



# FINANCIAL INCLUSION: A LITERATURE REVIEW

Priyanka gaur

Research Scholar

Maharshi Dayanand University, Rohtak

## Abstract:

This paper provides a comprehensive review of the evidence on financial inclusion from all aspect of the concept. It identifies the emerging themes in financial inclusion literature and describes the viewpoint of financial inclusion from every facet. In particular, I draw attention to some issues related to the financial inclusion and in contrast financial exclusion concept also. The finding of the study understands the framework and status of the economy. The purpose of this paper is to conduct a cross-disciplinary review of the literature on financial inclusion and exclusion in order to provide a place where one could have a bird's eye view of the academic activities that have been happening in the area.

**Key Words:** Financial Inclusion

## Introduction

With the progress of Indian Economy, particularly when the center of attention is on the accomplishment of the sustainable development, there must be an endeavor to incorporate greater number of participation from all section of the society. But the lack of awareness and literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. Due to this, the concept of inclusion is in the mind. 'Financial Inclusion' (FI) refers to the process of enabling access to useful financial products/services to all the sections such as economically weaker, underserved, underprivileged, below poverty and other vulnerable parts of the society in a transparent and sustainable way. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the

society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the 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. This concept is gaining popularity as it is important for the economic growth of the country. Financial inclusion enables improved and better sustainable economic and social development of the country.

Ample of evidences have been collected from existing relevant literature for understanding the concept of 'financial inclusion' and its significance for the economic growth.

### **Financial inclusion': Definition and concept**

Various authors' have defined the concept of financial inclusion in different way. The following reviews are showing the definition and concept of financial Inclusion:

**RBI** defines **Financial Inclusion** as "a 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 regulated mainstream institutional players". Therefore, the objective of Financial Inclusion (FI) is to extend financial services to the large hitherto unreserved population of the country to unlock its growth potential. In addition, it strives to achieve more inclusive growth by making financing available to the poor in particular. Thus, keeping in view of the interests of the poor people, the Government of India (GoI) has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the financial services.

GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The meaning of financial inclusion is delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income.

**Rangarajan (2008)** in his report has stated that providing access to 'financial services' to all groups of people, specifically to underserved, underprivileged, disadvantaged and poor to reduce poverty and social cohesion is the main objective of 'financial inclusion'. Providing access to 'financial services' at a nominal price facilitates the empowerment of these groups and therefore, these groups must be considered as an important factor in all the efforts required for promoting inclusion. It is necessary that extending the scope of various activities such as credit, payment, remittance and insurance facilities of the organized financial system in order to involve maximum people having low incomes should be the main aim of 'financial inclusion'. The attempt must be to ensure strong financial inclusive system by lifting the poor from one level to another for combating poverty through credit.

**Beck et al. (2008)** asserted that discussion has recently extended to include the idea of ‘financial inclusion’ as a blockade to the economical growth and there is a requirement to create the environment of inclusive financial systems. Along with banking, companies dealing in insurance would be entailed to target Bottom of the Pyramid (BoP) customers so as to attain the inclusive banking and growth.

**According to the Planning Commission (2009)**, Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household’s level of financial literacy and risk perception

**Bhatia and Chatterjee (2010)** in their research paper have studied the ‘financial inclusion’ in the slums of Mumbai. It is identified that although ‘financial inclusion’ refers to the process of enabling access to useful banking services at a nominal price to underserved, marginalized and below poverty population, it has still a long way to go before becoming a reality in the urban people. It is concluded that opening of regional banks in rural areas, expanding banking network and introducing Lead Bank Scheme are some important measures taken to promote financial inclusion.

**Cnaan, Moodithaya & Handy (2012)** explained the term of financial inclusion in a simple way that having a bank account in the household is first step for connecting with the banking system. He stated that this can be used effectively as a tool to eradicate poverty and increase economic growth. It was stated that social and personal deprivation are contributing for increasing financial exclusion and becoming a barrier for financial inclusion. It was explained that bank account usage per population is capable to evaluate financial inclusion. This study was undertaken in the rural south India. The gap was found in terms of literacy and advance usage of services even though the accessibility of the account increased. It was added that the scope of ‘financial inclusion’ should not be restricted to having a bank account rather it must include all banking services. It was suggested that government must direct the banks for improving reachability, providing incentive to the banks, granting approval for introducing new products and creating favorable environment for inclusion in terms of reducing cost.

**Memdani and Rajyalakshmi (2013)** discussed the evolution and progress achieved in terms of FI. The level of inclusion persist has been compared with the other countries like China, Brazil, UK and Russia. It is concluded that the progress is too less in proportion of the population. It was suggested that there is prerequisite on the part of the banks and financial institutions to harmonize their energies in the direction of

financial inclusion because the growth of the economy is determined on the basis of the inclusion's extent in the country.

**Jangra (2014)** in her research paper has studied the status of FI in India. Secondary data has been considered to review the FI status. It has been seen that exclusion's extent in India is higher in comparison of other developed countries in the world. TBI has undertaken various initiatives to improve the progress of inclusion in India. The approach is made on motivating and encouraging the people for accessing the financial services. Since, the level of literacy, lack of bank branches and less income are the barriers for FI in different states of country. It was suggested to put stress on the mechanism of credit delivery to boost the economic growth because for inclusive growth of the economy, the upliftment of the weaker section is very important.

**Singh and Roy (2015)** in their research paper have studied the assessment of concept of financial inclusion. Research is supported by the secondary data. It has been identified that although definitional aspects vary but mostly the literature is focused on the usage of basic services provided by banks such as money deposit, loan facility, micro finance facility, payment services, money transfer and insurance facility. Most of the definitional aspects of financial exclusion hover around lack of access whether voluntarily or involuntarily by some groups of the consumers. It is identified that financial stability of these groups of people could be ensured by providing low cost and safe access of financial services. It is concluded that the reason behind the financial exclusion needs to be understood and removed through better policy initiatives. However, as is the case with several issues in India, financial inclusion has remained a pipe dream with a majority of Indians continuing to lack access to banking services.

It was come out of the assessment that there are many reasons for the financial exclusion of the society. So in further section detailed discussion about financial exclusion has been done.

## **Financial exclusion**

Financial Exclusion is defined as the inaccessibility of useful banking services to vast groups of people especially economically weaker, underserved or underprivileged. The various researches have been done on the financial exclusion. Few of them are listed below:

**Leyshon and Thrift (1995)** have explained 'financial exclusion' as a process that prevents some sections such as economically weaker and underserved, social groups, individuals or areas from accessing the formal financial system which includes financial institutions like banks. Probability of being financially excluded is high for people who live in rural sectors and locations that are at a distant place from urban financial institutions as compared to those who are living in metropolitan cities.

**Devlin (2005)** in his research paper has studied the financial exclusion in UK. It has been identified that exclusion from various 'financial services' is affected by various factors such as employment rate, income of households, marital status, age and level of education. It is also shown that ethnicity and social class don't affect the level of financial exclusion. Gender factor had more impact on exclusion whereas influence of region factor was not clear.

Carbó S., Gardener E.P.M., Molyneux P. (2005) explained about the term financial exclusion in his paper. It has been the hot topic for the public as there is a paucity of the empirical data related to this topic. It was discussed in the paper that banks should play an active role for removing exclusion from the society. There is a need to make strong policy for financial exclusion to improve the level of the financial inclusion. Proper actions and policy will help out to cut out the exclusion from the society. Much more work is required if financial exclusion is to be tackled in a sustained way and if banks are to play deliberately a positive and value-enhancing role in this process.

**Rao (2010)** in his research paper has commented that sometimes the shown facts and figures do not describe the actual extent of financial exclusion. Sometimes the banks do not display the correct facts. For example, banks claim that the accounts are opened against the customers but the verification of those accounts claimed that those accounts are dormant. Very few people do the banking transactions and even fewer of them utilizes the credit facility from the banks. Many people are thereby denied the option to exploit their earning capability and hence, are compelled to poverty and marginalization.

**Pal & Pal (2012)** elaborated the inequalities that persist on the basis of income across sub-regions in India. It is found that financial exclusion persist more in poor households and contrary, it prevailed in case of rich households too. It is observed that inequalities were found across urban and rural sectors, but comparatively higher in rural sector. Researcher added that availability of financial services will boost greater inclusion in poor households also. It is concluded that education level, size of household, employment status will affect the usage of financial services in rural as well as urban sector.

Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account/savings account on its own, is not observe as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'superincluded', *i.e.*, those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

It has been assessed from that financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box. The persistence of the problem despite efforts to combat it calls for innovative thinking on the part of financial institutions on how to serve the unbanked.

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