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Banking Sector and Financial Inclusion in India

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ABSTRACT

Financial inclusion is the need of the hour in Indian economy as it leads to economic growth by making finances reach to masses. 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. Banks are the major source of finance and lead to growth in start-ups and encourages entrepreneurs in the country which in turn generates employment opportunities and contributes towards increase in GDP in the country. This paper makes an attempt to study the impact of Bank financial inclusion on economic development over a period of 08 years. The paper uses multiple regression models as a statistical tool to find the impact of bank factors on the GDP.

Keywords: *Financial inclusion; Banking sector; GDP; ATMs; Credit deposit ratio; Bank branch.*

1.0 Introduction

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 Gross Domestic Product is growing at an average rate of 7% in the last two years. 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 DhanYogana, Mudra loans are a few initiatives among many more that lead to achieve the agenda of Inclusive growth. In spite of all this efforts a major part of rural population

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is still not able to have access to all the facilities of the government due to certain reasons. This paper concentrates on reach of access to finance in the rural areas and financial inclusion initiatives in India. (Marimuthu et al. 2015) "Thus the term Financial Inclusion can be 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". There has been growth in the number of bank accounts opened in India after introduction of the initiative of Jan DhanYogana by the government of India, Global Findex report realised by World Bank in 2017 highlights that the number of adult bank account holders has increased from 35% in 2011 to 80% in 2017.

The objective of achieving financial inclusion in India has faced many challenges (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." The basic financial services like savings, deposits and loans should be made aware to every section of individuals of the country; these basic services should be clubbed with financial literacy making the population literate about various formal financial services and its usage for individual as well as economic development.

1.1 Issues in financial inclusion

(Iqbal et al, 2017) "Financial Inclusion, on the one hand, is a process aiming at providing banking services like saving account, credit facility, and insurance product to weaker sections of the society. While on the other hand, it refers to the objective of ensuring financial services (banking, insurance, and capital market services) and timely and adequate credit to every section of the society as well as of the economy". Financial services should be availed by all citizens of the country and it is a crucial factor in achieving the objective of inclusion in growth, especially individuals with low household income who lack education and information about the monetary services should be trained and educated to use the services for the betterment of the economy. Though there is growth and improvement on number of people accessing financial services from rural area but still there are a lot of efforts to be put in to achieve financial inclusion.

1.2 Location

Location of banks plays a vital role in providing financial services to the remote areas. Most of the banks operate in commercial areas to get corporate customers and have improved profits. It is difficult for people from remote areas to visit these branches and due to lack of transportation facilities. The banks factors like population, infrastructure facilities, and region jointly have an impact on location of banks and access to financial services

1.3 Proof of legal identity

It is difficult to access financial services for a set of population whose legal identity is not clear. Migrants, refugee workers and women who don't possess any property or assets are facing difficulty to get finances due to legal issues.

1.4 Financial literacy

Education leads to understanding the need of managing finance and various financial services available. Financial literacy plays a key role in implementation of financial inclusion. Government should plan for activities in remote areas where people are made aware about the basic financial terminologies like bank account ATM, Cheque book, insurance etc., so that people in those areas are aware of the various means of investments.

Lack of basic education and financial knowledge has led to many issues in access of financial services to certain individuals. It is difficult for them to comprehend the uses of various financial products and services and therefore they avoid using financial services like opening of bank account, loan and overdraft facility.

1.5 Per capital income and service charges

Per capita income of people is another reason that acts as a hurdle in accessing financial services. Individuals with low income cannot afford to pay the service charges of the financial institutions.

1.6 Banking formalities

Understanding the rules, regulations and legal terms of banking transactions makes it more difficult for people in remote areas to understand and use the financial services available. Basically the bank charges deducted for not maintaining the minimum balance, service charges, and maintenance charges of ATM, other hidden charges must be explained to people with no financial knowledge.

1.7 Type of business

Banks have various criteria's to select the loan applications and give loans. Usually banks focus on organized sectors and large business houses when it comes to loan disbursement. In this process of having a stable income and having assets to guarantee the loans the unorganized sectors and small business get ignored as they cannot fulfil all the criteria's of the banks.

2.0 Review of Literature

(Rajani, et al. 2012) the paper aims to check the determinants that measure the extent of monetary inclusion and "focuses on the computation of an index that will comprehensively capture the impact of multi-dimensional variables with specific regard to India". Every determinant is crucial, including several dimensions as attainable can lead to holistic financial inclusion. In (Zins and Weill, 2016) Weill et al. (2016),the authors have focused on African countries as they have low financial inclusion in comparison with other countries. As financial inclusion will contribute to alleviate financial condition and boost economic process, understanding the determinants of monetary inclusion in Africa may be a major issue. In this paper, the authors tend to investigate this question for a large sample of individuals from thirty seven African countries. "The main findings of the paper are summarized as follows. First, the authors discovered that being a person, richer, educated and older to a definite extent favour inclusion with a higher influence of education and financial gain. This finding supports the view that policies inclusion ought to target certain members of population like ladies and kids". (Ouma et al., 2017)The adoption of mobile telecom to produce financial services has become instrumental in integration the yet unbanked segments of the population. "The findings show that convenience and usage of mobile phones to produce financial services promotes the chance of saving at the unit level". Thus, growing and deepening the scope for movable money services is an avenue for promoting savings mobilization, particularly among the poor and low financial gain teams with constrained access to formal money services.

(Owen et al., 2018) The study offers new evidence on the link between the structure of the banking business and monetary inclusion for people. "discovers greater banking system concentration is related to more access to deposit accounts and loans, only if the market power of banks is proscribed". There is somewhat weaker evidence that countries within which rules enable banks to have interaction in a broader scope of activities are also characterised by greater financial inclusion. (Ozili, 2017) This article provides a discussion on digital finance and its implication for monetary inclusion and monetary stability. "Digital finance through Fintech suppliers has positive effects for monetary inclusion in rising and advanced economies, and the convenience that digital finance provides to people with low and variable financial gain is commonly additional valuable. To work on digital platform the most important thing is financial literacy". (Madhav, 2018)Achieving universal inclusion is, indeed, a worldwide objective and has multiple dimensions. What's vital is that we want to be told from each other and implement what's appropriate therefore on have fascinating level of economic education that additionally takes care of client protection at numerous levels across nations.

3.0 Research Gap

Financial inclusion has been gaining its importance in India ever since government has come up with the objective of inclusive growth. For a economy to grow it is very important that every individual in the country gets equal opportunities to grow and show their talent, therefore it is important to provide equal resources to every individual in the economy. Financial inclusion helps in providing necessary financial knowledge and resources to every individual in the economy. Banks play a very important role in meeting the objective of financial inclusions there have been many studies that focus on financial inclusion and find mixed results. In this research focus is put on analysing the current status of financial inclusion and the role of banking in India.

4.0 Objectives of the Study

- To study the role of banking in financial inclusion in India
- To analyze the banking factors that lead to achieving financial inclusion in India.
- To analyze the impact of banking financial inclusion factors on GDP of India

5.0 Research Methodology

Period of study: the study is conducted based on the data collected for a period of 8 years from 2010-11 to 2017-18

Sources of data: secondary data was collected from RBI website and the Capital Line software.

Statistical tools applied: Multiple regression analysis is used to study the impact of each financial inclusion variable on GDP.

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

In the above equation Y represents GDP
X1represents total ATMs in the country
X2 represents total number of bank branches
X3 represents credit to deposit ratio

6.0 Hypothesis of the Study

H01: There is no significant impact of Number of bank branches on GDP of India
H02: There is no significant impact of Number of ATMs on GDP of India
H03: There is no significant impact of Credit deposit ratio on GDP of India

7.0 Data Analysis and Interpretation

This 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 8 years in crores INR. The GDP of India is growing on a year on year basis as seen in Table 1.

Table 1: Dependent and Independent Variables

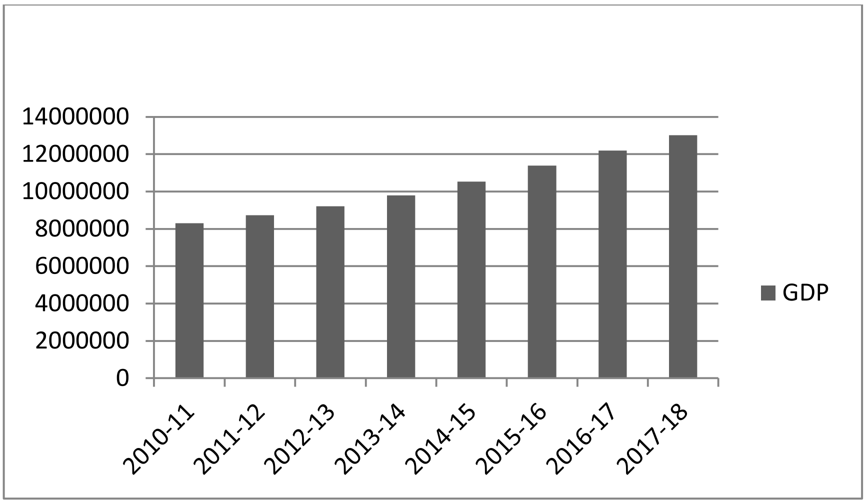
Year	GDP	Total ATMS	Branches	Credit to Deposit Ratio
2010-11	83,01,235	75645	95014	76.93
2011-12	87,36,331	96742	103252	79.7
2012-13	92,13,017	116378	111382	81.16
2013-14	98,01,370	162543	123001	81.39
2014-15	1,05,27,674	182480	131786	81.36
2015-16	1,13,86,145	199954	140810	81.95
2016-17	1,21,96,006	207813	146470	80.53
2017-18	1,30,10,843	205184	149235	79.1

Source: *Compiled by author from various publications by RBI and Capital line software*

Figure 1 depicts the GDP of India for nine years GDP has grown at a rate of 6.6% from 2016 to 2017, it grew at a rate of 7% from 2015 to 2016, the growth rate was 8.15% from 2014 to 2015, and it grew at the rate of 7.4% from 2013 to 2014. We can observe that on an average the GDP growth rate has been ranging between 6 to 7% in the last five years.

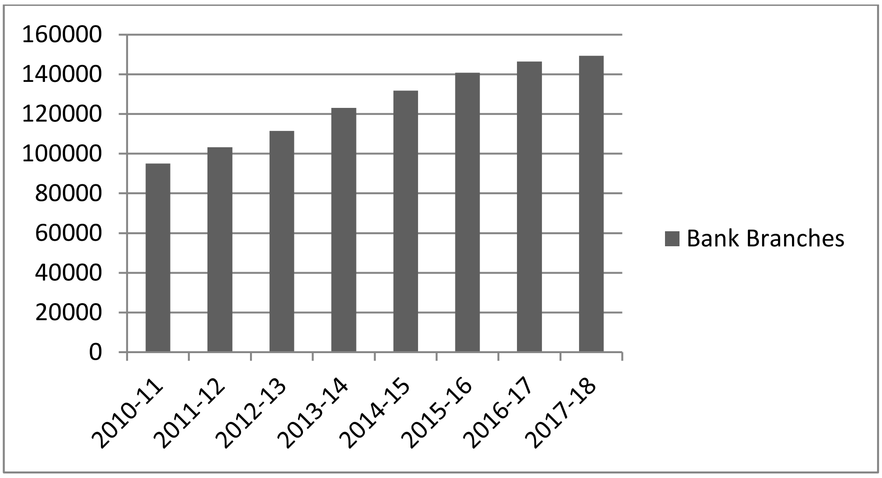
The growth in bank branches over the years in India is depicted in Figure 2. It can be observed that banking branches have covered a wide area in the economy and have moved even to the remotest areas to achieve the objective of financial inclusion and inclusive growth of the Indian economy.

Figure 1: GDP Growth



Source: *Prepared by author after compiling from publications by RBI and Capital line software*

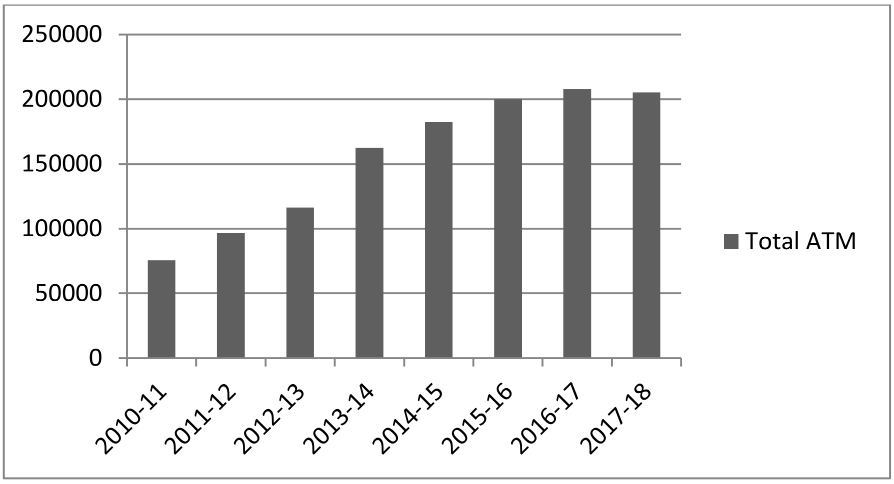
Figure 2: No. of Bank Branches



Source: *Prepared by author after compiling from publications by RBI and Capital line software*

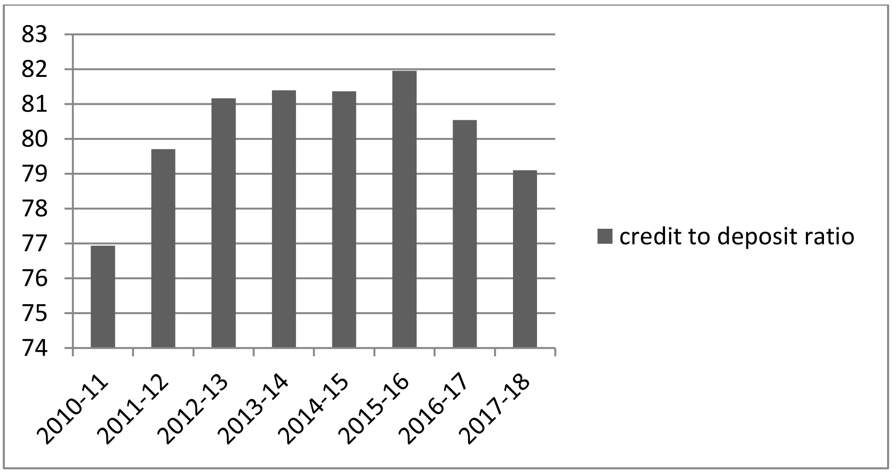
Figure 3 depicts the onsite and offsite ATMs located in various parts of the country which allows the individuals of the country to access the financial requirements from any part without visiting the bank branch. The ATMs have grown tremendously in the last five years and the agenda behind it was financial inclusion. Figure 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.

Figure 3: Number of ATMs in the Indian Economy



Source: *Prepared by author after compiling from publications by RBI and Capital line software*

Figure 4: Credit to Deposit Ratio



Source: *Prepared by author after compiling from publications by RBI and Capital line software*

Table 2 shows the model summary of multiple regression analysis. The Model shows *R* is 1.000, which means a high correlation between dependent (GDP) and independent variables. The p value of the model is .000 which is less than .05 this shows that model is a good fit is statistically significant. "The value of the Durbin–Watson test less than one or greater than three is not acceptable, as a rule of thumb and is an indication of autocorrelation problem". Value of Durbin–Watson is 2.601.

Table 2: Result of regression analysis Model summary

Model Summary						
Model	R	R Square	Adjusted R Square	F	Sig	Durbin-Watson
1	1.000a	.999	.998	1495.014	.000b	2.601

a. Predictors: (Constant), Credit to Deposit, Branches, total ATMs
Source: *SPSS*

Table 3 highlights the results of regression model for GDP and bank factors leading to financial inclusion. The above table has taken bank branches, ATM and Credit to deposit ratio as independent variable and GDP as dependent variable. No. of bank branches have a significantly positive impact on the GDP, whereas Credit to deposit ratio and number of ATMs have a significant negative impact on GDP.

From the table 3 the following regression equation was obtained:

$Y= 5076429.323-28.504X1+158.118X2-124847.761X3+ \varepsilon$

Table 3: Regression

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**	**Ho**
		B	Std. Error	Beta			
	(Constant)	5076429.323	2255501.482		2.251	.088	
	Total ATMs	-28.504	4.176	-.887	-6.825	.002	Rejected
	Branches	158.118	10.165	1.907	15.555	.000	Rejected
	Credit to Deposit	-124847.76	23050.003	-.122	-5.416	.006	Rejected
a. Dependent Variable: GDP							

Source: *SPSS*

Therefore the study finds relationship between Banking and financial inclusion. "These findings are consistent with the findings of (Iqbal et al. 2017)"

7.1 Automatic linear modelling

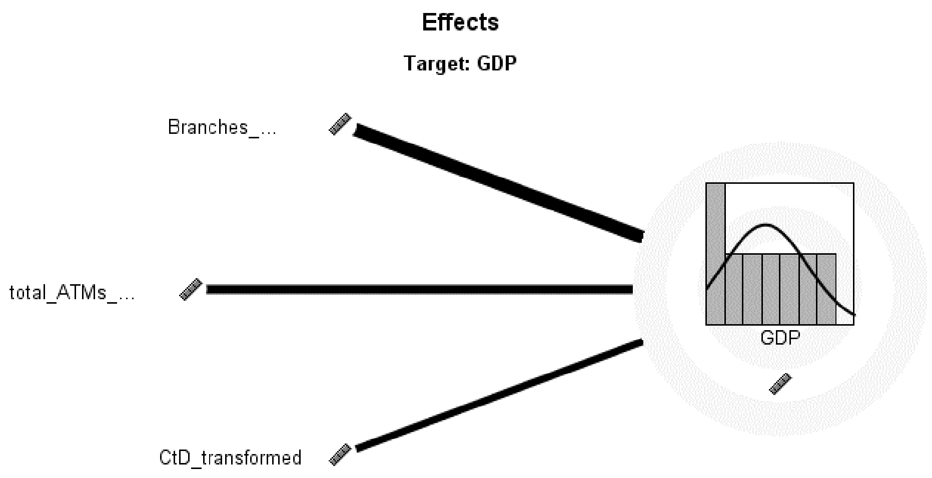
Automatic linear modelling gives a model fit for regression analysis done for the relationship between GDP and factors of financial inclusion. The model shows that bank branch has a significant impact as the p value is less than 0.05 and the importance it carries in impacting GDP is 0.761; this indicates that number of bank branches is a major factor that effects the growth of Indian economy among the selected financial inclusion indicators (Table 4).

Table 4: Effects of Independent Variables on GDP

EffectsTarget GDP		
Source	Sig.	Importance
corrected model	0	
Branches_ transformed	0	0.761
total_ATMs_Transformed	0.002	0.147
CtD_transformed	0.006	0.092
Residual		
Corrected Total		

Source: *SPSS*

Figure 5: Effects of Independent Variables on GDP



Source: *SPSS*

8.0 Conclusion

Banks act as a financial intermediary and contribute to the growth of Economy by infusing funds in the market and giving boost to investments and entrepreneurship. "Financial inclusion is an important aspect of inclusive growth and it cannot be achieved without the help of banking sectors" (Iqbal et al. 2017). Therefore this paper made an attempt to show the banking factors that affect the financial inclusion agenda and in turn impact the economic growth of the country. "Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged population of the country. Lack of accessible, affordable and appropriate financial services has always been an Indian problem and effective inclusive financial system is needed for economic growth of the country". Government initiatives to achieve financial inclusion in India includes installation of new ATMs, opening several new bank branches, providing access to credit through mudra loans has led to the growth of economy. Further government should concentrate of providing financial literacy on using banking services in both online and offline mode.

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