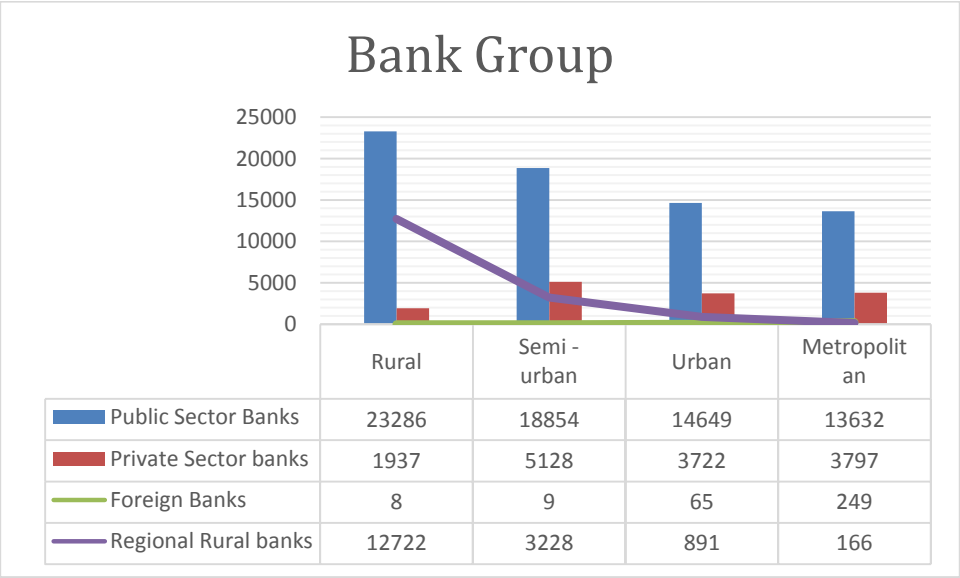

FIGURE-1

"The above table shows the number of bank branches in India. From the table it is clear that Foreign banks operates more in metropolitan cites with 249 branches whereas public sector and regional rural banks operate more in rural areas. The private sector bank dominates in semi-urban areas with 5128 bank branches. The total number of banks operating all across India accounts to 1, 02,343."

Table- II

Number of functioning branches of SCB during last five years

As on	Rural	Semi-urban	Urban	Metropolitan	Total
March 31,2015	31476	19126	15273	14325	80200
March 31,2016	32493	20855	16686	15446	85480
March 31,2017	33905	23114	17599	16419	91037
March 31,2018	36356	25797	18781	17396	98330
March 31,2019	37953	27219	19327	17844	102343
Growth rate %	20.58	42.31	26.54	24.57	27.61

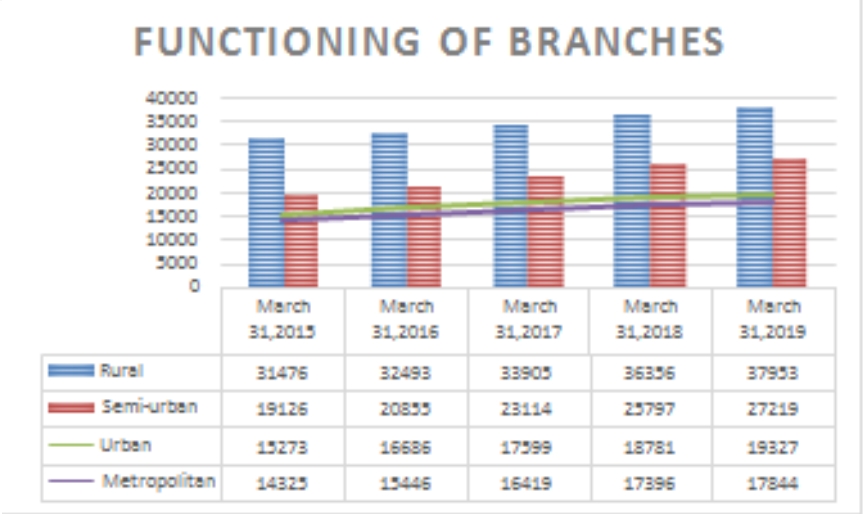

FIGURE-2

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

Table No. III

"Number of bank branches of SCBs over the years"

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

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

Table: IV

"Bank Group-wise Number of branches as on 31-03-2019"

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

Source: www.financialservices.gov.in

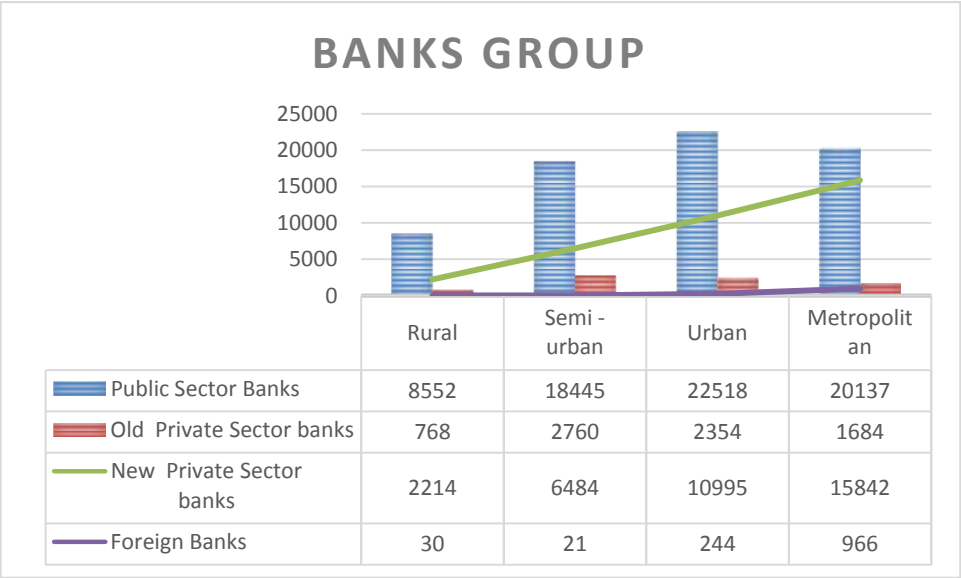

FIGURE-3

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

"CARD STATISTICS OF FIVE STATE BANK GROUPS AND FIVE PRIVATE SECTOR BANKS Offsite ATMs"

Table: V

OFF-SITE ATM STATISTICS 2019

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

5. Findings

By analysing the gathered data, a range of aspects has been found. Firstly the number of bank branches for both SBI and private banks were analysed that found foreign banks typically have a strong consumer base in the metropolitan cities. On the other hand, regional rural banks and private sector banks are responsible for operating in the rural areas. From the data related to the number of functioning bank branches, it can be identified that over the years, the number has been increased slightly. RBI has come up with different strategies in order to improve the numbers in this case. It has also been found that over the last fifty years the number of commercial banks has been increased by 1200% which is massive. It is said that financial inclusion has the primary role behind this inclusion. The study has moreover identified the fact that metropolitan cities in India have the highest number of branches compared to other cities in most of the banks. This shows that the effect of financial inclusion is mostly seen in the metros. Moreover, the use of debit cards in ATMs have also been increased power the years. However, these are also mostly limited to metros. Hence, it can be said that the government of India and the RBI needs to develop a strong strategy in order to foster the effects of financial inclusion in semi-urban and rural areas. Although the usage of debit has been increased, banks tend to focus more on semi urban and rural areas. "The number of people with access to the services offered by the banking system considered to be very limited, after years of introduction of inclusive banking initiatives within the country such as nationalization of banks, cooperative movements and creation of rural banks".

6. Conclusion

Development and growth of an economy can be important in the context banking financial services. Prior studies have identified that a faster and equitable growth can be managed by an inclusive and well-functioning financial system. It can be identified that "there is a wide range of finance options for upper middle class and higher income population in form of innovative and financially individual products". On the other hand, "a large section of the population lacks access to the banking that is required to be integrated effectively. This is identified as financial inclusion which moreover leads to social exclusion. Hence, it is necessary to provide the people with affordable and easy financial products which are termed as financial inclusion". "There is a beed for action amongst the government, banks and related agencies in order to access the financially excluded bank accounts". Although India

has passed twenty three years since the economic reforms, the financial sector suffers from a range of economic and special cultural issues. Although the usage of debit has been increased, banks tend to focus more on semi urban and rural areas. "The number of people with acces to the services offered by the banking system considered to be very limited, after years of introduction of inclusive banking initiatives within the country such as nationalization of banks, cooperative movements and creation of rural banks". Therefore, it can be concluded that the Indian economy can be distinctively developed by suing financial inclusion "and there is further scope for inclusive growth within the country."

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