Role of Banks in Financial Inclusion in India

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Abstract

Financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. It refers to providing financial services to a large population, including both rich and underprivileged individuals, at reasonable terms and circumstances. In terms of economic development and social progress, the country places a high focus on financial inclusion. It makes possible to close the wealth divide in society. Financial institutions are the strong foundations of progress, economic growth, and economic development in the current situation. The current study intends to investigate the effects of financial inclusion on economic growth over a seven-year period.

Keywords: *Financial inclusion, Banking sector, GDP, ATMs, Credit deposit ratio*

Introduction

India is a country of 1.2 billion people, spread across 29 states and seven union territories. In our nation, there are around 640 districts and 6,000,000,000 villages. The great majority of people are not able to easily access financing, particularly in rural regions (Gounasegaran, Kuriakose, & Iyer, 2013). Of the 117,200 designated commercial bank branches, only 38% are located in rural regions, despite 40% of families having bank accounts. The availability of financial services at reasonable and suitable costs has long been a global concern. Therefore, the need for an inclusive financial system is widespread and has become a top policy issue in many nations, not just India. The financial situation and level of living of the underprivileged and impoverished may undoubtedly be improved by financial access. In order to expand the banking network, the RBI has been actively encouraging the banking industry to open new branches and install new ATMs (Dangi & Kumar, 2013). The provision of financial services, such as credit and banking, to the large majority of marginalised and low-income groups at a reasonable cost is known as financial inclusion (Chhabra, 2015). Based on the degree of their access to financial services like savings and payment accounts, credit insurance, pensions, etc., financial inclusion considers the involvement of vulnerable groups, such as lower income groups and weaker segments of society (Singh et al., 2014).

Access to savings, loans, insurance, payments, and remittance services provided by the official financial system are among the many financial services. In order to give people and families financial stability, this component of financial inclusion is crucial (Kelkar, 2014). The Financial Stability and Development Council (FSDC) has a special mission for financial inclusion and financial literacy, and one country where it does so is India. Under the auspices of FSDC, a distinct Technical Group on Financial Inclusion and Financial Literacy is constituted, with participation from every financial sector regulator. The RBI established the Financial Inclusion Advisory Committee (FIAC), which will lead the charge on initiatives to increase financial inclusion. A Deputy Governor from the RBI will serve as the committee's chairman.

Factors affecting access to financial services

On the one hand, financial inclusion is a process that aims to give poorer segments of society access to banking services including savings accounts, credit facilities, and insurance products. On the other side, it refers to the goal of making sure that every sector of the economy and society has access to timely and sufficient credit as well as financial services (banking, insurance, and capital market services). Since the impoverished lack the education and information necessary to comprehend the financial services that are accessible to them, access to financial services has been acknowledged as a crucial component of development, and greater attention is focused on providing financial services to low-income households. The breadth of services and credits available to households and businesses is restricted by a lack of financial access.

Place of living

Most of commercial banks operate only in commercial areas and these banks set their branches in profitable areas. Hence population lives in rural areas find it difficult to access the financial services. Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (i.e., highly mobile people with no fixed or formal address) etc. also affect access to these services.

Absence of legal identity and gender biasness

Minorities, economic and political migrants, refugee workers and women's are excluded from accessing financial services due to lack of legal identities such as original birth certificates and identity cards. It is generally difficult to access credit facilities for those females, who do not possess property and assets. They also needed male guarantee to access the credit from any financial institutions.

Limited knowledge of financial services

Incomplete basic education and financial literacy are the major hurdles in order to access various financial services to the individuals. They do not know the significance of different financial products i.e., bank

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accounts, cheque facility, bank loan or overdraft and insurance. If people having proper financial literacy, it boost up the use of many financial products by different economic agents like Business Correspondents, NGOs and MFIs and etc.

Level of income and bank charges

Financial prominence of people is always plays a pivotal role in accessing available financial services. It is impossible for poor people to access financial services even when these services are made for lower income level group. Moreover in India, a lot of hidden bank charges which has been demotivated poor persons in availing these services.

Rigid terms and conditions

People are also least interested using such type of financial products or services which are attached with some inflexible terms and conditions. Many financial institutions having different rules relating with the use of accounts like minimum balance requirements.

Type of business

Nature of occupation also an important factor in availing the financial services, whether it is small scale, large scale, organized and unorganized firm. Most of the banks do not prefer the small borrowers and unorganized enterprise for giving loans. Hence these loan applications tend to be rejected.

Financial inclusion and Indian banking network

For the sake of the nation's growth and development, the RBI has urged banks to put in place planned and structured Financial Inclusion Plans (FIPs). The first phase of the FIPs spanned three years, beginning in 2020 and ending in 2022. The Reserve Bank of India (RBI) has employed FIPs to assess the banks' performance in relation to their financial inclusion programmes. Table 1 shows that during this time, a significant number of bank accounts were established, creating a vast financial network throughout the nation. Nevertheless, the first FIP's results showed that there had only been a little improvement in transactional processes.

Table 1

Financial inclusion plan and its performance evaluation.

Sr. No.	Variable	2021	2022	2023	Change (2022–2023)
1	Banking Outlets in Villages – Branches	33,378	40,837	46,126	5289
2	Banking Outlets in Villages – Branchless Mode	34,316	227,617	337,678	110,061
3	Banking Outlets in Villages – Total	67,694	268,454	383,804	115,350
4	Urban Locations covered through BCs	447	27,143	60,730	33,587
5	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	60.2	101	126	25.2
6	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in Rs. billion)	44.3	165	273	108
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	13.3	81	117	35.7
8	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	10.7	18	39	20.7
9	BSBDA Total (in million)	73.5	182	243	60.9
10	BSBDA Total (Amt. in Rs. billion)	55.0	183	312	129
11	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	4	6	2
12	OD facility availed in Basic Savings Bank	0.1	2	16	14.5

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	Deposit Account (Amt. in Rs. billion)				
13	KCCs-Total (No. in million)	24.3	34	40	6.2
14	KCCs-Total (Amt. in Rs. billion)	1240.1	2623	3684	1061.0
15	GCC-Total (No. in million)	1.4	4	7	3.8
16	GCC-Total (Amt. in Rs. billion)	35.1	76	1097	1021.0
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	26.5	250	329	79
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	6.9	234	524	290

Source: Based on different issues of Reserve Bank of India (RBI).

Table 2

Bank group and population group wise number of functioning branches

Bank group	Rural	Semi urban	Urban	Metropolitan	Total
SBI and its associates	7903	6510	4216	3536	22,165
Nationalized banks	20,666	15,981	12,296	11,111	60,054
Other public sector banks	338	470	455	361	1624
Private sector banks	4082	6155	4320	4429	18,986
Foreign banks	8	12	57	245	322
Regional rural BANKS	14,281	3628	1029	205	19,143
Grand total	47,278	32,756	22,373	19,887	122,294

Source: Reserve Bank of India.

Data analysis

Researchers frequently utilise GDP as a key economic measure to determine a nation's growth (Chithra & Selvam, 2013; Kamboj, 2014). This shows the Gross Domestic Product (GDP) for India during a seven-year period, from the 2016–2017 fiscal year to the 2022–2023 fiscal year. The GDP has increased steadily over the past few fiscal years. GDP was registered as 4582,086 in 2016–2017; in the 2017–18 fiscal year, it was recognised at 5303,567 (a rise of 15.75% from the preceding fiscal year). The GDP grew by 18.7% in 2018–2019, the largest rise in the history of the data.

Table 3

Results of regression analysis: model summary.

R	*R* square	Adjusted *R* square	*F*	Sig.	Durbin–Watson
.995	.990	.980	101.343	.002	2.590

Source: SPSS.

Regression coefficients.

Variables	Unstandardized coefficients *B*	Standardized coefficients Beta	*t*-value	Sig.	VIF	H0 rejected/ accepted
Constant	−19051581.196		−4.669	.019		
Number of Bank Branches	107.924	.885	13.877	.001	1.248	Rejected
ATMs Growth	−11046.355	−.038	−.637	.570	1.118	Accepted
Credit deposit ratio	221986.524	.254	4.056	.027	1.20	Rejected

Dependent variable: GDP.
Source: SPSS.

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This is the multiple regression analysis model summary that is generated by SPSS. The model's outcome reveals that the dependent variable (GDP) and independent variables have a high correlation, with a value of R =.995. R square has a value of.990, while adjusted R square has a value of.980. The regression model is statistically significant and a fit model, as indicated by the model's p value of.002, which is less than.05. As a general rule, a Durbin-Watson test score of less than one or more than three is unacceptable and indicates an autocorrelation issue. The Durbin-Watson statistic of 2.590, which is devoid of autocorrelation issues, is shown in the model summary.

Regression analysis findings for GDP and financial inclusion indicators are shown below. It should be mentioned that financial inclusion variables include the number of bank branches, the growth rate of ATMs in the nation, and the credit deposit ratio. Multiple regression analysis demonstrates that the number of bank branches has a positive influence on GDP, with a beta value of 107.9. There is a statistically significant influence on GDP, as indicated by the p value of.001, which is less than.05 at the 5% significance level. Additionally, it indicates that the p value is.570 and the beta value of ATM growth is -11046.3, both of which indicate a negligible influence on GDP given that the p value is greater than.05. Moreover, the credit deposit ratio has a beta value of 221986.5.The p value of Credit deposit ratio is .027 lesser than .05, which indicates asignificant impact on GDP. As a rule of thumb if the VIF values more than 10 are not acceptableand shows a sign of multicollinearity.

Conclusion

The banks play a vital role in developing economies such as India, since they mobilise deposits and provide credit for investment and production. In their capacity as financial intermediaries, banks help the nation's economy flourish by identifying and lending to business owners who have the highest prospects of successfully launching new ventures (Chakrabarty, 2013). The financial situation and living conditions of the nation's impoverished and marginalised people can be significantly improved via financial access. India has long struggled with a lack of suitable, inexpensive, and easily accessible financial services, and the development of an inclusive financial system is essential to the nation's economic progress. In order to improve banking penetration, install new ATMs, and execute different initiatives nationwide, the Reserve Bank of India (RBI) and the government play a significant role in promoting financial inclusion for economic growth (Raman, 2012). It has been noted that there have not been many transactions made using the newly established financial infrastructure or the opened accounts. The number of transactions, which is crucial to India's growth and development, is now the main emphasis of the new FIP. The strongest correlation has been found between the nation's economic development and financial inclusion (Julie, 2013). The number of bank branches and bank credit deposit ratio—proxies for financial inclusion—were found to have a positive and substantial influence on GDP in the current study. The growth rate of ATMs, one measure of financial inclusion, has been found to have a statistically negligible effect on the GDP of India. Thus, the study found a high correlation between financial inclusion and the growth and development of the economy. Despite this, the nation should have appropriate financial inclusion regulations in place to provide access to financial services, as well as customer awareness initiatives like financial literacy and e-banking training. Therefore, achieving financial inclusion is a significant step India must take to achieve total prosperity.

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