GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.551, IIFS - 5.125
Globally peer-reviewed and open access journal.

ROLE OF BANKS IN FINANCIAL INCLUSION AND ACCESSIBILITY IN INDIA

Mr. Sandip Bhimrao Sable

Assistant Professor, Deptt. of Economics, Tuljaram Chaturchand College of Arts, Science & Commerce, Baramati. Dist – Pune. 413102, MS, India. sbseco@gmail.com Mob no. 7972294477

Abstract

Financial inclusion has become an important field of study because of economic inequalities existing in society. Financial inclusion is not all about expanding credit facility to all segments of society. It requires a holistic approach and hence a more historical perspective and not in the manner of an arm chair critic look to critically at events. The fundamental objective of financial inclusion is to reach the large sections of the financially excluded Indian population. The Government of India and the Reserve Bank of India have been making continuous efforts for financial inclusion through banks in India. Banking sector plays the major role in providing financial services to all sector and regions in the country; it is contributing towards the goal of inclusive growth in India. Financial inclusion is important priority of the country in terms of economic growth and advanceness of society. It enables to reduce the gap between rich and poor population. In the current scenario financial institutions are the robust pillars of progress, economic growth and development of the economy. The banking sector takes a lead role inpromoting financial inclusion. So for the last decades India's banking system has several outstanding achievements to its credit. The present study aims to examine the role of banks in financial inclusion and impact of financial inclusion on growth of the economy over a period of last ten years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool.

Keywords: *Financial inclusion, Financial literacy, Banking sector, Inclusive growth, Credit deposit ratio.*

INTRODUCTION

The concept of Financial Inclusion is not new to the world in fact many countries have started working on it since long back. The importance of financial inclusion is recognized as more important after the global financial crisis of 2008-09, as the major portion of the world was excluded from financial services. The situation in India is also not different than the world. India is a country of approximately 1.42 billion people, spread across 29 states and seven union territories. There are around 600,000 villages and 640 districts in our country. A vast majority of the population, especially in rural areas, is excluded from the easy access to finance (Gounasegaran, Kuriakose, & Iyer, 2013). Economic growth of India is moving at a fastest pace it is expected that India creates its position under the top three growing economies of the world. The make in India movement has lead to many start-ups and India is among the top countries to have major technology start-ups. There are positive signs for growth of the country but the growth has to be inclusive and the government is putting its efforts to achieve the agenda of Inclusive growth through various initiatives, digital India, make in India, Jan Dhan Yogana, Mudra loans are a few initiatives among many more that lead to achieve the agenda of Inclusive growth. (M. SELVAKUMAR, 2015)
The objective of achieving financial inclusion in India has faced many challenges (Dr. Anupama Sharma, 2013) "There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth."

DEFINITION

Financial Inclusion is defined 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" (Rangarajan, 2008) in the report of the Committee on financial inclusion in India. "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players" (Chakrabarty, 2013). In order to reap the benefits of the financial services, lot of measures has been taken by Government of India in the favour of poor and neglected section of the society.

RESEARCH GAP

Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India effective financial inclusion is needed for upliftment of the poor and disadvantaged people by providing them the modified financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. Some studies are done on the financial inclusion by analyzing selected banks and other work has been found on state wise growth of financial inclusion. A few studies have been analyzed the impact of financial inclusion on Indian economic growth and found mixed results. With this backdrop, this research study is an attempt to find out the present scenario of financial inclusion in India and assessing the role of banks in financial inclusion in economic growth of the country.

STATEMENT OF THE PROBLEM

To achieve greater financial inclusion, financial services should reach the poor of socially excluded group's mostly the banks and other financial institutions have played a vital role in filling up this gap. This study helps us to know the financial inclusion position, awareness level, towards no frills account and saving and credit behavior of the low income groups.

SIGNIFICANCE OF THE STUDY

Financial inclusion can be interpreted as public good since it meets the conditions of non-rivalness in consumption and non-excludability. The entire national financial system benefits by greater inclusion through the application of multiplier effect on the economy through enhanced savings and credit to the people at the bottom of the pyramid when it is promoted in the wider context of economic inclusion. The significance of the study is to promote financial stability and to facilitate transfer of government benefits without leakages and to benefit the financial institutions by stable deposit base from the retail customers by suggesting measures to overcome the unmet issues and challenges of financial inclusion.

OBJECTIVES OF THE STUDY

1. To give an overview of Inclusive Approach to banking and inclusive growth in India.
2. To analyze the present status of financial inclusion in India.
3. To investigate the major factors affecting access to financial services.
4. To study the impact of financial inclusion indicators on growth of Indian economy.

REVIEW OF LITERATURE

AFI (2010) critically analyses the policies implemented and expresses their views on policy makers' role in framing it. It has also added that the policy makers can easily diagnose the level of financial inclusion, if the data collected is reliable. They also present that there is no recognized standard to measure financial inclusion. They conclude that they have formulated a core set of financial indicators to measure it in a common way by every country.
Laxmi Mehar (2014) assesses progress in banking sector reforms especially focusing on financial inclusions over the past decade or so, and analyze the new challenges that confront India's policymakers and financial regulators. They focus on the penetration of various financial services offered and conclude the awareness of long term loan, the educational loan, and cheque facility are the most significant factors to increase the financial inclusion in India.
Joshi and Vikram K (2014) there is a correlation between the human development and financial inclusion. The level of financial inclusion is measured by taking in to consideration the per capita GDP, inequality of income, literacy of adults and thereby it can be concluded that the these factors correlate positively with the human development.
Mandira Sarma,JesimPais (2008) the policy has to be framed with social protective programme. An empirical analysis is carried out to analyze the strategies framed to achieve financial inclusion by analyzing three Indian states. They examine the outcomes of strategies implemented in urban areas and conclude that the introduction of diversified financial products in those areas will not be fruitful due to the competitive disadvantage.
Jones, J. Howard M. Williams, Marylin Nilsson, EsseThorat, Yashwan (2007) examine the development of the training programme, its implementation, and the results of its evaluation. The authors suggest that training can bring about attitudinal change, which in turn is reflected in behaviour and social impact.
Priyadarshee, AnuragHossain, FarhadArun, Thankom (2010) suggest that financial products have to be circulated among people of rural areas through postal counters which will lead to the access of the account, which

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.551, IIFS - 5.125
Globally peer-reviewed and open access journal.

in turn also increases the revenues of Indian post. The policies will be effective only if it is designed with social protection programme. .

Christal Koehlar (2009) Postal operators are the forerunners of developing financial inclusion in rural areas.

RESEARCH METHODOLOGY

This study is based on secondary data that was mainly collected from Report of RBI, Ministry of Finance, Government of India, Reports on trend and progress of banking in India, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines. Various websites were also used like RBI, Ministry of Finance, and Government of India (GoI). The period under consideration for the study is ten years from 2012–2013 to 2021–2022. Data has been analyzed by applying multiple regressions as a main statistical tool. Multiple regression analysis has been used to establish an empirical relationship between Financial Inclusion and growth of the country. The present study taking Gross Domestic Product (GDP) as a dependent variable and independent variables are Number of Bank Branches in the country, ATMs growth rate across the country and Credit deposit ratio.

$Y = b0 + b1X1 + b2X2 + b3X3 + e$

Where Y = Gross Domestic Product (GDP)

$X1$ = Number of Bank Branches

$X2$ = ATMs growth rate

$X3$ = Credit deposit ratio

HYPOTHESIS OF THE STUDY

On the basis of the objectives of the study, following hypothesis has been formulated:

H01. There is no significant impact of financial inclusion on the growth of Indian economy.

HA1. There is a significant impact of financial inclusion on the growth of Indian economy.

Sub-hypotheses

H01.1. There is no significant impact of Number of bank branches on Indian GDP.

HA1.1. There is a significant impact of Number of bank branches on Indian GDP.

H01.2. There is no significant impact of Credit deposit ratio on GDP of Indian economy.

HA1.2. There is a significant impact of Credit deposit ratio on GDP of Indian economy.

H01.3. There is no significant impact of ATM growth on GDP of Indian economy.

HA1.3. There is a significant impact of ATM growth on GDP of Indian economy.

LIMITATIONS OF THE STUDY

The study has the following limitations.

1. The study covers individuals only and does not cover households and firms.
2. The study covers secondary data pertaining to the Scheduled Commercial Banks, Regional Rural Banks and Co-operatives
3. The branch manager or the head of a bank branch has been considered as representative of the branch.
4. The study is subject to common limitations of sample survey.

DATA ANALYSIS AND INTERPRETATION

The study focuses on growth of Indian economy through financial inclusion to measure the growth of Indian Economy. Gross Domestic Product is considered for a period of ten years in billions of US Dollar. The GDP of India is growing on a year on year basis as seen in Table no. 1

Table 1: Dependent and Independent Variables

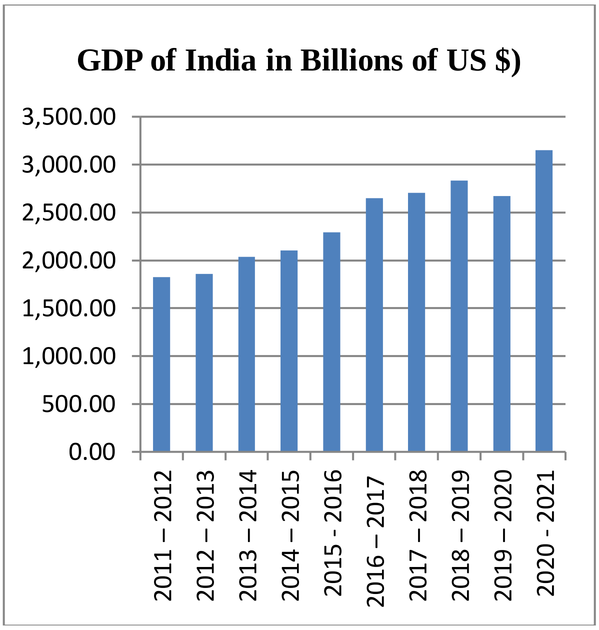
Year	GDP (Billions of US $)	Branches	Total ATMs	Credit to Deposits Ratio
2011 – 2012	1,827.64	103252	96742	79.7
2012 – 2013	1,856.72	111382	116378	81.16
2013 – 2014	2,039.13	123001	162543	81.39
2014 – 2015	2,103.59	131786	182480	81.36
2015 - 2016	2,294.80	140810	199954	81.95
2016 – 2017	2,651.47	146470	207813	80.53
2017 – 2018	2,702.93	149235	205184	79.1
2018 – 2019	2,835.61	151467	202196	80.6

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.551, IIFS - 5.125
Globally peer-reviewed and open access journal.

2019 – 2020	2,671.60	157932	230760	80.8
2020 - 2021	3,150.31	159347	213575	79.5

Source: Compiled by researcher from various publications of RBI.

Figure 1: GDP of India

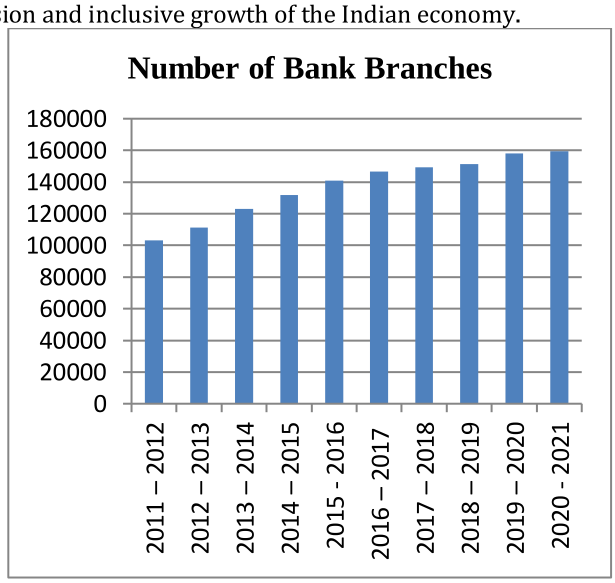


Source: Prepared by researcher

The above figure-1 depicts the GDP of India for a period of ten years the GDP has grown at a rate of 7.41% from 2013 to 2014, it grew at a rate of 8.13% from 2014 to 2016, the growth rate was -5.83% for the year 2019 - 2020, it grew at the rate of 9.05% from 2020to 2021. We can observe that on an average the GDP growth rate has been ranging between 6.85 for nine years out of ten years and -5.83% for a year 2019-20.

Figure 2: Number of Bank Branches

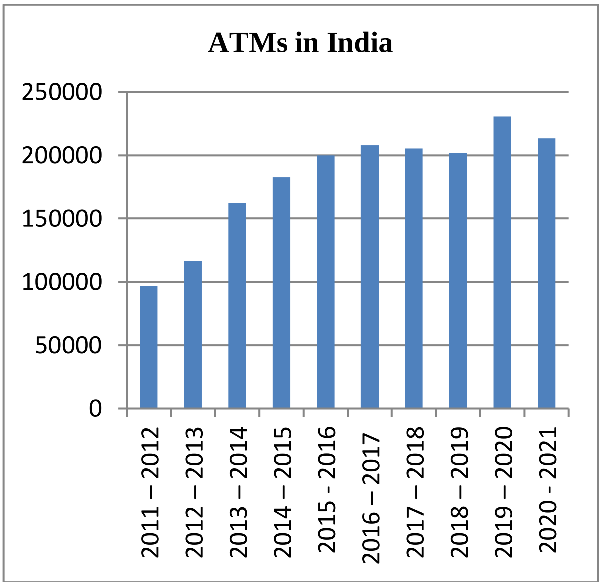
The growth in bank branches over the 10 years in India is depicted in figure 2. It can be observed that banking branches have covered a wide area in the economy and have moved even to the remotest areas to achieve the objective of financial inclusion and inclusive growth of the Indian economy.



Source: Prepared by researcher

GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.551, IIFS - 5.125
Globally peer-reviewed and open access journal.

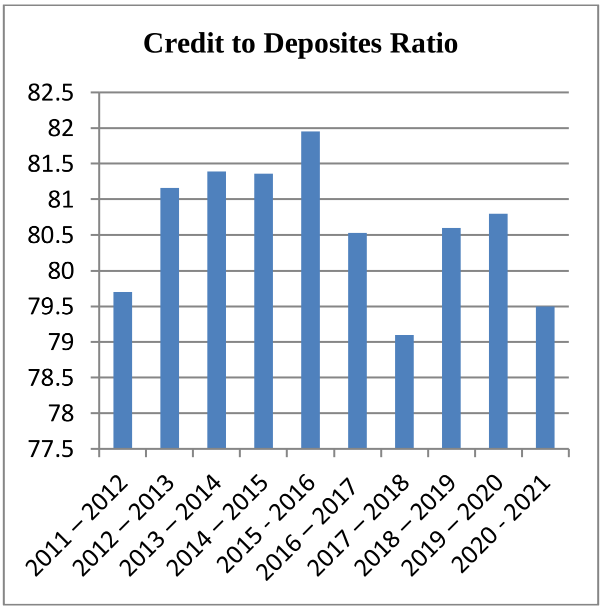
Figure 3: Number of ATMs in the Indian Economy



Source: Prepared by researcher

The above figure no. 3 depicts the onsite and offsite ATMs located in various parts of the country which allows the individuals of the country to access the financial requirements from any part without visiting the bank branch. The ATMs have grown tremendously in the last 10 years and the agenda behind it was financial inclusion.

Figure 4: Credit to Deposits ratio



Source: Prepared by researcher

Figure no. 4 depicts the credit to deposit ratio of Indian banks on an average Indian banks are providing 70% to 80% credit to customers as against their deposits of 100%. This indicates infusion of funds in the market and in turn contributes to overall growth of the economy. With the introduction of scheme like Mudra loans government is trying to achieve its objective of inclusive growth by providing loans to start ups.

FINDINGS

Underpinnings of banking services, less cash economy and financial regulatory framework priorities are the predominant challenges faced by the financial institutions in their process of financial inclusion. They are baffled to decide important service to the rural areas for their economic empowerment and less cash economy prevailing in the state hampers them to financially include the abandoned household in different geographical bases. The financial regulatory frame works formulated by RBI have their practical difficulties at the implementation level.

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP BODHI TARU
A GLOBAL JOURNAL OF HUMANITIES
(ISSN – 2581-5857)
Impact Factor: SJIF - 5.551, IIFS - 5.125
Globally peer-reviewed and open access journal.

The cluster analysis revealed that 32.4% dynamic respondents strongly agree towards facing all the challenges to financially include less privileged in rural areas and 45.1% Achievers moderately agreed towards facing challenges in underpinnings of banking services, less cash economy, financial regulatory framework priorities and facing the challenges towards financial inclusion objectives.
Further it is found that 22.5% mechanical respondents moderately agreed for the factors underpinnings of banking services, less cash economy, financial regulatory framework priorities and strongly agree for financial inclusion objectives.
Employees in the age group 25 to 30 years strongly agree for stagnant services, regime uncertainty, infrastructure bottlenecks in their bank and employees in the age group 31 to 35 years strongly agree for the technological latency. Further it is found that the employees in the age group under 25 years age group strongly agree for in convergence of
regulatory and service providers and above 45 years age group employees strongly agree for underpinnings of banking services as well as financial regulatory framework priorities.

SUGGESTIONS

1. A financial literacy and credit counseling center shall be organized by the banks in every district with suitable financial experts, bank officials, so as to impart necessary skills with regard to financial inclusions among the households. Government can promote nodal agencies through well established for promoting fully financial activities and other assistances to the rural households for improving their standard of living.
2. The state Government may focus on the promoting of households in underdeveloped areas. Since development of rural households play a crucial role in alleviation of poverty. Motivational campaign may be conducted frequently by the bankers for inculcating saving habit in the minds of the rural.
3. The Government and financial institutions shall focus more on the development of rural domain to reduce poverty by implementation of various financial inclusions. The rural households shall form their own norms for group savings and focus on the savings habits regularly as per the prescribed norms.
4. Banks and NGOs need to carefully monitor the credit linked groups especially when the amounts are much higher than the average, in order to ensure an excellent recovery performance.

CONCLUSION

It is concluded that the main objective of financial inclusion is to attach the income generating activities of individuals to banking transaction with multiple channels. The government intended to communicate their policies through financial inclusion of all individuals. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them (Chakrabarty, 2013). The present study found the positive significant impact of number of bank branches and credit deposit ratio of banks (proxies of financial inclusion) on GDP of the country. Whereas one indicator of financial inclusion, ATMs growth rate has been shown a statistically insignificant impact on Indian GDP. Hence, the study observed that financial inclusion is strongly associated with the progress and development of the economy. The study also concludes that government effort is the only way for effective financial inclusion. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

REFERENCES

[1] Agrawal, A. (2008). The need for Financial Inclusion with an Indian perspective. Economic Research, 1–10. Retrieved from google.com [PDF].
[2] Chakrabarty, K. C. (2013, September). *Keynote address on financial inclusion*. Mumbai.
[3] Iqbal, Badar & Sami, Shaista. (2017). Role of banks in financial inclusion in India. Contaduría y Administración. 62. 10.1016/j.cya.2017.01.007.
[4] Maity, S. and Sahu, T.N. (2020), "Role of public sector banks towards financial inclusion during pre and post introduction of PMJDY: a study on efficiency review", *Rajagiri Management Journal*, Vol. 14 No. 2, pp. 95-105.
[5] Charan Singh (2016), 20-Year financial inclusion plan-Milestones, field feedback and monitoring, IIMB WP No 514.
[6] Dr.K.Thirumamagal, (2023). CHALLENGES OF FINANCIAL INCLUSION-A STUDY WITH REFERENCE TO RURAL AREAS OF TAMIL NADU IN INDIA, EPRA International Journal of Economics, Business and Management Studies pp 47-56
[7] Ms. Paramjeet Kaur, (2014), A STUDY ON FINANCIAL INCLUSION - ROLE OF INDIAN BANKS IN IMPLEMENTING A SCALABLE AND SUSTAINABLE FINANCIAL INCLUSION STRATEGY, International Journal of Management (IJM), pp. 103-110

[8] Dr. Veena M, Mr. Vijayashekaranayaka J R, (2022), ROLE OF BANKS IN FINANCIAL INCLUSION – AN EXPLORATORY STUDY, International Journal of Indian Economic Light, pp 1-11.
[9] Raman, A. (2012). Financial Inclusion and Growth of Indian Banking System. IOSR Journal of Business and Management (May–June 2012), 25–29. Retrieved from www.iosrjournals.org
[10] Kelkar, V. (2014). Financial inclusion for inclusive growth. ASCI Journal of Management, 39(1), 55–68. Retrieved from http://journal.asci.org.in/Vol.39(200910)/39 1 Vijay%20Kelkar.pdf
[11] Kamboj, S. (2014). Financial inclusion and growth of Indian economy: An empirical analysis. The International Journalof Business & Management, 2(9), 175–179.
[12] Reserve Bank of India - "Annual Reports and 'Report on Trend and Progress of Banking in India", various issues.
[13] www.planningcommission.nic.in.
[14] www.indiabudget.nic.in.
[15] www.rbi.org.in