

Impact of Financial Inclusion on Indian Economy

BHARTI

RESEARCH SCHOLAR

M.D.U ROHTAK

Abstract

Financial inclusion is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. The term financial inclusion has evolved since late 2000 and it's directly correlated to poverty. More and more Indian companies are trying to enter in the list of fortune 500 and one of our Indian entrepreneurs appears in the list of the top five richest persons of the world. Financial inclusion has become an evolving paradigm of economic growth that plays very significant role in poverty alleviation. The main objective of the study is to analyze the impact of financial inclusion in the growth of Indian economy and the initiatives taken by the banking institution in India to attain inclusive growth.

Keywords: Banks, Financial Inclusion, India, Economic Growth.

Introduction

Even after 67 years of independence, a large section of Indian population still remains unbanked. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion. Financial inclusion is an economic and social development approach that involves providing financial services through institution to low income clients. 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 Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan). For India, financial inclusion is an agenda of planning for development. The country accepted this as a way of achieving most of the Millennium Development Goals (MDGs) and incorporated it in the approach paper to the Twelfth Five Year Plan (2012-2017). Now the Planning Commission might have been dismantled but even for transforming India under the new National Commission for Transforming India (NITI) and the global Sustainable Development Goals (SDGs), financial inclusion needs to be present both as a philosophy and practice. Therefore, it is necessary to have a re-look at the philosophy and agenda of “inclusive growth”. Access to financial services plays a critical part

in development by facilitating economic growth and reducing income inequality. Inclusive financial systems allow poor people to smooth their consumption and insure themselves against the much economic vulnerability they face from illness and accidents to theft and unemployment. Financial inclusion enables poor people to save and to borrow allowing them to build their assets, to invest in education and entrepreneurial ventures, and thus to improve their livelihoods. It is likely to benefit disadvantaged groups such as women, youth, and rural communities. For all these reasons financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor.

Financial Inclusion should include access to financial products and services like-

- No frill Bank accounts – check in account
- Micro Credit
- Savings Products
- Remittances & Payment Services
- Insurance - Healthcare
- Mortgage
- Financial Advisory Services
- Entrepreneurial Credit
- Pension for Old Age
- Business Correspondence & Self help Group
- Branchless Banking
- Micro Finance & Micro Credit Facility
- Investment Plan for Child's Education

Review of Literature

Sharma et al. (2018) this study critically assessed one of the financial inclusion policy “Pradhan Mantri Jan Dhan Yojana” introduced by the govt of India in 2014. It assessed that Andaman and Nicobar, Puducherry and Chandigarh came out to be the top three State indexes for Financial Inclusion under the policy. Status of infrastructure was found to be the

most significant determining factor. Other factors were labour force participation, poverty and regional disparity.

Joshi (2014) analyzed the awareness and penetration of various financial services offered by banks. An awareness index was constructed from the primary data collected from urban poor in Nagpur. It was observed that financial products like current account, demand loan, direct debit facility, credit card and mobile banking is low. Aggregate awareness of banking services offered was found to below 41%. Lack of cooperation, improper guidance, and lack of transparency are the main reasons for this level of awareness

Chakraborty (2011) studied the role of banks in promoting financial inclusion and found that access to financial products are restricted due to lack of awareness about the financial products, unaffordable products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. India's financial inclusion is designed as a bank led ICT based model. Four basic products viz. pure savings account, variable recurring deposit account, kisan credit card and general-purpose credit card are expected to be delivered through the above model. Relaxation of KYC norms, simplified branch authorization, flexibility in pricing of advances and liberalization of business correspondents' model are some of the key policy measures taken by RBI to promote financial inclusion.

Research Methodology

This study is mainly descriptive in nature. The data has been collected from secondary sources like magazines, internet websites, journals etc. Various studies on this subject have also been referred for the present paper.

Objectives

1. To study the impact of financial inclusion on Indian Economy.
2. To know the RBI Initiatives and guidelines for financial inclusion.

Benefits of Financial Inclusion

- The rural masses will get access to banking like cash receipts, cash payments, balance enquiry and statement of account can be completed using fingerprint authentication. The confidence of fulfilment is provided by issuing an online receipt to the customer.

- Reduction in cash economy as more money is brought into the banking ecosystem.
- It inculcates the habit to save, thus increasing capital formation in the country and giving it an economic boost.
- Direct cash transfers to beneficiary bank accounts, instead of physical cash payments against subsidies will become possible. This also ensures that the funds actually reach the intended recipients instead of being siphoned off along the way.
- Availability of adequate and transparent credit from formal banking channels will foster the entrepreneurial spirit of the masses to increase output and prosperity in the countryside.

Challenges to Financial Inclusion

- **Lack of Formal Identification Documents:** One of the key factors which prevent the unbanked from getting access to basic banking services is the lack of formal identification documents. IDs are also needed for claiming social benefits and the transfers of funds. Hence in order to improve access to banking services for the unbanked, authorities need to simplify and streamline the process for obtaining a formal ID card.
- **Consumer Protection:** There is a lack of trust among consumers as to the security and reliability of these newly established platforms. In order to promote confidence in these new methods of payment services, authorities must release clear guidelines and regulations that will ensure that the consumers are adequately protected and have access to key product information to allow them make informed decisions.
- **The need to Improve Financial Literacy:** By improving the financial literacy rate among these individuals, this will lead to better financial decisions and the selection of the right products that best suits the needs of these individuals. It will also lead to knowing how to better utilize the various channels that are available for their banking needs. In other words, more effective and lower cost measures can be utilized to improve the uptake of new bank accounts which will ultimately result in increased savings.

- **The Rural Poor and Gender Inequality:** The rural poor and women in general face unique obstacles when trying to access financial services. Based on research conducted by the World Bank, even though women form a larger share of the self employed category in developing countries, they have a lower chance of securing credit from banks. IFC research has shown that this is largely due to a lack of collateral or poor credit history which leads to more women being denied credit by the financial institutions. In order to expand financial inclusion among the rural poor and women, stakeholders must come up with ways which will remove the impediments that these two demographics face in trying to gain access to financial services.
- **High Operational cost:** Most financial service providers are way of providing product and services appropriate to low family income groups on account of the high transaction costs intrinsic to small value account with limited no of transactions.

Initiatives Taken to Achieve Financial Inclusion

- **No Frill Account:** Yet another initiative for financial inclusion was the opening of No Frill Accounts, including through Business Correspondent -ICT, EBT, Kisan Credit Card, and General Credit Card etc. This is a basic banking account where you keep a minimum balance of zero or a very low balance. Recently, the changes were made in the no-frills account.
- **Basic Savings Bank Deposit Account:** This account does not have the facility of minimum balance account. As mentioned above, the no-frills account was also converted to BSBDA accounts. In this account, there are many services availed by the banks. Also, these services include deposit and withdrawal of cash at the bank branch. This can also be done at the respective ATM's of the bank. Furthermore, receipt and credit of money done through electronic payment or by the means of cheque. There is also a facility of ATM card or ATM cum debit card.
- **PMJDY – Pradhan Mantri Jan Dhan Yojana:** The main slogan of this scheme is 'Mera Khata – Bhagya Vidhata'. This means that my bank account is my god. Also, the scheme is provided for the 50,000 plus overdraft facilities for accounts that are linked with Aadhar card. It is also provided for Rupay debit cardholders.

- **Unique Identification Authority of India (UIDAI):** The UIDAI is also considering giving unbanked citizens the option to receive a pre-paid payment card issued by banks which can be used for channeling payments from government schemes, including National Rural Employment Guarantee Act.
- **Business Correspondents:** The business correspondent appointed by the bank who is personally know to the villagers, go from house to house in the rural areas and collects small amounts of money and deposits them in the bank nearby. For every account opened they get a commission from the bank or every transaction made and so on.
- **White Label ATMs:** Automated Teller Machines (ATMs) set up, owned and operated by non-bank entities are called "White Label ATMs" (WLAs). They provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks. Non-bank entities that set up, own and operate ATMs are called "White Label ATM Operators" (WLAO). The WLAO's role is confined to acquisition of transactions of all banks' customers by establishing technical connectivity with the existing authorized, shared ATM Network Operators / Card Payment Network Operators.

Conclusion

Financial inclusion play significant role in the growth of Indian economy. A strong and sturdy financial system is a pillar of economic growth, development and progress of the economy. For overcoming the barrier of remoteness, Business Facilitators and Business Correspondents model have introduced. Furthermore, ATM, Mobile Banking, and online banking also serve the same purpose. The banks opened considerable numbers of branches in the rural areas. The opportunities and challenges provide useful insights regarding innovative ways of economic value addition, which help the Nation reach a growth trajectory that is sustainable. Therefore, policymakers should focus on developing policies considering a sustainable banking services delivery model and need-based products for rural and urban consumers.

References

Bhatia, N. & Chattejee, A. (2010). Financial Inclusion in the Slums of Mumbai. *Economic & Political Weekly*, 45 (42), 23-26.

Chakrabarty, K. C. (2011). Financial Inclusion and Banks: Issues and Perspectives: Address delivered at the FICCI – UNDP Seminar on “Financial Inclusion: Partnership between Banks, MFIs and Communities” at New Delhi on October 14 2011.

Chattopadhyay, A. (2012). Financial Inclusion-Indian Context. *The Management Accountant*, 47 (1), 55-56.

Dixit, R. & Ghosh, M. (2013). Financial Inclusion for Inclusive Growth of India - A Study of Indian States. *International Journal of Business Management & Research*, 3 (1), 147-156.

Ghosh, A. (2007). Financial Inclusion through Micro-Finance in India and Emerging Role of POSB: An Analysis. *Journal of Development Studies*, 30 (3), 629-649

Joshi (2014). Financial Inclusion: Urban-Poor in India. *SCM S Journal of Indian Management*, 1 (4), 29-37.

Kaur, S. & Chadha, A. (2014). Consumer Behavior for Durable Goods: A Case Study of Rural Punjab. *Journal of International Academic Research for Multidisciplinary*, 2 (2), 10-17.

Sharma, D., Bhattacharya, S. & Thukral, S. (2018). Assessment of financial inclusive policy in Indian economy. *International Journal of Ethics and Systems*, 34 (3), 304-320.

<https://en.wikipedia.org/wiki/financialinclusion>