INCLUSIVE FINANCE: GROWTH OF INDIAN BANKING SECTOR

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ABSTRACT *'Inclusive finance is emerging as a new example of economic growth that plays major role in driving away the poverty from the country. It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. Financial inclusion is important priority of the country in terms of economic growth and advancemans of society. It enables to reduce the gap between rich and poor population. In the current scenario financial institutions are the healthy pillars of progress, economic growth and development of the economy. The present study aims to examine the impact of financial inclusion on growth of the economy over a period of seven years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP.*

Keywords: *Inclusive Finance, Banking Sector, Census, Deposits, ATMs.*
JEL Classification: C43, G21, O16

INTRODUCTION

Financial Inclusion or Inclusive Financing is the transfer of financial services at economical costs to different sections of low income segments of society. The concept of financial inclusion is not recent in Indian. The concept has been general in India from past 44 years. Beginning with the nationalization of commercial banks in 1969 and 1980, addition step taken was the establishment of Regional Rural Bank in 1975 and banking sector reforms after 1991. The result of these three major procedure changes, the no. of branches of trade banks has raised from 8252 in June 1969 to 102343 in 2013. There are also problems of access to finance: credit, poverty and indebtedness have not been sufficiently examined. Financial literacy is required for the long term achievement of the objective of financial inclusion. It is required to bring up the poor and detriment people by providing them the personalized financial products and services. It leads to inclusive growth encompassing the deprived and marginalized section. In 1980s the Prime Minister Late Shri Rajiv Gandhi started that of every one rupee spent on development only 15 paise reached the poor.

In the Indian context, the term 'Financial Inclusion' was used for the first off in April 2005 in the Annual Policy statement presented by Y. Venugopal Reddy, the Governor, Reserve Bank of India wherein he had expressed deep concern on the boycott of wide sections of the population from the legal financial system. In the Khan Committee Report the RBI exhorted the banks with a possibility of achieving improved financial inclusion to make available a basic "no frills" banking account .In Jan, 2006 the Reserve Bank of India has permitted commercial bank to utilize the services which are offered by non -governmental organization. One of the most important national objectives of the country is to promote financial inclusion. In Reserve Bank of India and government is to promote financial inclusion in India. From the last five decades India has taking many steps which includes nationalization of banks, building up of co-operative and rural banks and scheduled commercial bank. The prime objective of these initiatives is to provide financial services.

REVIEW OF LITERATURE

Rangarajan Committee. (2009) remarks that economic growth and social development are the two legs on which a nation must walk and Financial Inclusion is no longer an option but a compulsion. He asserts that one aspect of Inclusive Growth is Financial Inclusion. The process of Financial Inclusion is an attempt to bring within the ambit of the organized financial system, the weaker and vulnerable sections of society and Inclusive Growth cannot come without 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 financial inclusion in India 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.

Paromita Dutta (2017) in her study entitled **"Measuring Financial Inclusion in West Bengal: Policy Framework for Inclusive Growth"** adopted logit regression and correlation analysis to understand the impact of financial inclusion on financially deprived rural and semi-urban poor (200) of West Bengal depending on two major factors, dependency on bank loans and, preferences for keeping savings in banks. The result concluded that in supply side financial literacy as one of the requisites for dependency on bank loans and in demand side; safety is the major issue in keeping savings in the bank. The author stated that financial inclusion has become a focus of attention for development professionals to alleviate poverty. In this context, Regional Rural Banks (RRBs) were seen as primarily catering to the below poverty line (BPL) population by lending them towards meeting their investment needs.

STATEMENT OF THE PROBLEM

India's unbanked population would be the world's 7th-largest country. A report prepared by Price water house Coopers India in 2015 pointed out that India's unbanked population that year was 233 million. India, which is home to 21 per cent of the world's unbanked adults, faces a significant challenge in catching up with the rest of the world in universalizing banking access, reveals global financial figures released recently by the World Bank.

But that still leaves potentially millions more who have to now open bank accounts at a time when most banks are still struggling to deal with the massive rush. Underdeveloped financial system is one reason that a large number of poor and those in remote areas are excluded; the profitability of servicing them is lower, too. This makes it unattractive for banks to tap these populations.

One of the primary motivations for the country to push financial inclusion is to free the excluded from the clutches of the moneylender to overcome these challenges, some possible solutions. The RBI should continue to direct the banks to open 25% branches in unbanked regions and allocate a certain amount of their loans to the poor, even if it is unprofitable. Offering banks subventions or grants for lending funds to these consumers will also help.

After its launch on 28 August 2014, the financial inclusion plan had begun with a large number of bank accounts being opened across the country. According to data available on the PMJDY website, as of 7 October, a total of 665 million new accounts have been opened under the scheme, with a balance of over Rs.67, 657.72 Crore. Nearly 40% of the new accounts opened still carry zero balance, the PMJDY data showed.

RESEARCH OBJECTIVES

- To analyze the impact of financial inclusion indicators on growth of Indian banking sector.

Research methodology

This study is based on secondary data that was mainly collected from Report of RBI, Research Articles, E-Journals, Books and Magazines. Various websites were also used like RBI Government of India.

Period of the study

The period under consideration for the study is twelve years from 2005 – 2006 to 2016 – 2017.

Scope of the Study

The study involves the analysis of the Growth of Banking sector towards financial inclusion in India. This study has been undertaken from the point of view of banking sector in India. The study also attempts to understand the Financial Inclusion which influences the banking sector in India.

Analysis and Discussion

Table – 1 Financial Inclusion Plan: A Progress Report during the year 2010 to 2017.

Particulars	2010	2016	2017
Banking Outlets in Villages – Branches	33,378	51,830	50,860
Banking Outlets in Villages > 2000-BCs	8,390	98,958	1,05,402
Banking Outlets in Villages < 2000- BCs	25,784	4,32,271	4,38,070
Total Banking Outlets in Villages – BCs	34,174	5,31,229	5,43,472
Banking Outlets in Villages- Other Modes	142	3,248	3,761
Banking Outlets in Villages -Total	**67,694**	**5,86,307**	**5,98,093**
Urban Locations covered through BCs	447	1,02,552	1,02,865

BSBDA-Through branches (No. in million)	60	238	254
BSBDA-Through branches(Amt. in Rs. billion)	44	474	691
BSBDA-Through BCs (No. in million)	13	231	280
BSBDA-Through BCs (Amt. in Rs. billion)	11	164	285
BSBDA-Total (No. in million)	**73**	**469**	**533**
BSBDA Total (Amt. in Rs. **billion)**	**55**	**638**	**977**
OD facility availed in BSBDAs (No. in million)	0.2	9	9
OD facility availed in BSBDAs (Amt. in Rs. billion)	0.1	29	17
KCCs -Total (No. in million)	24	47	46
KCCs -Total (Amt. in Rs. billion)	1,240	5131	5805
GCC-Total (No. in million)	1	11	13
GCC-Total (Amt. in Rs. billion)	35	1,493	2,117
ICT A/Cs-BC-Total Transactions (No. in million)	27	827	1,159
ICT A/Cs-BC-Total Transactions (Amt. in Rs. billion)	7	1,687	2,652

Source: Annual report of RBI

Table -1 indicates that there is the parameters are reported to the Reserve Bank of India by banks on monthly basis and the progress in this regard on end-march 2017. The banking outlets opened through BCs in villages increased by 12,243, while the number of accounts opened through BCs increased by 49 million. Similarly, the total number of transactions through the BC channel increased by 332 million, while the amount transacted by Rs. 965 billion. In the phase, banks have been asked to provide data up to the national level across population groups of metro, urban, semi-urban and rural segments. The government of India, the ongoing implementation of the PMJDY scheme and the need for convergence of the financial inclusion efforts of various stakeholders and financial institutions was reconstituted in June 2015.

Table -2: Comparative statement of number of households availing banking services as per Census 2001 & 2011.

	As per Census 2001			As per Census 2011		
Households	**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.

Table 2 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 service 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 - 3: No. of functioning branches of Public Sector Banks - Population Group wise

Year	Rural	%	Semi Urban	%	Urban	%	Metro-politan	%	Total	%
2011	20658	32.82	16217	25.77	13450	21.37	12612	20.04	62937	100
2012	22379	32.98	17905	26.39	14322	21.11	13244	19.52	67850	100

2013	24243	33.33	19642	27.00	15055	20.70	13797	18.97	72737	100
2014	27547	34.24	21952	27.28	16319	20.28	14644	18.20	80462	100
2015	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.

Table-3 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 March, 2011 and the percentage increased to 34.50% in the year ending on March, 2015. 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 March, 2011 & March, 2015 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 - 4: Population Group wise number of branches of Scheduled Commercial Banks (SCBs)

Year	Rural	%	Semi Urban	%	Urban	%	Metro-politan	%	Total	%
2011	33923	37.32	23089	24.40	17629	19.39	16255	17.88	90896	100
2012	36546	37.09	25834	26.22	18879	19.16	17274	17.53	98533	100
2013	39816	37.42	28546	26.83	19935	18.74	18092	17.01	106389	100
2014	45293	38.50	31530	26.80	21532	18.30	19275	16.39	117630	100
2015	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.

Table 4 it can be seen that branch expansion of scheduled commercial bank during the period of five years from 2011 to 2015. 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 March, 2012. 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 March, 2014 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 – 5: Bank Group and Population Group wise Number of Functioning Branches and percentage to total as on March 31, 2015

Bank Group	Rural	%	Semi Urban	%	Urban	%	Metro-politan	%	Total	%
SBI & its Associates	8029	35.61	6593	29.24	4304	19.09	3622	16.06	22548	100
Nationalized Banks	21228	34.47	16428 1	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.

Table - 5 explains the involvement of bank group in particular population group in number & percentage as well. It can be seen that SBI and its associates and nationalized banks are more active in rural and 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.

Table – 6: Growth of ATMs Functioning in India during the year 2005 to 2015.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ATMs	16,750	21,509	27,088	34,789	43,651	60,153	74,743	92,455	1,14,364	1,41,465	1,74,988

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

Figure – 1 ATMs Growth in India

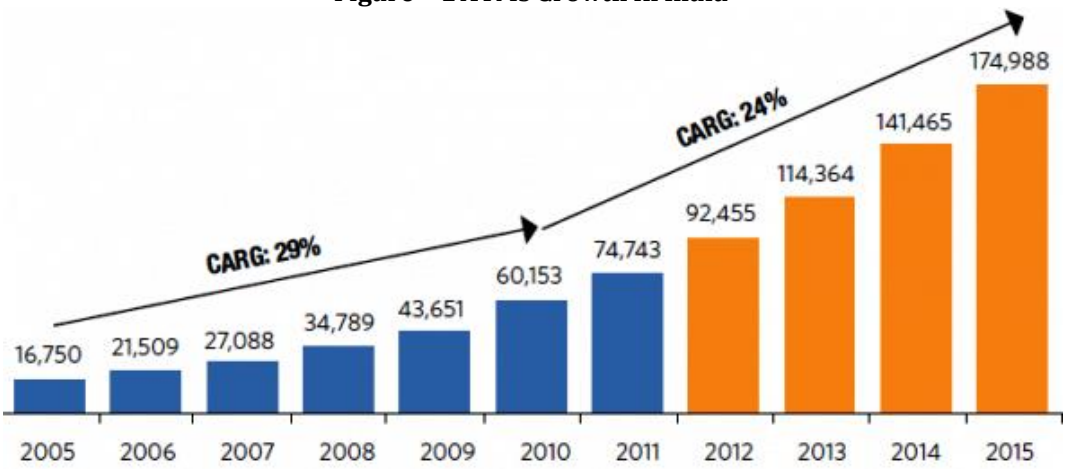

Table-5 indicates that there is continuous increase in number of functioning ATMs of Public and Private sector banks. It clearly shows that number of functioning ATMs of Public and Private sector banks in rural & semi urban has increased more when compared with other areas i.e. urban & metropolitan. During the financial year 2011-2012, there was an addition of 14,365 new off-site ATMs. However, metropolitan areas accounted for the maximum number of newly opened ATMs. As per the ATM Statistics computed by Reserve Bank of India, total number of onsite and offsite ATMs of all Indian Banks are 1, 74,988 by March 2015.

SUGGESTIONS

- The ultimate aim of financial inclusion is to cover the rural masses, so the urban poor were fully excluded. The real success of financial inclusion lies in coverage of urban poor and extending the services to poor in urban areas.
- The RBI and commercial banks should plan a coordinated campaign in partnership with the trainers and professional to educate customers about the basic financial products, services and offerings.
- For building customer awareness E-banking and M-banking training and education programme should be conducted.
- Financial literacy should be part of schooling for educating children the importance of banking services in their daily life.

CONCLUSION

India has come a long way in the process of financial inclusion, but still has a way to go. We are steadily moving from mandates, subsidies, and reliance on the public sector banks for inclusion to creating enabling frameworks that make it attractive for all financial institutions to target the excluded, even while the interests of the excluded are protected through education, competition and regulation. For achieving complete financial inclusion and for inclusive growth, the RBI, Government the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. Financial inclusion will be an important element in ensuring access and equity, necessary building blocks for the sustainable growth of our country.

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