

“A study on financial inclusion and sustainable growth in India”

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Abstract

The inclusive financial inclusions is an important component for economic and social progress on the development agenda. The Government of India has also been embracing financial inclusion as an important development priority. However, the majority of households in India are still found to be financially excluded. The purpose of this piece is to focus on the persistence of financial exclusion and sustainable growth, which is a serious obstacle to economic growth in India. It calls for an inclusive growth with financial inclusion.

Keywords : Financial Inclusion, Growth, Economic, Sustainable, Government policy.

Introduction

Financial Inclusion may be defined as provision of affordable financial services to under-banked rural people. These services include payments, remittance facilities, saving, loan and insurance services, RBI (2006).

Asian Development Board defined financial inclusion as provision of broad range of financial services such as deposits, loans, payment services, money transfer and insurance to the poor and less income households and their micro enterprises.

For achieving economic power and self-reliance, it is essential for every economy to create congenial conditions for individuals, households and private institutions. The major facilitators of developmental and expansionary activities are the availability of strong banking facilities and bank branch network. Since most of the financial services are coordinated with the help of banks, financial inclusion can be approximated by banking inclusion, (Dev (2006)).

Thus, in the context of banks, financial inclusion is concerned with spreading of banking activities among various sections of the population. The committee on financial inclusion, defined the term financial inclusion as the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost (Rangarajan Committee, 2008). India has a well-structured banking system which caters to the financial needs of individuals and households and also contributes towards the growth, development, improvement and advancement of the nation. Indian banking sector consists of the Reserve Bank of India (RBI), which is the central bank of India, commercial banks and co-operative banks. Nationalization of banks brings a major shift

in the focus of banking from class banking to mass banking. For taking the banking services to poor people regional, rural banks are also established.

Review of literature

Dev (2006) stated that financial inclusion is required for improving the living conditions of poor farmers, rural non-farm enterprises and other vulnerable groups. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, the role of the self-help group movement and microfinance institutions is important to improve financial inclusion.

Sangwan (2007) studied financial inclusion and self-help groups and found that over the last 15 years, India has witnessed unprecedented growth in financial services unfolded by liberalization and the globalization of financial services due to the adoption of information technology and the unlocking of the regulatory framework. The study concludes that this positive development, there is evidence that the formal financial sector still excludes a large section of the population.

Mandira Sarma and Jesim Paise (2008) suggested 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) 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.

Venkataramaraju and Ramesh (2010) focused on various aspects of financial inclusion in India, UK and USA in conjunction with an analysis of its outcome in India. Integrating the specific needs of the bottom of the pyramid markets and working backward to develop suitable solutions different from the existing ones, we can help the financially excluded.

Mehta (2010) stated that, how financial inclusion has become part of performance evaluation criteria for banks.

Bihari (2011) stated that the financial inclusion plans in the light of global practices, eleventh five year Indian plan and banks performance as well as no frill account. This study suggested financial literacy and quality improvement in no frill account can achieve financial inclusion plans growth.

Hameedu (2014) shown the issues in measurement and analysis of financial inclusion by way of building up suitable indicators such as access to usage of financial services as well as their coverage and penetration. It deals with understanding the barriers of financial inclusion and development of the indicators for assessing the same. One of the most important ways to achieve financial inclusion in a cost effective manner is through linkages with microfinance institutions and local communities.

Objectives of the Study

- (i) To study the role of financial inclusion in sustainable growth in India
- (ii) To analyse status of ATMs, ECS, Mobile banking financial inclusion in Tamil nadu.

Research Methodology

The research has been done using secondary data source. Analysis of natural hierarchical grouping cluster is done considering parameters like GDP per capita, literacy rate, unemployment rate and index of financial inclusion (Johnson and Wichern 2000).

Financial Inclusion Services

Financial service inclusion- allowing access to appropriate banking financial services. The concept of financial inclusion is not confined to ensuring an easy access of a basic bank account and products like deposits and credits.

The ATM is an innovative service delivery mode that offers diversified financial service like cash withdrawal, funds transfer, cash deposits, payment of utility and credit card bills, cheque book request and their financial enquires.

The mobile banking is defined as the provision of banking services to customers on their mobile devices, specifically the operation of bank current and deposit or savings account. according to recent research findings and forecasts in business, media and academia, mobile phones and handheld devices should have been firmly established as an alternative form of payment in most technologically advance societies, It is the use of a mobile device to conduct a payment transaction in which money or funds are transferred from a payer to receiver via an intermediary or directly without an intermediary.

ECS is an electronics mode of payment/ receipt for transaction that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment or bulk collection of amounts. Essentially, ECS facilities bulk transfer of monies from one bank account to many bank accounts or vice versa. Primarily, there are two variants of ECS-ECS credit and ECS Debit. ECS Credit is used by an institution for affording credit to a large number of beneficiaries having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the users institution. ECS Credit

enables payment of accounts towards distribution of dividend, interest, salary, pension, etc.,. Of the user institutions.

Sampling Procedure

In this research data were collected from IOB(Chennai) zonal office and other secondary data sources. Population wise and districts wise data were collected for analysis. Population is segregated like rural, semi urban and semi urban districts of Tamil nadu. As per the report of SLBC banks are grouped like State bank group, nationalized banks, other public sector banks, Private sector banks, Regional rural banks and foreign banks. All these bank group included total 58 banks.

Analysis and interpretations

Automated Teller Machine is an electronic telecommunications device that enables the customers of a financial institution to perform financial transactions, particularly cash withdraw, without the need for human cashier, clerk or bank teller.

ATMs have proved a form of free technology training for the public to become more technologically literate in the field of financial self-service. The simplicity of ATM transactions, proven by its worldwide popularity, gives people confidence and experience in using important modern self-service technology. The below Table 1.1 shows bank wise penetration of ATMs in Tamil nadu. Mean value is calculated to find out the performance from the 2013 to 2017. The result shows that mean value is high in the year 2015-2016. So it is concluded that more number of ATMs were installed in the year 2015-2016. And most of the ATMs work under private sector banks. Nationalized banks, state bank group, other public sector banks, foreign banks follows respectively.

Table 1.1 Bank-wise ATMs penetration from 2013-2017

Group of banks	2013-2014	2014-2015	2015-2016	2016-2017
State bank group	4012	4161	4745	4743
Nationalized bank banks	4952	6442	7300	7200
Other public sector banks	176	222	237	230
Private sector banks	6744	7390	7940	6590
RRBs	0	0	0	0
Foreign banks	113	105	103	97

Source : Secondary data

To access the funds which are kept in the bank at any time is not an easy tasks but today it is not at all difficult. The ATM machine helps the peoples to make their life much easier. It does most of the functions which a cashier would do. The ATM card is slowly replacing cheque, the personal attendance of various peoples has increased banking hours and reduced the holidays. They do not require any paper based verification.

Table 1.2 Bank wise mobile banking transactions volume for the month of March 2013 to March 2017

S. No	Bank	2013	2014	2015	2016	2017
	Group wise consolidations	Volume (Actual)				
1	State Bank group	4158635	5597396	8446050	17559249	18569348
2	Nationalized Bank	74652	191179	339294	1051700	1151900
3	Other Public sector Bank	849	7749	1923	6655	8765
4	Private Sector Bank	1850632	4244102	9077872	24342210	34332210
5	Regional Rural Banks	2111	2452	1498	1418	1568
6	Foreign Banks	161760	280782	439531	577679	67678

Source : Secondary data

Table 1.2 show bank wise number of transaction and amount of transaction of mobile banking from the year 2013-2017. Mean value shows that year 2017 7869970 transaction were done. Average number of transaction from 2013 to 2017 were 519590.5, 1062011, 1744325, 3170551 and 7869970 respectively and more number of transaction were done in private sector bank, through State bank group, 676827 transaction happened. 1270786, 11867.4, 1495.8 and 302439.6 transactions were done through Nationalized banks, Other public sector banks, regional rural banks and Banks respectively. Mean values and Standard deviations values shows more numbers of transaction done in the year 2017 (2013- Mean: 519590.50, SD: 1039434.48, 2014- Mean: 1062011.00, SD: 1674195.92, 2015- Mean: 5039228.02, SD: 8817052.63, 2016- Mean : 26309353.50, SD: 4352665.06, 2017- Mean: 7869970.00, SD: 10503809.93)

Amount transferred through mobile banking was higher in the year 2017 and less in the year 2013 (2013- Mean: 386719.12.50, SD: 483278.84, 2014- Mean: 1649054.28, SD: 1674195.92, 2015- Mean: 5039228.02, SD: 8817052.63, 2016- Mean : 26309353.50, SD: 42032152.80, 2017- Mean: 90245142.77, SD: 132126909.87) an the mean value shows that high amount of transaction was done through Private sector banks and the least amount of transaction was done through other public sector banks (Mean value : 513315.35) and average of amount of transactions was done by State Bank group, Nationalized banks, Regional rural banks and foreign banks: 45111357, 10823603, 295.784 and 2832727 respectively.

Mobile banking is an application of mobile computing which provides peoples with the support needed to be able to bank anywhere, anything using a mobile handheld device and a mobile service such as Short Message Service. Mobile banking facility removes the space and time limitations from banking activities such as checking account balances or transferring money from one account to another account and time saving when we go the bank and doing some banking activities. Internet banking helps give the customers anytime access to their banks. Peoples could check out their account details, get their bank statements, perform transactions like transferring money to other accounts and pay their bills sitting in the comfort of their homes and offices.

Electronic payment, which is a more expedient and efficient means of payment, provide the opportunity to improve productivity levels and lower the cost of doing business. Moreover, electronic

payments, being cost efficient, can also enhance financial inclusion by extending financial services to the unbanked communities that were hitherto out of reach due to high operational costs. In so doing, such communities would be brought into the formal financial systems and into the economic mainstream. This would enable them to enjoy lower cost of financial services and better means of savings.

National Electronic Fund Transfer is a nationwide payment system facilitating one-to-one funds transfer. It settles the transactions under batches. Under this scheme, individuals, firms and corporate can electronically transfer funds from any banks branch to any individual, firm or corporate having an account with other bank branches in the country participating in the scheme.

Importance of Financial Inclusion

In majority of the developing countries, access to finance (Khan, 2012) is now being perceived as a public good, which is as important and basic as access, say to safe water or primary education. A question that arises is whether financial inclusion can be interpreted as a public good. A good is considered a public good if it meets the conditions of (i) non-rivalness in consumption and (ii) non-excludability. Financial inclusion meets these two criteria. 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

Conclusion and Recommendations

Despite 67 years as an independent nation, India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining unbanked and nearly ninety percent villages not having bank branches and banking services. More importantly, people in these unbanked areas do not fully appreciate why they need a bank account at all or why loans from the formal sector are more useful than the informal sector. The advantages of a financially inclusive model are many-fold. Illustratively, unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program.

The government and Reserve Bank of India have been making concerted efforts since mid1950's and with renewed vigour since 2005 but success has been rather slow, due to lack of a strong network and financial instruments not suited to rural residents. Moreover, lack of awareness and financial literacy among rural population are primarily responsible for low penetration of financial services.

Conclusion

Financial Inclusion is significant for the sustainable growth of the country. India as a developing country recognises the strength of this financial inclusion by developing the financial system more inclusive. India has strengthened and progressed through various promotional programs like financial awareness and by low interest rate banking through micro finance institutions, business facilitators and business correspondents.

Opening of accounts are not only the solution of financial inclusion but also provide the financial security like insurance, pension and others. Pradhan Mantri Jan-Dhan Yojana is key drive to go ahead for the economic development of the country. So, the main focus of financial inclusion through this plan is to promote sustainable development and generating employability for a vast majority of the population especially in the rural areas. Many banks are playing a major role in ensuring sustainable development through financial inclusion. However, there is long way to go for the financial inclusion to reach the core poor and it can be possible by financial literacy and independent decision making regarding financial services and also by more awareness program provided by government.

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