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Financial Inclusion and Growth of Banking Services in India

Uttam Kumar Purbey

Abstract
Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism. For achieving growth of business banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way. In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years in India. Banks should give wide publicity to the facility of no frills account. With the help of technology banking products can get access in remote areas also. ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The involvement of Self Help Groups and Micro Finance Institutions is also must for development of effective financial inclusion models by commercial banks. Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. “Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians,” Thus, the objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

Keywords: Financial Inclusion, Growth, Banking Services, Functioning Branches, financial

Introduction

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector. This will help to serve dual purpose i.e. financial inclusion as well as growth of the banking business of the country.

Traditionally, it has been understood to mean opening new bank branches in rural and banked areas. Nowadays, however, financial inclusion is seen to be something more than opening bank branches in unbanked areas to take formal financial services across the length and breadth of the country.

This article makes an attempt to study financial inclusion along with the growth of the banking sector in India. It is studied on the basis data available from the Department of Financial services, Ministry of Finance, Govt. of India.

Meaning of financial inclusion

Before we understand financial inclusion we should have knowledge about financial exclusion. The word of financial exclusion first time used in 1993 by Leyshon and thrift who were concerned about limited access on banking services as a result number of bank branches were closed. In 1999, kempson and whyley defined financial exclusion in border sense which refers to those people who have excluded access to mainstream financial services and product till date numbers of analysts added their views to define financial exclusion.

‘Financial exclusion’ describes as a situation in which people do not have access to mainstream financial product and services such as banks accounts, credit cards and insurance policies, particularly home insurance, education loan. The effects of financial exclusion can include exclusion from other mainstream services, such as pension or saving schemes, and can also lead to debt and/or cut off from essential utilities.

According to the European Commission, Financial exclusion is: A process whereby people encounter difficulties accessing or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

In India, The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as restricted access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. So basically, financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

Review of literature

Many studies (Aghion & Bolton, 1997; Banerjee & Newman, 1993; Banerjee, 2001) discussed that access to finance has been seen as a critical factor in enabling people to transform their production, employment activities and to exit poverty. Researchers have been argued that the very fundamental activity of the banking sector, delivery of credit, are essential to boost any economic activity and enables the generation of capabilities (Sen, 2000). Dangi and Kumar (2013) examined the initiatives and policy measures taken by RBI and Government of India. This study also focused on current status and future prospects of financial inclusion in India. It has been concluded that financial inclusion shows progressive and valuable changes but sufficient provisions should be incorporate in the business model to certify that the poor are not driven away from banking. Suryanarayana (2008) focused on definition of inclusion/exclusion with reference to an outcome scenario for broad-based growth as reflected in estimates of production, income, and consumption distribution. The study helps in drawing a sketch of occupational, social, regional profiles of the excluded in the mainstream growth process. Hence researcher made an attempt to provide a perspective, a measure of inclusion, and finally an evaluation based on the available estimates of consumption distribution for the year 2004–2005 for India. Agrawal (2008) studied the financial inclusion from the behavioural perspective based on both factors supply and demand end. Results revealed that evaluation from the behavioural perspective provided the scope for the policy-makers and marketers to strategically align their approach with the behavioural aspect, without confining their thoughts to the economical evaluations.

On the other hand, in 2003, the RBI policy of financial inclusion was to provide access to financial service to the underprivileged could be earmarked as another bold initiative in serving the rural transects targeting inclusive growth. Committee on financial inclusion in 2008 (Rangarajan Committee) observed that financial inclusion to hitherto excluded segments of the population was critical to sustain and accelerate growth momentum. For achievement of the objective, the committee had put forward multi-pronged strategies include establishment of National mission on financial inclusion, revitalizing the RRBs and Cooperatives, introducing MFI model (SHG-bank linkage) and Business Facilitator and Business Correspondents Model. Mukherjee and Chakraborty (2012) studied the role and efficiency of the commercial banks in Jharkhand state with their capacity and role of institutions like regional rural banks (RRBs), self-help groups (SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion. The results of analysis shown that banks were not able to achieve the desired aims and study suggested that every bank should reports to the RBI on its achievement on financial inclusion more frequently. Uma and Rupa (2013) made an attempt to examine the role of SHGs in financial inclusion and reflected the positive relationship between SHGs membership and financial inclusion. The study revealed that after the membership to SHGs there was increase in the number of bank accounts, credit availed by the members and annual repayment of the loan also shown positive trend.

Joseph and Varghese (2014) analyzed the effect of financial inclusion on the development of Indian economy by bank growth rate in terms of number of bank branches, usage of debit card and credit cards. It has been observed that the usage of debit cards increased tremendously throughout the study period and decreased the number of people with access to the products and services offered by the banking system continues to be very limited, even years after introduction of inclusive banking initiatives in the country. Ravikumar (n.d.) made an attempt to assess the role of banking sector in financial inclusion process from different viewpoints namely branch penetration, ATM penetration, population per branch, distribution of banking branches, credits, deposits of SCBs and Co- operative banks in India. This study revealed that banking is a key driver for financial inclusion/inclusive growth but large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Paramasivan and Ganesh kumar (2013) discussed the overview of financial inclusion in India and concluded that branch density has a significant impact on financial inclusion. Julie (2013) analyzed the relationship between financial inclusion and economic growth in Kenya and found that both have a strong positive relationship. Economic growth has a strong positive relationship with branch networks and a weak positive relationship with the number of mobile money users/accounts. The study also concluded the weak negative relationship with the number of automated teller machines in the country and a strong negative relationship with the bank lending interest rates. Study conducted in India by Kamboj (2014) found out the positive relationship between number of bank branch networks and number of ATMs in the country with the GDP growth rate of the country.

Objectives of the study

1. To examine present scenario of financial inclusion in India.
2. To investigate the major factors affecting access to financial services.
3. To study the impact of financial inclusion indicators on growth of Indian economy.

Financial exclusion in India

India is place of the largest unbanked population where, only 35 percent adults having an account in financial institutions which shows that percentage of account penetration in India just below rest of the developing world. About 50 percent of adults reports in Andhra Pradesh and Delhi NCR and 40 percent in Gujarat, Kerala, and Maharashtra having a formal account but Bihar, Orissa, and Rajasthan reports less than 30 percent account penetration. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB□s and SCB□s has still stood only 48000 in a country to provide service to 6 lakh villages. So, there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts.

RBI's policy on 'financial inclusion'

- **No-Frills' account**

In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no frills' account either with 'NIL' or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner.

- **'Simplification of 'Know your customer (KYC)' norms**

Banks are required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals, etc., to facilitate easy access to bank accounts.

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the 'KYC' procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts.

- **Ensuring reasonableness of bank charges**

In order to ensure fair practices in banking services, the RBI has issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website.

Thus, the objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential.

The Indian households can be broadly divided in to two main groups, rural and urban. To have effective financial inclusion, the banks have to always keep in mind these target groups and bring them to banking fold in such a way that it is a win- win situation for both. Banks can step in to augment financial inclusion in two ways (i) providing banking and other related services and (ii) providing non-banking services and support.

Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism. The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way. This approach recognizes the close two-way links between poverty and deprivation on the one hand and being unable to find and use appropriate financial products and services on the other. In addition, it strives towards a development of banking sector in general and more inclusive growth by making financing available to the poor in particular.

Financial inclusion and growth of banking sector in India

The banking industry has shown tremendous growth in volume and complexity during the last decade which indirectly supported to the movement of financial inclusion in both rural as well as urban areas.

Table 1: Comparative statement of number of households availing banking services as per Census 2001 & 2011

Households	As per Census 2001			As per Census 2011		
	Total number of households	Number of Households availing banking services	Percent	Total number of households	Number of Households availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: department of financial services, ministry of finance, govt. of India

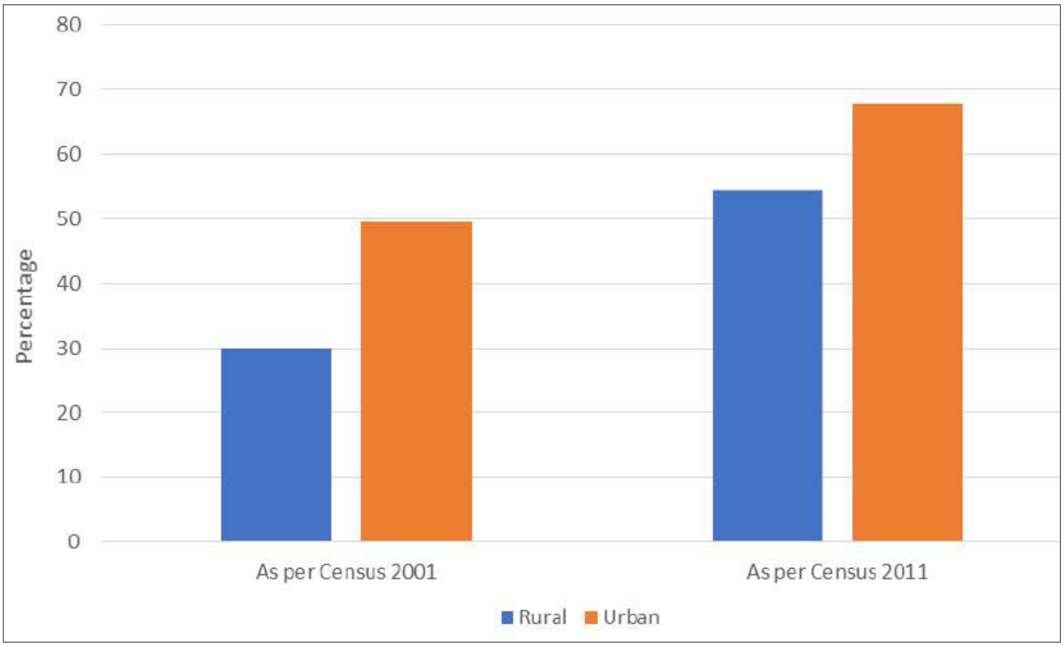

Fig 1: Households availing Banking services

The table :1 shows that the number of households availing banking services in a country as per census 2001 & 2011, it clearly states that as per census 2001 in the rural households availing banking services were 30.1% compared with total number of households while it has increased to 54.4% as per the census 2011 compared with total number of households. In case of urban households availing banking, services has registered growth from 49.5% to 67.8% compared with total number of households as per census 2001 & 2011. Total rural & urban households availing banking services has increased by 23.2% when compared with total number of households as per census 2001 & 2011.

i) Expansion of bank branch network

The number of functioning branches of public sector banks & Scheduled Commercial Banks (SCBs) in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system.

Table 2: Number of functioning branches of Public Sector Banks-Population Group wise

As on	Rural		Semi Urban		Urban		Metropolitan		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
31.03.2014	20658	32.82	16217	25.77	13450	21.37	12612	20.04	62937	100
31.03.2015	22379	32.98	17905	26.39	14322	21.11	13244	19.52	67850	100
31.03.2016	24243	33.33	19642	27.00	15055	20.70	13797	18.97	72737	100
31.03.2017	27547	34.24	21952	27.28	16319	20.28	14644	18.20	80462	100
31.03.2018	29634	34.50	23549	27.42	17387	20.24	15325	17.84	85895	100

Source: Department of Financial Services, Ministry of Finance, Govt. of India

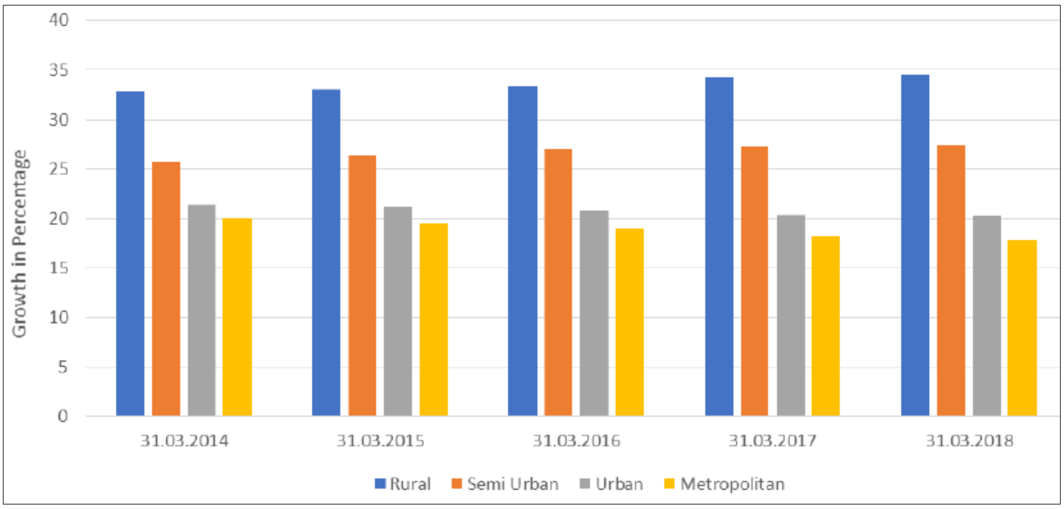

Fig 2: Growth of Public Sector Branches

Above Table-2 indicates that there is continuous increase in number of functioning branches of Public sector banks. It clearly shows that number of functioning branches of Public sector banks in rural & semi urban has increased more when compared with other areas i.e. urban & metropolitan. There is consistent growth in number of functioning branches of Public sector banks during the study period it was 32.82% of the total functioning branches of Public sector banks in the year ending on 31.03.2014 and the percentage increased to 34.50% in the year ending on 31.03.2018. In the semi urban areas, it has recorded increase in percentage of functioning branches of Public sector banks from 25.77% to 27.42% in the year ending on 31.03.2014 &31.03.2018 respectively. While in urban & metropolitan, it shows decrease in percentage of share in total of functioning branches of Public sector banks from 21.37% to 20.24% and 20.04% to 17.84% respectively during the study period.

Table 3: Population Group wise number of branches of Scheduled Commercial Banks (SCBs)

As on	Rural		Semi Urban		Urban		Metropolitan		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
31.03.2014	33923	37.32	23089	25.40	17629	19.39	16255	17.88	90896	100
31.03.2015	36546	37.09	25834	26.22	18879	19.16	17274	17.53	98533	100
31.03.2016	39816	37.42	28546	26.83	19935	18.74	18092	17.01	106389	100
31.03.2017	45293	38.50	31530	26.80	21532	18.30	19275	16.39	117630	100
31.03.2018	48557	38.58	33766	26.83	23036	18.30	20498	16.29	125857	100

Source: Department of Financial Services, Ministry of Finance, Govt. of India

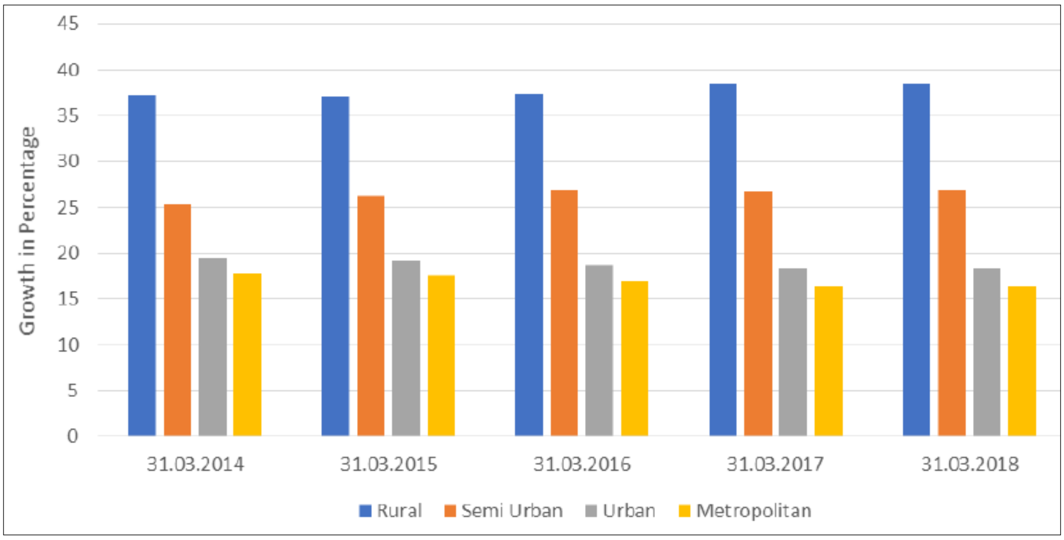

Fig 3: Growth of Scheduled Commercial Bank Branches

From the Table 3, it can be seen that branch expansion of scheduled commercial bank during the period of five years i.e. 2014 to 2018. Branches of Scheduled Commercial Banks in percentage to total branches of Scheduled Commercial Banks in rural area depict continuous increase except the year ending on 31.3.2015. As like rural area, the percentage of branches of scheduled commercial banks in semi urban area display consistent increase in it except the year ending on 31.3.2017 which shows slight decrease in percentage. While the percentage of branches of scheduled commercial banks in urban & metropolitan cities records consistent decrease during the study period.

Table 4: Bank Group and Population Group wise Number of Functioning Branches and percentage to total as on March 31, 2018

Bank Group	Rural		Semi Urban		Urban		Metropolitan		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
SBI & its Associates	8029	35.61	6593	29.24	4304	19.09	3622	16.06	22548	100
Nationalised Banks	21228	34.47	16428	26.68	12604	20.47	11325	18.39	61585	100
Other Public Sector Banks	377	21.40	528	29.97	479	27.19	378	21.45	1762	100
Private Sector Banks	4302	21.53	6457	32.32	4521	22.63	4698	23.52	19978	100
Foreign Banks	8	2.47	12	3.70	57	17.59	247	76.23	324	100
Regional Rural Banks	14613	74.33	3748	19.06	1071	5.45	228	1.16	19660	100

Source: Department of Financial Services, Ministry of Finance, Govt. of India

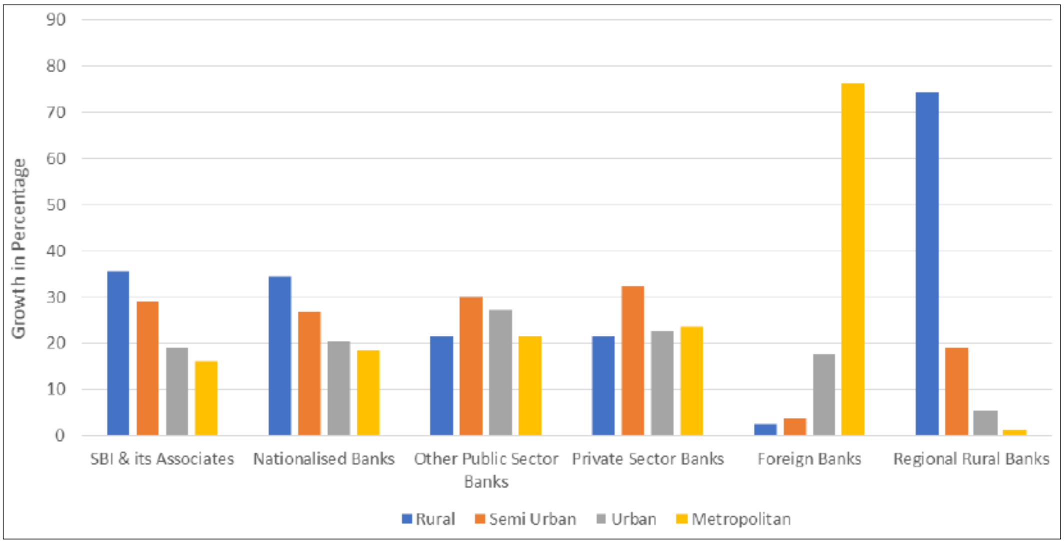

Fig 4: Bank Group and Population Group wise Functioning Branches

Table 4, explains the contribution of bank group in particular population group in number & percentage as well. It can be seen that SBI & its associates and nationalized banks are more active in rural & semi urban area. The percentage of branches is less in urban & metropolitan cities when compared with total percentage of functioning branches. The percentage of branches of other public sector & private sector banks shows that they have concentrated more on semi urban areas when compared with other areas. Regional rural bank have focused more on rural population i.e. 74.33% while the foreign bank has more than 75% of branches in metropolitan cities.

Conclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. The banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way. From the above study, it can be concluded that the contribution of Public sector banks in financial inclusion is consistently growing more specific in rural & semi urban area to utilize financial services of formal financial system. The study exhibit that the number of branches opened in rural area is more compared with other areas, while expansion of branches of scheduled commercial bank in metropolitan cities is comparatively less. Thus, it explains the role played by banking industry in financial inclusion in India which commensurate with the growth of banking sector in the country.

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